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Duffield #2

April 14. 1937
9.30 A.M.

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I should like first to say that I appreciate this opportunity to present to your Committee my views on necessary revenue legislation. You have heard the saying, "No year is a good year to suggest a tax bill." Certainly this remark would seem to be an accurate forecast of 1940, a year in which a national election will command the attention of the country. Therefore, my appearance here today may well be my last before this Committee on the broad subject of tax legislation.

For that reason, may I digress a moment to thank this Committee and especially its Chairman, Representative Doughton, for the cooperation and consideration which have been extended to me throughout my term in office. Representative Doughton, your Committee, Senator Harrison and the Senate Finance Committee have served the welfare of this country in a manner of which we may all be proud. Working with this Committee and with the Senate Finance Committee has been an experience which I shall remember with pleasure.

When I appeared before this Committee on March 24th, I said that the Treasury would soon be ready to give to the appropriate Congressional committees its recommendations for changes in the tax system. Representative Doughton and

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Senator Harrison have expressed a desire to receive the recommendations for action at this session.

Some revenue legislation during this session is a recognized necessity. The income taxes on corporations expire at the end of the calendar year, and excise and sales taxes yielding about \$500 millions annually expire during the summer. I hope that Congress will not simply extend the expiring levies and adopt the usual technical changes, but will take this opportunity to adopt those few basic reforms which we badly need to make the revenue system fit the needs of the country.

At the present time we stand at a point of incomplete business recovery. To move ahead toward complete recovery, we must have a willingness among the people of this country to invest in the future of American productive enterprise. If there are elements in our tax system which dampen that willingness, we should remove them. If uncertainty over possible future tax demands is hampering business expansion, I believe Congress should point the way toward a sound and adequate fiscal policy which will encourage recovery and reemployment.

If we are to accomplish these helpful, fundamental reforms in the field of taxation, I believe this year is the one in which to achieve them. Congress now has an opportunity

to perfect the work on the tax system which we have had to do in recent years under the stress of depression demands for revenue.

Since 1932 Federal tax collections have more than trebled, rising from \$1,900,000,000 to an all-time high of \$6,000,000,000. Although a part of the increased collections is attributable to improved business conditions, the more important part results from tax rate increases enacted during the past seven years or from the denial of some tax deductions previously allowed. In 1932 Congress raised the income tax rates to approximately the levels prevailing after the world war, estate taxes were roughly doubled, and a long list of excise taxes was imposed. Liquor taxes were added in 1933. Collections of social security taxes began in 1935. Income, estate and gift taxes were raised again in 1934 and in 1935. Corporation income taxes were basically changed in 1936 and again in 1938 while in 1937 legislation was enacted closing loopholes in the individual income tax. Each year since 1932 has brought some change in our tax structure, usually a change dictated by the demands of the moment.

I suggest that Congress look back over this revenue legislation of the past seven years and, by granting tax allowances at strategic points, remove any obstacles which now seem to be standing in the way of business expansion. The following revisions, which I am submitting for your

consideration, appear to me to offer the most important and effective means for lightening the tax burdens which fall especially hard on new and expanding business.

1. We now have four different taxes applicable to ordinary business corporations: a remnant of the 1936 undistributed profits tax, a capital stock tax and an excess profit tax enacted in 1932, and the ordinary income tax. The corporation tax system would be greatly simplified, its justice measurably increased and the burden on new and uncertain enterprise diminished if all four taxes were consolidated into a single tax on corporate incomes yielding the same revenue as the four existing taxes. This new tax would preferably be at a flat rate with some concession to corporations having less than perhaps \$25,000 net income.

Although this change would completely eliminate what remains of the undistributed profits tax, I believe we can now take this step without sacrificing the objectives which we sought when the undistributed profits tax was proposed in 1936. The very effective taxation of "incorporated pocketbooks", that is, personal holding companies, which was enacted in 1937 has closed the loophole which had been used to avoid high personal surtaxes and which the undistributed profits tax had sought to close in a different manner.

2. In my opinion we should reinstate the allowance under which the corporation which sustains a net business loss in any one year can carry forward that loss and deduct it from taxable income realized in subsequent years. Taxation of income in annual segments is an arbitrary measure of corporation earnings which is made necessary by administrative requirements. We should not, however, push this arbitrary annual basis for measuring taxable income to the extent of refusing to recognize alternating periods of profit and loss. The present system of allowing no carry-over of business losses for normal tax purposes places the tax system in the position of deterring both the volatile durable goods industries and new investment.

3. I also suggest that capital gains and losses of corporations be handled for tax purposes in the same manner as ordinary business profits or losses. Under existing law a corporation may get little or no tax credit for a loss sustained on a capital investment, a fact which may discourage new investments.

4. Dividends received by individuals, in my opinion, should be given a tax allowance comparable to that which was in effect prior to 1936.

At present corporation income is taxed, and then

when the income is paid out as dividends, the stockholder pays the full individual income tax on his dividends with no allowance for the fact that the corporation has already paid a tax on the same earnings. This tax arrangement, moreover, encourages corporations to finance themselves by going into debt rather than by selling stock because corporations may deduct interest payments from their taxable income but may not deduct dividends paid. Interest is taxed once, while dividends are taxed twice.

5. At the present time one of the most irksome situations for the taxpayer arises out of Federal-State-local tax conflicts. Numerous overlapping taxes have grown up especially during the last ten years, as both national and State governments reached out for new revenue sources. I suggest that Congress enact legislation creating a national commission to study this problem. The commission should be made up of men having the highest possible level of ability and public confidence and representing not the Federal, State and local governments as such, but the national interest at large. Their function would be to study intergovernmental fiscal policy in its many ramifications and report to Congress within the next two years.

6. One of the most important suggestions which I should like to offer today is a combination of proposals to encourage the idle private savings of this country to play their normal part in financing business expansion and reemployment. During recent years much has been said about high individual income tax rates which reach a peak of 79 per cent in the top bracket. These taxes, combined with state and local taxes in many jurisdictions, are said to discourage the ordinary assumption of risk by investors because the tax collector would take so great a share of any income realized from a business venture.

In view of other features of our income tax structure, such as the method of taxing capital gains of individuals and the tax exemption extended to State and Federal securities, I can not agree that the surtaxes on individual income are too high. Very large portions of big incomes escape taxation in whole or in part. However, I should like to suggest the following measures which, if enacted in combination, might increase the equity of our tax system and encourage the employment of venturesome capital: tighten the capital gains section of the income tax law, increase estate and gift tax rates, remove tax exemption from future

issues of Federal, State, and local securities and then reduce the surtax rates in the top brackets of our income tax.

I should like to enlarge on the proposals which I have just suggested as prerequisites to lowering the highest surtax rates. The individual income tax law still contains provisions which need strengthening, and the most important of them are those I have just mentioned. More specifically, I should like to offer the following changes:

1. Present capital gains and losses provisions of the individual income tax can be improved. A profit from the sale of a stock or a bond or a piece of real estate or any other capital asset is now taxed at a maximum rate of 15 per cent if the asset has been held more than two years. Compared with the income tax rates that apply to salaries, interest, dividends, and rents, the rates on these long-term capital gains are very low. One reason given for setting them so low is that the deduction of capital losses is somewhat restricted.

A fair tax system can not be achieved by matching an unjustified concession by a harsh restriction. A more sensible procedure is to remove both the concession and the restriction. Hence, I suggest for consideration an increase in the tax rates on long-term capital gains, and

possibly also on intermediate gains (now taxed at a maximum of 30 per cent), coupled with more liberal allowance of capital losses. Perhaps capital losses could be carried forward several years to be offset against future capital gains. The net result should be no deterrent to genuine long-term investment, especially in view of the suggestions made later concerning surtax rates. It would increase the revenue somewhat and fairness among individuals a great deal.

2. The present law allows large fortunes to escape their fair share of taxation through the loophole of gifts. The present type of gift tax is powerless to prevent such escape. The gift and estate taxes should be coordinated so that from the tax point of view there would be no substantial difference whether a man gave away his estate during his life or at his death. This coordination would in effect consider gifts and the final distribution of the estate at death as a unified series of transfers, with one exemption and one rate scale, in place of the two exemptions and two rate scales in the present law. If Congress desires to give some special inducement to gifts made prior to death, this can be accomplished through special credits. The revenue increases from the coordination of gift and estate taxes

would be realized gradually but would eventually be substantial.

I would like to suggest also that Congress consider increasing the yield of the estate and gift taxes by providing somewhat lower exemptions and higher rates in the lower and middle brackets and by eliminating the present exemption for life insurance.

3. Tax exemption can be eliminated from future issues of government and government guaranteed bonds. The Treasury Department has already recommended this action. Removal of tax exemption will tend to push into new or expanding business enterprises the kind of private capital which can afford to undertake the hazards of business development. Furthermore, the taxation of the interest on future government and government guaranteed bonds is one of the most obvious steps towards tax justice. While the revenue yield will be small in early years, it will eventually be quite substantial.

Furthermore, the income tax could be strengthened by limiting the present depletion allowances for oil and mining properties and by doing away with the special status enjoyed by income taxpayers living in community property states.

Thus far I have been discussing in detail revisions of the tax laws which have been enacted over the past seven years. I should like now to turn to the more sweeping problem of pointing the way for future tax policy and fiscal policy.

An important fiscal obstacle to complete recovery during a period when Government expenditures are exceeding revenues is the fear of the business man and investor of the unpredictable tax burdens which may be placed upon him at some date in order to bring the Government's budget into balance. Much of this fear is groundless. The Federal tax system now in force has yielded more than any other in the history of our country. With substantial increases in business and in the national income, revenue should rise even higher under existing taxes and with a reasonable reduction in expenditures should balance the budget in prosperous years. The present revenue system will not, however, prevent net increases in the public debt over a long period of time -- good years and bad -- unless there is a radical reduction in expenditures. With relief and national defense absorbing _____ percentage of our Federal disbursements I can not foresee any immediate opportunity to bring about such a curtailment in expenditures.

Unless we are to commit ourselves to a philosophy of continuing increases in the public debt, I believe that Congress must some time enact measures which would bring in additional revenue. When the road toward a balanced budget has not been charted, the man who has saved money or who is in charge of a business enterprise may refuse to undertake an ordinary investment or expansion because he expects heavier taxes ahead and he can not foresee how they will

affect him. Because he can not appraise the hazards of the future, he may mark time.

It is my sincere hope that this Congress, this year, will dispel much of this uncertainty by pointing the way which tax policy and fiscal policy are to move toward a balanced budget. The adoption by Congress of a program which commits us to a trend toward a balanced budget during the next five years is, in my opinion, much more important than the exact date of budget balancing. Such a program means to me to play a vital part in increasing the national income.

In closing, may I suggest for your consideration steps which I believe should be a part of any such program:

First, the continuation of the sales and excise taxes which otherwise expire this year.

Second, the program of tax adjustment and revision which I have outlined above.

Third, an increase in the middle bracket income tax rates, a reduction of the income tax exemptions to \$800 for single persons and \$2,000 for married persons.

Fourth, and most important, a declaration by Congress in unmistakable terms of a policy which would lead toward gradual balancing of the budget.

I would not have you infer that if the proposals which I have suggested this morning be adopted, business would at once expand to boom proportions. These measures

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are not a shot in the arm. They are like proper care and good food to a patient convalescing after a long illness. They do not cause his recovery overnight but they smooth his way to recovery.

April 14, 1939.

Proposed Statement for Secretary Morgenthau to Make
Before Ways & Means Committee - on Tax Legislation

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I should like first to say that I appreciate this opportunity to present to your Committee my views on necessary revenue legislation. You have heard the saying, "No year is a good year to suggest a tax bill." Certainly this remark would seem to be an accurate forecast of 1940, a year in which a national election will command the attention of the country. Therefore, my appearance here today may possibly be my last before this Committee on the broad subject of tax legislation.

For that reason, may I digress a moment to thank this Committee and especially its Chairman, Representative Doughton, for the cooperation and consideration which have been extended to me throughout my term in office. Representative Doughton, your Committee, Senator Harrison and the Senate Finance Committee have served the welfare of this country in a manner of which we may all be proud. Working with this Committee and with the Senate Finance Committee has been an experience which I shall remember with pleasure.

When I appeared before this Committee on March 24th, I said that the Treasury would soon be ready to submit its recommendations for changes in the tax system. Representative Doughton and Senator Harrison have expressed a desire to receive the recommendations for action at this session.

- 2 -

Some revenue legislation during this session is a recognized necessity. The income taxes on corporations expire at the end of the calendar year, and excise taxes yielding about \$500 millions expire during the summer. I hope that Congress will not simply extend the expiring levies and adopt the usual technical changes, but will take this opportunity to adopt those few basic reforms that we badly need to make the revenue system fit the needs of the country.

At the present time we are still in a period of incomplete recovery. To get complete recovery there must be willingness to go ahead, and especially willingness to invest in new undertakings. If there are obstacles in the tax system that stand in the way of our going ahead, we should remove them. At the same time we should promote the underlying tax justice that is so necessary to long-run business soundness and public welfare.

Congress can, in my opinion, help to remove obstacles now standing in the way of investment and business expansion and at the same time promote equity by providing tax allowances at certain strategic points. The following seem to me to be the most important and effective ways to relieve the tax burdens that fall especially hard on new and expanding businesses:

1. We now have four different taxes applicable to ordinary business corporations: a remnant of the 1936 undistributed profits tax, a capital stock tax

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and an excess profit tax enacted in 1932, and the ordinary income tax. The capital stock tax is not based on the actual value of a company, nor is the excess profits tax actually a tax on excessive profits. In its emasculated form, the undistributed profits tax is meaningless. The corporation tax system would be greatly simplified, its justice measurably increased and the burden on new and uncertain enterprise diminished, if all four taxes were consolidated into a single flat tax on corporate incomes, with some concession in rate to corporations having less than perhaps \$25,000 net income.

2. In my opinion, we should allow corporations sustaining net business losses in any one year to carry such losses forward and deduct them from income realized in subsequent years. At present a business which has lost \$50,000 a year for three years and has then netted \$150,000 in the fourth year must pay a normal tax on the full \$150,000, although the plain fact is that the business has made no profit at all over the 4-year period. Taxation of income in annual segments is an arbitrary measure of corporation earnings which is made necessary by administrative requirements. However, we should not push this

arbitrary basis for measuring income to the extent of refusing to recognize alternating periods of profit and loss. The present system of allowing no carry-over of business losses of corporations for normal tax purposes places the tax system in a position of deterring new investment.

3. The existing provisions for capital losses sustained by corporations are another example of how the existing tax laws discourage new investments. If a corporation suffers a loss on capital assets, this loss can be deducted only against capital gains, if any, which the corporation has made in the same year, plus \$2,000. In many instances, therefore, a corporation does not in practice get any tax allowance for a capital loss, a fact which discriminates against a risk-taking enterprise.

4. Dividends received by individuals should be exempt from the normal income tax. At present dividends are twice taxed, once as corporation income, and again to the stockholder as dividends. This tax arrangement incidentally encourages corporations to go into debt rather than to sell stock because corporations may deduct interest payments from their taxable

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income but may not deduct dividends paid. Interest is taxed once, while dividends are taxed twice.

5. During recent years a great deal has been said about the high taxes on individual incomes which reach a peak of 79 percent in the top bracket. These taxes combined with the State and local income taxes in many jurisdictions are said to discourage the ordinary assumption of risk by investors because the tax collector takes so great a share of any income realized from a venture. However, these high rates are many times merely nominal. Other features of our present income tax structure, such as the capital gains section of the income tax law and the exemption which is extended to interest from State and Federal securities, permit very large portions of big incomes to escape taxation in whole or in part. It is my opinion that the surtax rates in the top brackets of our income tax should be reduced but only if these loopholes are removed as suggested later in my statement.

6. We need to make the process of computing and paying taxes a less complicated one. Much effort has been given in the past few years to help the

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taxpayer through decentralizing administration and in other ways. At the present time one of the most irksome situations that the taxpayer faces arises out of Federal-State tax conflicts. Numerous overlapping taxes have grown up, especially during the last ten years as both national and State governments reached out for new revenue sources. I suggest that Congress in this session enact legislation creating a small, temporary national commission to study this problem. The commission should be made up of men having the highest possible level of ability and public confidence and representing not the Federal, State and local governments as such, but the national interest at large. Their function would be to study intergovernmental fiscal policy in its many ramifications and report to Congress within the next two years.

Beyond this matter of specific changes to remove deterrents is a general one. An important fiscal obstacle to complete recovery appears to be the fear of the businessman and investor that our tax system is not powerful enough to insure a fully balanced budget over a period of years. As long as that fear exists the man who has saved money or who is in charge of a business enterprise may hesitate to invest because he expects heavier tax rates ahead, and he cannot foresee how they will affect him.

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Much of this fear is groundless. The Federal tax system has been greatly strengthened by tax laws passed in 1932 and subsequent years. The tax revenue has risen from \$1,900,000,000 in 1932 to an all-time high of \$6,000,000,000 in 1938. With substantial increases in business and the national income, and the resultant reduction in expenditures, the revenue increases should balance the budget in prosperous years.

There is still foundation, however, for the fear that the present tax system may not be sufficiently productive to provide enough revenue to insure a long-run balance. Such a balance involves reducing the public debt in good times as much as it is increased in bad times. In my opinion, nothing would so strengthen business sentiment as a clear prospect of long-run budget balancing and the provision at this session of additional revenue to insure such a prospect.

Some additional revenue will also be required to offset losses from removing restrictive features which I shall later discuss.

We can get the needed revenue from sources which will not hamper business recovery and which at the same time need to be done to increase the equity of the tax system. I suggest your consideration of the following:

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1. The practice of issuing tax-exempt securities by governments and their instrumentalities might be eliminated. The Treasury Department has already recommended this action. Removal of tax exemption will tend to push into new or expanding business enterprise the kind of private capital which can afford to undertake the hazards of business development. Furthermore, the taxation of the interest on future government bonds is one of the most obvious steps towards tax justice. While the revenue yield will be small in early years, it will eventually be quite substantial.

2. Present capital gains and losses provisions of the individual income tax can be improved. A profit from the sale of a stock or a bond or a piece of real estate or any other capital asset is now taxed at a maximum rate of 15 percent if the asset has been held more than two years. Compared with the income tax rates that apply to salaries, interest, dividends, and rents, the rates on these long-term capital gains for individuals with high incomes are very low. One reason given for setting them so low is that the deduction of capital losses is somewhat restricted.

A fair tax system cannot be achieved by matching a harsh restriction by an unjustified concession.

A more sensible procedure is to remove both the concession and the restriction. Hence, I suggest for consideration an increase in the tax rates on long-term capital gains, and possibly also on intermediate gains (now taxed at a maximum of 30 percent, coupled with more liberal allowance of capital losses.

Perhaps capital losses could be carried forward several years to be offset against future capital gains. The net result should be no deterrent to genuine long-term investment, especially in view of the suggestions made later concerning surtax rates. It would increase the revenue moderately and fairness among individuals substantially.

3. Excessive depletion deductions for oil and gas wells and certain types of mines can be eliminated. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole.

4. Revenues from the estate and gift taxes can be increased. These taxes now produce less than 7 percent of our Federal revenues. The present law allows large fortunes to escape their fair share of taxation through the loophole of gifts. The present type of gift tax is

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powerless to prevent such escape. The gift and estate taxes should be coordinated so that from the tax point of view there would be no greater inducement to give away property during life than was deemed to be desirable in the public interest, and that the inducement would extend uniformly to persons with different amounts of wealth. This coordination would in effect consider gifts and the final distribution of the estate at death as a unified series of transfers, with one exemption and one rate scale, in place of the two exemptions and two rate scales in the present law. If Congress desires to give some special inducement to gifts made prior to death, this can be accomplished through special credits.

I would like to suggest also that Congress consider increasing the yield of the estate and gift taxes by reducing exemptions, eliminating the \$40,000 insurance exclusion and increasing rates in the lower and middle brackets.

If additional revenue is needed, it can be secured most equitably and with little disturbance to business by raising the rates on the middle income brackets. It would also be desirable to lower the income tax exemptions to bring into the income tax system a larger percentage of the population.

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As I pointed out earlier, if we are to accomplish these few fundamental reforms, this year is the one in which to achieve them.

I would not have you infer that if the proposals that I have suggested this morning are adopted, business will at once expand to boom proportions. These measures are not a shot in the arm. Rather, they are like proper care and good food to a patient convalescing after a long illness. They will not cause his recovery overnight but they will, in my opinion, remove obstacles to that recovery. Furthermore, they are highly desirable to increase the equity of our tax system. For these reasons I suggest them for your consideration.

24A
10:30
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 14, 1939

Secretary Morgenthau

FROM E. H. Foley, Jr.

Foley be
here

For your information

Re: Nationwide News Service

I have just been informed that Nationwide News Service is planning to sell its assets to a new corporation for the purpose of divorcing Nationwide News Service from the Cecelia Company to avoid possible anti-trust litigation by the Department of Justice. Nationwide News has asked for a closing agreement. I understand that Mr. Irely is planning to discuss this with the Commissioner. The Commissioner has given instructions not to release the agreement.

F.H.F.



*This msg ack on phone
by H. J.*

25

Henry

LONDON, W. 1.

April 14, 1939.

Strictly Confidential

Dear Mr. Secretary:

I am transmitting herewith the two copies of the British financial regulations that will be put into effect upon the outbreak of a war to which I referred in my telegram No. 483, April 14, 7 p.m. Beside Phillips' statements quoted in that telegram he also mentioned that these regulations were, of course, subject to change if such appeared desirable.

I gathered that he "threw out the suggestion" that you might wish to give one copy to the Chairman of the Federal Reserve Board because these regulations would, of course, have a bearing on the relations between the Bank of England and the Federal Reserve.

I

The Hon. Henry Morgenthau,
The Secretary of the Treasury,
Washington, D.C.

-2-

I think I should also mention again how strongly Phillips urged upon me the necessity of ensuring that the contents of these documents be kept absolutely secret and confidential.

With best respects,

Sincerely yours,

Walter D. Determan

P.S. You will no doubt note that paper preparations at any rate have reached the point where 1939 is printed on such war regulations

W.D.

SECRET**EXTRACT FROM DRAFT DEFENCE
REGULATIONS, 1939.****PART V.****FINANCE.**

93.—(1) Except with permission granted by or on behalf of the Treasury, no person other than an authorised dealer shall, in the United Kingdom, buy or borrow any foreign currency or any gold from, or lend or sell any foreign currency or any gold to, any person not being an authorised dealer.

Restriction
on purchase,
sale and
loans of
foreign
currency
and gold.

(2) In this Regulation the expression "authorised dealer" means, in relation to any transaction in respect of gold, a person authorised by or on behalf of the Treasury to deal in gold, or, in relation to any transaction in respect of foreign currency, a person authorised by or on behalf of the Treasury to deal in foreign currency.

94.—(1) Subject to any exemptions which may be granted by order of the Treasury, no person shall, except with permission granted by or on behalf of the Treasury,—

Restriction
on export of
currency,
gold and
securities,
&c.

- (a) take or send out of the United Kingdom any bank notes, gold, securities or foreign currency, or transfer any securities from the United Kingdom elsewhere, or
- (b) draw or negotiate any bill of exchange or promissory note, transfer any security or acknowledge any debt, so that a right (whether actual or contingent) to receive a payment in the United Kingdom is created or transferred as consideration—
 - (i) for receiving a payment, or acquiring property, outside the United Kingdom, or
 - (ii) for a right (whether actual or contingent) to receive a payment, or acquire property, outside the United Kingdom,

or make any payment as such consideration.

(2) The preceding paragraph shall not restrict the doing of anything, within the scope of his authority, by a person authorised by or on behalf of the Treasury to deal in foreign exchange, and shall not restrict the doing of anything which is certified by or on behalf of the Treasury to be necessary for the purpose—

- (a) of meeting the reasonable requirements of a trade or business carried on in the United Kingdom, or
- (b) of performing a contract made before the _____ day of _____ nineteen hundred and thirty-nine, or
- (c) of defraying reasonable travelling or other personal expenses.

(8) Any person who, on any occasion is about to leave the United Kingdom (which person is hereafter in this paragraph referred to as

"the traveller" shall, if requested so to do by the appropriate officer,—

- (a) declare whether or not he has with him any bank notes, gold, securities or foreign currency;
- (b) produce any bank notes, gold, securities or foreign currency which he has with him;

and the appropriate officer and any person acting under his directions may search the traveller and examine or search any article which the traveller has with him, for the purpose of ascertaining whether he has with him any bank notes, gold, securities or foreign currency, and may seize any bank notes, gold, securities or foreign currency produced or found upon such examination or search unless either—

- (i) the appropriate officer is satisfied that the traveller is, in respect of any bank notes, gold, securities or foreign currency which he has with him on the said occasion, exempt from the restriction imposed by paragraph (1) of this Regulation; or
- (ii) the traveller produces to the appropriate officer such a certificate granted by or on behalf of the Treasury as shows that the exportation by the traveller of any bank notes, gold, securities or foreign currency which he has with him on the said occasion does not involve a contravention of that paragraph:

Provided that no female shall be searched in pursuance of this paragraph except by a female.

(4) Nothing in the preceding provisions of this Regulation shall apply in relation to the taking or sending of anything from one part of the United Kingdom to another or from the United Kingdom to the Isle of Man, or in relation to any person travelling between one part of the United Kingdom and another or between the United Kingdom and the Isle of Man.

(5) As respects any goods, being goods consigned from the United Kingdom to a destination outside the United Kingdom, the appropriate officer and any person acting under his directions may examine or search the goods for the purpose of ascertaining whether there are being sent therewith any bank notes, gold, securities or foreign currency, and may seize any bank notes, gold, securities or foreign currency found upon such examination or search unless there appears to the appropriate officer to have been granted by or on behalf of the Treasury a certificate which shows that the sending as aforesaid of the bank notes, gold, securities or foreign currency does not involve a contravention of paragraph (1) of this Regulation.

(6) For the purposes of this Regulation—

- (a) any bills of exchange or promissory notes payable otherwise than in sterling shall be deemed to be foreign currency;

- (b) the expression "transfer" includes transfer by way of loan or security, and a person shall be deemed to transfer securities from the United Kingdom elsewhere if he transfers securities from a register in the United Kingdom to a register outside the United Kingdom; and
- (c) the expression "the appropriate officer" means any officer of Customs and Excise, any immigration officer, any constable or any person authorised by a Secretary of State to act under paragraphs (3) and (5) of this Regulation;

and for the purposes of so much of paragraph (1) of this Regulation as restricts the taking or sending of securities out of the United Kingdom, documents of title relating to securities shall be deemed to be securities, and references to securities in paragraphs (3) and (5) of this Regulation shall be construed as including references to such documents of title as aforesaid.

98.—(1) Every person resident in the United Kingdom who has power to sell, or to procure the sale of, any gold shall offer that gold, or cause it to be offered, for sale to the Treasury or to a person authorised by the Treasury to act under this Regulation, at such price as the Treasury may fix, being a price which, in the opinion of the Treasury, is not less than the market value for the time being of the gold:

Acquisition
by Treasury
of gold coin
and bullion.

Provided that the preceding provisions of this paragraph shall not impose upon any person an obligation to offer any gold for sale or to cause any gold to be offered for sale, if—

- (a) he satisfies the Treasury or a person so authorised—
 - (i) that all the persons interested in that gold, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge or charge created before the day of nineteen hundred and thirty-nine, but including any persons beneficially interested in the gold under a trust, are not resident in the United Kingdom, or
 - (ii) that the gold is required for the purpose of performing a contract made before the said day, or
 - (iii) that the gold is held for the purpose of meeting the reasonable requirements of a trade or business carried on in the United Kingdom otherwise than by way of dealing in gold, or
- (b) he is, in respect of that gold, exempted from this Regulation by the Treasury or by a person so authorised.

(2) The operation of section eleven of the Currency and Bank Notes Act, 1928, shall be suspended during the continuance in force of this Regulation.

18 & 19
Geo. 5. c. 13.

Acquisition
by Treasury
of certain
foreign
currency,
&c.

96.—(1) Every person resident in the United Kingdom who has power to sell, or to procure the sale of, any foreign currency to which this Regulation applies shall offer it, or cause it to be offered, for sale to the Treasury, or to a person authorised by the Treasury to act under this Regulation, at such price as the Treasury may determine.

(2) Every person resident in the United Kingdom who has power to assign, or to procure the assignment, of any right to receive outside the United Kingdom, in respect of any credit or balance at a bank, payment of any amount in a foreign currency to which this Regulation applies, shall, unless the Treasury or a person authorised by the Treasury to act under this Regulation gives him notice to the contrary, do all things necessary for the purpose of assigning that right to the Treasury or to a person so authorised.

The sum payable as consideration for any assignment made in accordance with this paragraph shall be such as the Treasury may determine.

(3) The preceding provisions of this Regulation shall not impose upon any person an obligation in respect of any currency or right to receive payment of any amount, if—

(a) he satisfies the Treasury or a person authorised by the Treasury to act under this Regulation that all the persons interested in that currency, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge or charge created before the day of , nineteen hundred and thirty-nine, but including any persons beneficially interested in the currency under a trust, are not resident in the United Kingdom, or

(b) he satisfies the Treasury or a person so authorised that the currency or amount, as the case may be, is held or is required for the purpose—

(i) of performing a contract made before the day of , nineteen hundred and thirty-nine, or

(ii) of meeting the reasonable requirements of a trade or business carried on in the United Kingdom otherwise than by way of dealing in foreign exchange, or

(iii) of defraying reasonable travelling or other personal expenses, or

(c) he is, in respect of that currency or right, as the case may be, exempted from this Regulation by the Treasury or by a person so authorised.

(4) The foreign currency to which this Regulation applies is such foreign currency as may from time to time be designated by the Treasury for the purposes of this Regulation, by notice published in the London, Edinburgh and Belfast Gazettes.

97.—(1) The Treasury may, by notice published in the London, Edinburgh and Belfast Gazettes, direct the owners of any securities specified in the notice, being securities which, in the opinion of the Treasury, are likely to be marketable outside the United Kingdom, to make to the Bank of England, in such manner and within such period as may be specified in the notice, a return giving such particulars with respect to those securities as may be so specified.

Acquisition
by Treasury
of certain
securities.

(2) The Treasury, if they are of the opinion that it is expedient so to do for the purpose of strengthening the financial position of the United Kingdom, may by order transfer to themselves any such securities as aforesaid specified in the order, at a price so specified, being a price which, in the opinion of the Treasury, is not less than the market value of the securities on the date of the order: and where such an order is made—

(a) the securities to which the order relates shall forthwith vest in the Treasury free from any mortgage, pledge or charge, and the Treasury may deal with the securities as they think fit;

(b) the owners of any of the securities to which the order relates and any person who is responsible for keeping any registers or books in which any of those securities are registered or inscribed or who is otherwise concerned with the registration or inscription of any of those securities, shall do all such things as are necessary or as the Treasury or the Bank of England on their behalf may direct to be done for the purpose of securing that the securities and any documents of title relating thereto are delivered to the Treasury or to such person as the Treasury may direct and, in the case of registered or inscribed securities, that the securities are registered or inscribed in the name of the Treasury or such person as the Treasury may direct.

(3) The duty to deliver any security under the last preceding paragraph shall include a duty to do all such things as are necessary to secure that any dividends or interest on that security becoming payable on or after the date of the order will be paid to the Treasury; and where, in the case of any security payable to bearer which is delivered in pursuance of the said paragraph, any coupons representing any such dividends or interest are not delivered with the security, such reduction in the price payable therefor shall be made as the Treasury think fit:

Provided that, where the price stated in the order in relation to any securities is ex any dividend or ex any interest, this paragraph shall not apply to that dividend or interest or to any coupon representing it.

(4) A certificate signed by any person authorised in that behalf by the Treasury that any specified securities are securities transferred

to the Treasury under this paragraph shall be treated by all persons responsible for keeping any registers or books in which the securities are registered or inscribed, or who are otherwise concerned with the registration or inscription of those securities, as conclusive evidence that the securities have been so transferred.

(5) This Regulation shall not apply to any security if the Treasury are satisfied that at all times since the beginning of the day of , nineteen hundred and thirty-nine, all the persons interested in the security, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge or charge created before the said day, but including any persons beneficially interested therein under a trust, were not resident in the United Kingdom.

Control of
capital
issues.

98.—(1) It shall not be lawful, except with the consent of the Treasury and in accordance with such conditions as the Treasury may impose, to make an issue of capital in the United Kingdom or to renew or postpone the date of maturity of any security maturing for repayment in the United Kingdom:

Provided that this paragraph shall not apply to the issue of shares for a consideration not exceeding one hundred pounds in all to the subscribers to a memorandum of association.

(2) It shall not be lawful to issue any prospectus or other document offering for subscription any securities which does not include a statement that the consent of the Treasury has been obtained to the issue of the securities.

(3) For the purposes of this Regulation a person shall be deemed to make an issue of capital who—

- (a) issues any securities (whether for cash or otherwise), or
- (b) receives any money on loan on the terms, or in the expectation, that the loan will or may be repaid wholly or partly by the issue of any securities, or by the transfer of any securities issued after the making of the loan.

Exemption
from stamp
duty.

99.—(1) Stamp duty shall not be chargeable on any security by reason only of the assignment, transfer or negotiation thereof to the Treasury, and shall not be chargeable—

- (a) on any instrument whereby any security is assigned or transferred to the Treasury (whether on sale or otherwise), or
- (b) on any contract note for, or relating to, any sale of securities to the Treasury.

(2) This Regulation applies only in relation to assignments, transfers, negotiations or sales of securities effected during the continuance in force of this Regulation, whether in compliance with this Part of these Regulations or otherwise.

DEFENCE REGULATIONS

7

(8) In this Regulation the expression "contract note" has the meaning assigned to that expression by subsection (8) of section seventy-seven of the Finance (1909-10) Act, 1910.

10 Edw. 7. &
1 Geo. 5. c. 8.

100. In this Part of these Regulations, unless the context otherwise requires, the following expressions have the meanings hereby respectively assigned to them, that is to say:—

Interpreta-
tion of
Part V

"bank notes" means bank notes which are legal tender in the United Kingdom or in any part thereof;

"foreign currency" means any currency other than sterling;

"gold" means gold coin or gold bullion;

"owner," in relation to any security, includes any person who has power to sell or transfer a security, or who has the custody thereof, or who receives, whether on his own behalf or on behalf of any other person, dividends or interest thereon, or who has any other interest therein; and

"security" includes shares, stock, bonds, debentures, debenture stock and Treasury bills, but does not include a bill of exchange or promissory note.

XCIA B 113

attached
to the
original

XCIV B. (43)

6th April, 1939

DEFENCE REGULATIONS Nos.

Notice to Banks and Bankers conducting business in the United Kingdom.

1. The Bank of England have been authorised to deal in foreign exchange and gold and to appoint other authorised dealers. A list of the authorised dealers now appointed is attached.

The public should continue to transact their foreign exchange business through the agency of their own bankers, whether authorised dealers or not.

2. SALE OF EXCHANGE.

Until further notice exchange will be made available for the following purposes:—

- (a) *To enable a contract made before* *to be complied with.*

The intention is to facilitate the completion of outstanding commercial and financial contracts.

N.B.—Long-term contracts (e.g., goods to be shipped after 90 days) are not included and should be specially referred.

- (b) *To meet the reasonable requirements of a trade or business carried on in the United Kingdom.* This is intended to cover imports of goods, insurance treaties, premiums and claims, ships' disbursements, freights, agents' commissions, royalties, film rents, copyrights, salaries, pensions, etc.

- (c) *To defray reasonable travelling or other personal expenses.*

Rates at which exchange may be sold will be communicated to authorised dealers and published from time to time.

3. APPLICATIONS FOR EXCHANGE.

Applications for exchange must be made on the appropriate form signed by the applicant. Satisfactory evidence must be produced in all cases.

- (a) **IMPORTS:** Exchange may be sold without further question in the following cases:—

- (i) Where goods had already been imported before.....
- (ii) Where the certified exchange control copy of a Customs Entry Form is produced for goods imported after.....
- (iii) Where a declaration is made that the certified exchange control copy of a Customs Entry Form will be produced in respect of goods not yet imported.

Applicants for exchange in respect of imports must complete Form E in duplicate and attach Customs Entry Form if available. The duplicate form will be retained by the applicant in (iii) above and must be returned in due course to the banker concerned with the certified exchange control copy of the relative Customs Entry Form (which importers must obtain from the Customs at the place of entry) attached.

- (b) **TRAVELLERS:** Applicants for exchange for travelling expenses must complete Form T and obtain Certificate C duly certified by the authorised dealer for surrender to the Customs or Immigration Officer before leaving the United Kingdom.

- (c) Applicants for exchange in all other cases must complete Form E (not in duplicate).

N.B.—Applications by persons ordinarily resident in the United Kingdom for gold or foreign exchange for purposes other than those set out in paragraph 2 above should be refused unless special circumstances appear to warrant reference to the Bank of England.

Applications by persons ordinarily resident outside the United Kingdom for gold or foreign exchange for purposes other than those set out in paragraph 2 above should be referred in each case to the Bank of England.

4. PURCHASE OF EXCHANGE AND GOLD.

A list of currencies will be published which must be offered to the Treasury. Such currencies may be bought by authorised dealers at rates which will be published from time to time. Other currencies may be purchased by authorised dealers at their discretion.

Gold bullion and coin offered for sale should be settled through the agency of an authorised Bullion dealer.

5. EXPORT OF CURRENCY, ETC.

Export of bank notes, gold, securities or foreign currency is prohibited except with permission. Permission may be granted by authorised dealers in cases covered by paragraph 2 above. Applicants should complete Form X which should be stamped by the authorised dealer and obtain Certificate C for surrender to the Customs or Immigration Officer at the time of export.

6. STERLING TRANSFERS.

No sterling transfer in any form may be made from a United Kingdom source to a foreign account unless it is accompanied by Form E.1 duly completed by the person making or applying for the transfer. Sterling transfers may be made freely between two foreign accounts or from a foreign to a domestic account.

Cheques and Bills of Exchange remitted from abroad prior to may be cleared without question.

Sterling Bills, Cheques, etc., drawn by members of H.M. forces serving abroad and by H.M. Embassies, Legations and Consulates may be credited to a foreign account without completion of Form E.1 and without question.

7. Loans, Overdrafts and Credit Facilities (including Acceptance Credits) to firms or persons not carrying on business in the United Kingdom should be granted only to facilitate legitimate trade or business.

8. Credits and Authorities entered into prior to which are revocable should be revoked if their tenor is contrary to the terms of the Regulations or of this Notice.

9. Forward exchange transactions are permitted solely for genuine commercial purposes. All other requests for forward facilities must be refused or referred to the Bank of England.

10. Bankers other than authorised dealers who wish to maintain their normal relations with foreign correspondents should apply for permission to the Bank of England.

11. All bankers should obtain their remuneration on transactions with their customers by a uniform scale of commission to be agreed between the Banks. An authorised dealer who deals with a banker, not so authorised, will make no charge to the non-authorised banker.

12. Special arrangements will be made with regard to Colonial and Empire currencies.

13. All these instructions are subject to the provisions of the Trading with the Enemy Act.

NOTE.—Bankers are requested to bring the Regulations to the notice of their customers, to explain them where necessary and to report doubtful cases before taking action upon them.

The Bank of England have authority on behalf of H.M. Treasury to give permits in special cases. Applications for permits must bear the recommendation of the Bank through whom the application is made.

MEMORANDUM TO AUTHORISED DEALERS IN FOREIGN EXCHANGE.

1. Authorised dealers, who should co-operate closely with the Bank of England, may sell exchange to other banks or to the public if satisfied that a transaction falls properly under one of the permitted headings (see notice to Banks paragraph 2). Applications which do not fall under any of these headings or which are not supported by evidence satisfactory to the authorised dealer concerned, or which appear in any way exceptional, should be referred to the Bank of England.

2. The Bank of England will notify authorised dealers, probably daily, of a list of rates of exchange for various currencies, both spot and forward.

3. The Bank of England will open accounts in these various currencies with the appropriate authorised dealers. Authorised dealers should maintain normal relations with their foreign correspondents.

The Bank of England will be prepared to accept responsibility for balances held by authorised dealers with their foreign correspondents as agents for the Bank of England. Foreign balances which authorised dealers may choose to hold for their own account will not be covered under this arrangement.

4. If it is convenient to all parties concerned a proportion of any surplus of exchange that may be accumulated by the Bank of England will be sold spot to authorised dealers and bought back for forward delivery. This arrangement is intended to prevent a disturbance in the London Money Market or in other centres.

5. SALES OF CURRENCY.

- (a) At the close of business each day each authorised dealer should advise the Bank of England of the total amount of currency sold.
- (b) At the opening of business on the following day the authorised dealers should hand to the Bank of England a statement of the previous day's transactions.
- (c) On the value date authorised dealers should debit the Bank of England's currency account with the amount sold and the Bank of England will debit the authorised dealer's account at the Bank of England with the sterling equivalent.
- (d) Completed declarations (Forms E and T) should be forwarded to the Bank of England in due course.

6. PURCHASES OF CURRENCY.

A similar procedure will be followed.

7. With the exception of forward transactions all exchange transactions entered into between the Bank of England and authorised dealers will, for the sake of convenience and simplicity, be booked as "spot" contracts.

8. Statements of currency accounts should be forwarded weekly to the Bank of England.

9. COMMISSION.

Authorised dealers doing business with a Bank, which is not an authorised dealer, will be remunerated by the Bank of England at a rate to be agreed. Declarations and advices covering such operations should be stamped "Commission due" and kept separate from other deals. The commission should be claimed from the Bank of England monthly.

SECRET.

MEMORANDUM TO AUTHORISED DEALERS IN GOLD.

1. Dealings in gold coin or bullion are prohibited except with authorised dealers. A list of authorised dealers is attached.
2. Applications to purchase gold coin or bullion should be referred to the Bank of England. Until further notice gold will be made available by the Bank of England for the following purposes :—
 - (a) *To enable the buyer to perform a contract made before*
 - (b) *To meet the reasonable requirements of a trade or business carried on in the United Kingdom otherwise than by way of dealing in gold.*
3. Form C, duly signed and completed, must be obtained in respect of every sale of gold and handed to the Bank of England.
4. Prices for the purchase and sale of gold coin and bullion will be announced by the Bank of England from time to time.
5. Advances against gold and forward dealings in gold are not permitted except with permission from the Bank of England.
6. Melters, refiners and assayers may conduct their normal business but may not hold gold for any other purpose.
7. Authorised dealers should—
 - (a) Weigh and examine assays, meltings, etc., of any gold coin or bullion offered to them for purchase.
 - (b) Purchase such gold for account of the Bank of England.
 - (c) Deliver such gold to the Bullion Office of the Bank of England against payment.
8. Commissions to be agreed will be paid by the Bank of England to authorised dealers in respect of gold purchased and sold.

FORM E.**DECLARATION TO BE MADE BY A PERSON OR FIRM
APPLYING FOR FOREIGN EXCHANGE.**

To
(Name of Bank or Banking Firm to whom application is addressed).

I/We, the undersigned, request that the undermentioned amount of Foreign Exchange be placed at my/our disposal.

Amount and Currency required

(In figures and in words) Say

Purpose for which required
(Precise information of nature
of goods, Services, etc., for
which Exchange is required
must be stated)

Exchange to be paid to
(Give full details)

State whether draft, cable or
mail transfer or other form
of delivery

Date when required

I/We declare that the purpose for which this exchange is required in no way contravenes the provisions of Defence Regulation No. .

Name and full postal address

(Name of Person, Firm or
Corporate Body making
request)

Signature(s)

Date

Stamp of the Bank certifying the signature(s) as authorised
to sign on the banking account of applicant(s)

Stamp of Authorised Dealer
(including date)

Rate

This space is reserved for the use of the Bank of England.

Date received

Posted

Checked Regrader Unclassified

SECRET.

FORM T.

APPLICATION FOR FOREIGN EXCHANGE FOR TRAVELLING
PURPOSES AND FOR PERMISSION TO EXPORT FOREIGN
EXCHANGE AND/OR BRITISH BANK NOTES FROM THE U.K.

To

I/We

of

being desirous of travelling to

for purpose of

wish to purchase

(State Foreign Currency Required)

and to receive permission to take

(State Amount of British or Foreign Currency)

out of the United Kingdom.

I/We shall be leaving the United Kingdom on

and returning on

Date

Signed

Regaded Unclassified

FORM C.

**CERTIFICATE FOR EXPORTATION OF BANK NOTES, GOLD,
SECURITIES OR FOREIGN CURRENCY IN ACCORDANCE WITH
REGULATION OF THE DEFENCE REGULATIONS, 1939.**

This is to certify that
of
is authorised to export the undermentioned articles from the United Kingdom and in so doing
is not contravening Defence Regulation No. .

	Description	Weight Fine Ozs.
		(words and figures)
Gold		
Notes	Description	Amount
		(words and figures)
Securities	Description	Amount
		(words and figures)

STAMP OF BANK ISSUING CERTIFICATE.

Signed

For and on behalf of the Lords
Commissioners of His Majesty's
Treasury.

Date of Issue

Valid for period of one month only from date of issue.

FORM G.**DECLARATION TO BE MADE BY A PERSON OR FIRM
APPLYING FOR GOLD.**

To

I/We, the undersigned, request that the undermentioned gold be placed at my/our disposal.

Gold Coin or Gold Bars

Ounces fine (or approx. £
value)Purpose for which required
(Give full details)

Date when required

I/We declare that the purpose for which this gold is required in no way contravenes the provisions of Defence Regulation No. .

Name and full postal address

(Name of Person, Firm or
Corporate Body making
request)

Signature(s)

Date

Price

STAMP OF AUTHORISED DEALER.

FOR OFFICIAL USE ONLY.

Number of Gold Bars or
Amount of Sovereigns
delivered

Ounces Fine

Numbers and Markings of
Gold Bars

Sterling Equivalent

SECRET.

FORM E. 1.

STERLING TRANSFERS TO FOREIGN ACCOUNTS.

Name and Address of
Transferor

.....
.....
.....

Amount—

(words and figures)

£ s. d.

Say

.....

.....

Name and Address of
Transferee

.....

.....

.....

Purpose of Transfer (give
full details)

.....

.....

.....

.....

.....

I/We declare that the above-mentioned transfer is not contrary to Defence Regulation,
1939, No. .

Date

Signature

STAMP OF PAYING BANKER.

SECRET

EXTRACT FROM DRAFT DEFENCE REGULATIONS, 1939.

PART V.

FINANCE.

93.—(1) Except with permission granted by or on behalf of the Treasury, no person other than an authorised dealer shall, in the United Kingdom, buy or borrow any foreign currency or any gold from, or lend or sell any foreign currency or any gold to, any person not being an authorised dealer. Restriction on purchase, sale and loans of foreign currency and gold.

(2) In this Regulation the expression "authorised dealer" means, in relation to any transaction in respect of gold, a person authorised by or on behalf of the Treasury to deal in gold, or, in relation to any transaction in respect of foreign currency, a person authorised by or on behalf of the Treasury to deal in foreign currency.

94.—(1) Subject to any exemptions which may be granted by order of the Treasury, no person shall, except with permission granted by or on behalf of the Treasury,— Restriction on export of currency, gold and securities, &c.

(a) take or send out of the United Kingdom any bank notes, gold, securities or foreign currency, or transfer any securities from the United Kingdom elsewhere, or

(b) draw or negotiate any bill of exchange or promissory note, transfer any security or acknowledge any debt, so that a right (whether actual or contingent) to receive a payment in the United Kingdom is created or transferred as consideration—

(i) for receiving a payment, or acquiring property, outside the United Kingdom, or

(ii) for a right (whether actual or contingent) to receive a payment, or acquire property, outside the United Kingdom,

or make any payment as such consideration.

(2) The preceding paragraph shall not restrict the doing of anything, within the scope of his authority, by a person authorised by or on behalf of the Treasury to deal in foreign exchange, and shall not restrict the doing of anything which is certified by or on behalf of the Treasury to be necessary for the purpose—

(a) of meeting the reasonable requirements of a trade or business carried on in the United Kingdom, or

(b) of performing a contract made before the day of nineteen hundred and thirty-nine, or

(c) of defraying reasonable travelling or other personal expenses.

(3) Any person who, on any occasion is about to leave the United Kingdom (which person is hereafter in this paragraph referred to as

"the traveller") shall, if requested so to do by the appropriate officer,—

- (a) declare whether or not he has with him any bank notes, gold, securities or foreign currency;
- (b) produce any bank notes, gold, securities or foreign currency which he has with him;

and the appropriate officer and any person acting under his directions may search the traveller and examine or search any article which the traveller has with him, for the purpose of ascertaining whether he has with him any bank notes, gold, securities or foreign currency, and may seize any bank notes, gold, securities or foreign currency produced or found upon such examination or search unless either—

- (i) the appropriate officer is satisfied that the traveller is, in respect of any bank notes, gold, securities or foreign currency which he has with him on the said occasion, exempt from the restriction imposed by paragraph (1) of this Regulation: or
- (ii) the traveller produces to the appropriate officer such a certificate granted by or on behalf of the Treasury as shows that the exportation by the traveller of any bank notes, gold, securities or foreign currency which he has with him on the said occasion does not involve a contravention of that paragraph:

Provided that no female shall be searched in pursuance of this paragraph except by a female.

(4) Nothing in the preceding provisions of this Regulation shall apply in relation to the taking or sending of anything from one part of the United Kingdom to another or from the United Kingdom to the Isle of Man, or in relation to any person travelling between one part of the United Kingdom and another or between the United Kingdom and the Isle of Man.

(5) As respects any goods, being goods consigned from the United Kingdom to a destination outside the United Kingdom, the appropriate officer and any person acting under his directions may examine or search the goods for the purpose of ascertaining whether there are being sent therewith any bank notes, gold, securities or foreign currency, and may seize any bank notes, gold, securities or foreign currency found upon such examination or search unless there appears to the appropriate officer to have been granted by or on behalf of the Treasury a certificate which shows that the sending as aforesaid of the bank notes, gold, securities or foreign currency does not involve a contravention of paragraph (1) of this Regulation.

(6) For the purposes of this Regulation—

- (a) any bills of exchange or promissory notes payable otherwise than in sterling shall be deemed to be foreign currency;

- (b) the expression "transfer" includes transfer by way of loan or security, and a person shall be deemed to transfer securities from the United Kingdom elsewhere if he transfers securities from a register in the United Kingdom to a register outside the United Kingdom; and
- (c) the expression "the appropriate officer" means any officer of Customs and Excise, any immigration officer, any constable or any person authorised by a Secretary of State to act under paragraphs (8) and (5) of this Regulation;

and for the purposes of so much of paragraph (1) of this Regulation as restricts the taking or sending of securities out of the United Kingdom, documents of title relating to securities shall be deemed to be securities, and references to securities in paragraphs (8) and (5) of this Regulation shall be construed as including references to such documents of title as aforesaid.

98.—(1) Every person resident in the United Kingdom who has power to sell, or to procure the sale of, any gold shall offer that gold, or cause it to be offered, for sale to the Treasury or to a person authorised by the Treasury to act under this Regulation, at such price as the Treasury may fix, being a price which, in the opinion of the Treasury, is not less than the market value for the time being of the gold:

Acquisition
by Treasury
of gold coin
and bullion.

Provided that the preceding provisions of this paragraph shall not impose upon any person an obligation to offer any gold for sale or to cause any gold to be offered for sale, if—

- (a) he satisfies the Treasury or a person so authorised—
 - (i) that all the persons interested in that gold, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge or charge created before the day of nineteen hundred and thirty-nine, but including any persons beneficially interested in the gold under a trust, are not resident in the United Kingdom, or
 - (ii) that the gold is required for the purpose of performing a contract made before the said day, or
 - (iii) that the gold is held for the purpose of meeting the reasonable requirements of a trade or business carried on in the United Kingdom otherwise than by way of dealing in gold, or
- (b) he is, in respect of that gold, exempted from this Regulation by the Treasury or by a person so authorised.

(2) The operation of section eleven of the Currency and Bank Notes Act, 1928, shall be suspended during the continuance in force of this Regulation.

Acquisition
by Treasury
of certain
foreign
currency,
&c.

96.—(1) Every person resident in the United Kingdom who has power to sell, or to procure the sale of, any foreign currency to which this Regulation applies shall offer it, or cause it to be offered, for sale to the Treasury, or to a person authorised by the Treasury to act under this Regulation, at such price as the Treasury may determine.

(2) Every person resident in the United Kingdom who has power to assign, or to procure the assignment, of any right to receive outside the United Kingdom, in respect of any credit or balance at a bank, payment of any amount in a foreign currency to which this Regulation applies, shall, unless the Treasury or a person authorised by the Treasury to act under this Regulation gives him notice to the contrary, do all things necessary for the purpose of assigning that right to the Treasury or to a person so authorised.

The sum payable as consideration for any assignment made in accordance with this paragraph shall be such as the Treasury may determine.

(3) The preceding provisions of this Regulation shall not impose upon any person an obligation in respect of any currency or right to receive payment of any amount, if—

- (a) he satisfies the Treasury or a person authorised by the Treasury to act under this Regulation that all the persons interested in that currency, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge or charge created before the day of , nineteen hundred and thirty-nine, but including any persons beneficially interested in the currency under a trust, are not resident in the United Kingdom, or
- (b) he satisfies the Treasury or a person so authorised that the currency or amount, as the case may be, is held or is required for the purpose—
 - (i) of performing a contract made before the day of , nineteen hundred and thirty-nine, or
 - (ii) of meeting the reasonable requirements of a trade or business carried on in the United Kingdom otherwise than by way of dealing in foreign exchange, or
 - (iii) of defraying reasonable travelling or other personal expenses, or
- (c) he is, in respect of that currency or right, as the case may be, exempted from this Regulation by the Treasury or by a person so authorised.

(4) The foreign currency to which this Regulation applies is such foreign currency as may from time to time be designated by the Treasury for the purposes of this Regulation, by notice published in the London, Edinburgh and Belfast Gazettes.

97.—(1) The Treasury may, by notice published in the London, Edinburgh and Belfast Gazettes, direct the owners of any securities specified in the notice, being securities which, in the opinion of the Treasury, are likely to be marketable outside the United Kingdom, to make to the Bank of England, in such manner and within such period as may be specified in the notice, a return giving such particulars with respect to those securities as may be so specified.

Acquisition
by Treasury
of certain
securities.

(2) The Treasury, if they are of the opinion that it is expedient so to do for the purpose of strengthening the financial position of the United Kingdom, may by order transfer to themselves any such securities as aforesaid specified in the order, at a price so specified, being a price which, in the opinion of the Treasury, is not less than the market value of the securities on the date of the order; and where such an order is made—

- (a) the securities to which the order relates shall forthwith vest in the Treasury free from any mortgage, pledge or charge, and the Treasury may deal with the securities as they think fit;
- (b) the owners of any of the securities to which the order relates and any person who is responsible for keeping any registers or books in which any of those securities are registered or inscribed or who is otherwise concerned with the registration or inscription of any of those securities, shall do all such things as are necessary or as the Treasury or the Bank of England on their behalf may direct to be done for the purpose of securing that the securities and any documents of title relating thereto are delivered to the Treasury or to such person as the Treasury may direct and, in the case of registered or inscribed securities, that the securities are registered or inscribed in the name of the Treasury or such person as the Treasury may direct.

(3) The duty to deliver any security under the last preceding paragraph shall include a duty to do all such things as are necessary to secure that any dividends or interest on that security becoming payable on or after the date of the order will be paid to the Treasury; and where, in the case of any security payable to bearer which is delivered in pursuance of the said paragraph, any coupons representing any such dividends or interest are not delivered with the security, such reduction in the price payable therefor shall be made as the Treasury think fit:

Provided that, where the price stated in the order in relation to any securities is ex any dividend or ex any interest, this paragraph shall not apply to that dividend or interest or to any coupon representing it.

(4) A certificate signed by any person authorised in that behalf by the Treasury that any specified securities are securities transferred

to the Treasury under this paragraph shall be treated by all persons responsible for keeping any registers or books in which the securities are registered or inscribed, or who are otherwise concerned with the registration or inscription of those securities, as conclusive evidence that the securities have been so transferred.

(5) This Regulation shall not apply to any security if the Treasury are satisfied that at all times since the beginning of the day of , nineteen hundred and thirty-nine, all the persons interested in the security, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge or charge created before the said day, but including any persons beneficially interested therein under a trust, were not resident in the United Kingdom.

Control of
capital
issues

98.—(1) It shall not be lawful, except with the consent of the Treasury and in accordance with such conditions as the Treasury may impose, to make an issue of capital in the United Kingdom or to renew or postpone the date of maturity of any security maturing for repayment in the United Kingdom:

Provided that this paragraph shall not apply to the issue of shares for a consideration not exceeding one hundred pounds in all to the subscribers to a memorandum of association.

(2) It shall not be lawful to issue any prospectus or other document offering for subscription any securities which does not include a statement that the consent of the Treasury has been obtained to the issue of the securities.

(3) For the purposes of this Regulation a person shall be deemed to make an issue of capital who—

- (a) issues any securities (whether for cash or otherwise), or
- (b) receives any money on loan on the terms, or in the expectation, that the loan will or may be repaid wholly or partly by the issue of any securities, or by the transfer of any securities issued after the making of the loan.

Exemption
from stamp
duty

99.—(1) Stamp duty shall not be chargeable on any security by reason only of the assignment, transfer or negotiation thereof to the Treasury, and shall not be chargeable—

- (a) on any instrument whereby any security is assigned or transferred to the Treasury (whether on sale or otherwise), or
- (b) on any contract note for, or relating to, any sale of securities to the Treasury.

(2) This Regulation applies only in relation to assignments, transfers, negotiations or sales of securities effected during the continuance in force of this Regulation, whether in compliance with this Part of these Regulations or otherwise.

7

(3) In this Regulation the expression "contract note" has the meaning assigned to that expression by subsection (8) of section seventy-seven of the Finance (1909-10) Act, 1910.

10 Edw. 7. &
1 Geo. 5. c. 31.

100. In this Part of these Regulations, unless the context otherwise requires, the following expressions have the meanings hereby respectively assigned to them, that is to say:—

Interpreta-
tion of
Part V

"bank notes" means bank notes which are legal tender in the United Kingdom or in any part thereof;

"foreign currency" means any currency other than sterling;

"gold" means gold coin or gold bullion;

"owner," in relation to any security, includes any person who has power to sell or transfer a security, or who has the custody thereof, or who receives, whether on his own behalf or on behalf of any other person, dividends or interest thereon, or who has any other interest therein;

and

"security" includes shares, stock, bonds, debentures, debenture stock and Treasury bills, but does not include a bill of exchange or promissory note.

DEFENCE REGULATIONS Nos.

Notice to Banks and Bankers conducting business in the United Kingdom.

1. The Bank of England have been authorised to deal in foreign exchange and gold and to appoint other authorised dealers. A list of the authorised dealers now appointed is attached.

The public should continue to transact their foreign exchange business through the agency of their own bankers, whether authorised dealers or not.

2. SALE OF EXCHANGE.

Until further notice exchange will be made available for the following purposes:—

- (a) *To enable a contract made before* *to be complied with.*

The intention is to facilitate the completion of outstanding commercial and financial contracts.

N.B.—Long-term contracts (e.g., goods to be shipped after 90 days) are not included and should be specially referred.

- (b) *To meet the reasonable requirements of a trade or business carried on in the United Kingdom.* This is intended to cover imports of goods, insurance treaties, premiums and claims, ships' disbursements, freights, agents' commissions, royalties, film rents, copyrights, salaries, pensions, etc.

- (c) *To defray reasonable travelling or other personal expenses.*

Rates at which exchange may be sold will be communicated to authorised dealers and published from time to time.

3. APPLICATIONS FOR EXCHANGE.

Applications for exchange must be made on the appropriate form signed by the applicant. Satisfactory evidence must be produced in all cases.

- (a) **IMPORTS:** Exchange may be sold without further question in the following cases:—

- (i) Where goods had already been imported before.....
- (ii) Where the certified exchange control copy of a Customs Entry Form is produced for goods imported after.....
- (iii) Where a declaration is made that the certified exchange control copy of a Customs Entry Form will be produced in respect of goods not yet imported.

Applicants for exchange in respect of imports must complete Form E in duplicate and attach Customs Entry Form if available. The duplicate form will be retained by the applicant in (iii) above and must be returned in due course to the banker concerned with the certified exchange control copy of the relative Customs Entry Form (which importers must obtain from the Customs at the place of entry) attached.

- (b) **TRAVELLERS:** Applicants for exchange for travelling expenses must complete Form T and obtain Certificate C duly certified by the authorised dealer for surrender to the Customs or Immigration Officer before leaving the United Kingdom.

- (c) Applicants for exchange in all other cases must complete Form E (not in duplicate).
N.B.—Applications by persons ordinarily resident in the United Kingdom for gold or foreign exchange for purposes other than those set out in paragraph 2 above should be refused unless special circumstances appear to warrant reference to the Bank of England.

Applications by persons ordinarily resident outside the United Kingdom for gold or foreign exchange for purposes other than those set out in paragraph 2 above should be referred in each case to the Bank of England.

4. PURCHASE OF EXCHANGE AND GOLD.

A list of currencies will be published which must be offered to the Treasury. Such currencies may be bought by authorised dealers at rates which will be published from time to time. Other currencies may be purchased by authorised dealers at their discretion.

Gold bullion and coin offered for sale should be settled through the agency of an authorised Bullion dealer.

5. EXPORT OF CURRENCY, ETC.

Export of bank notes, gold, securities or foreign currency is prohibited except with permission. Permission may be granted by authorised dealers in cases covered by paragraph 2 above. Applicants should complete Form X which should be stamped by the authorised dealer and obtain Certificate C for surrender to the Customs or Immigration Officer at the time of export.

6. STERLING TRANSFERS.

No sterling transfer in any form may be made from a United Kingdom source to a foreign account unless it is accompanied by Form E.1 duly completed by the person making or applying for the transfer. Sterling transfers may be made freely between two foreign accounts or from a foreign to a domestic account.

Cheques and Bills of Exchange remitted from abroad prior to may be cleared without question.

Sterling Bills, Cheques, etc., drawn by members of H.M. forces serving abroad and by H.M. Embassies, Legations and Consulates may be credited to a foreign account without completion of Form E.1 and without question.

7. Loans, Overdrafts and Credit Facilities (including Acceptance Credits) to firms or persons not carrying on business in the United Kingdom should be granted only to facilitate legitimate trade or business.

8. Credits and Authorities entered into prior to which are revocable should be revoked if their tenor is contrary to the terms of the Regulations or of this Notice.

9. Forward exchange transactions are permitted solely for genuine commercial purposes. All other requests for forward facilities must be refused or referred to the Bank of England.

10. Bankers other than authorised dealers who wish to maintain their normal relations with foreign correspondents should apply for permission to the Bank of England.

11. All bankers should obtain their remuneration on transactions with their customers by a uniform scale of commission to be agreed between the Banks. An authorised dealer who deals with a banker, not so authorised, will make no charge to the non-authorised banker.

12. Special arrangements will be made with regard to Colonial and Empire currencies.

13. All these instructions are subject to the provisions of the Trading with the Enemy Act.

NOTE.—Bankers are requested to bring the Regulations to the notice of their customers, to explain them where necessary and to report doubtful cases before taking action upon them.

The Bank of England have authority on behalf of H.M. Treasury to give permits in special cases. Applications for permits must bear the recommendation of the Bank through whom the application is made.

MEMORANDUM TO AUTHORISED DEALERS IN FOREIGN EXCHANGE.

1. Authorised dealers, who should co-operate closely with the Bank of England, may sell exchange to other banks or to the public if satisfied that a transaction falls properly under one of the permitted headings (see notice to Banks paragraph 2). Applications which do not fall under any of these headings or which are not supported by evidence satisfactory to the authorised dealer concerned, or which appear in any way exceptional, should be referred to the Bank of England.

2. The Bank of England will notify authorised dealers, probably daily, of a list of rates of exchange for various currencies, both spot and forward.

3. The Bank of England will open accounts in these various currencies with the appropriate authorised dealers. Authorised dealers should maintain normal relations with their foreign correspondents.

The Bank of England will be prepared to accept responsibility for balances held by authorised dealers with their foreign correspondents as agents for the Bank of England. Foreign balances which authorised dealers may choose to hold for their own account will not be covered under this arrangement.

4. If it is convenient to all parties concerned a proportion of any surplus of exchange that may be accumulated by the Bank of England will be sold spot to authorised dealers and bought back for forward delivery. This arrangement is intended to prevent a disturbance in the London Money Market or in other centres.

5. SALES OF CURRENCY.

- (a) At the close of business each day each authorised dealer should advise the Bank of England of the total amount of currency sold.
- (b) At the opening of business on the following day the authorised dealers should hand to the Bank of England a statement of the previous day's transactions.
- (c) On the value date authorised dealers should debit the Bank of England's currency account with the amount sold and the Bank of England will debit the authorised dealer's account at the Bank of England with the sterling equivalent.
- (d) Completed declarations (Forms E and T) should be forwarded to the Bank of England in due course.

6. PURCHASES OF CURRENCY.

A similar procedure will be followed.

7. With the exception of forward transactions all exchange transactions entered into between the Bank of England and authorised dealers will, for the sake of convenience and simplicity, be booked as "spot" contracts.

8. Statements of currency accounts should be forwarded weekly to the Bank of England.

9. COMMISSION.

Authorised dealers doing business with a Bank, which is not an authorised dealer, will be remunerated by the Bank of England at a rate to be agreed. Declarations and advices covering such operations should be stamped "Commission due" and kept separate from other deals. The commission should be claimed from the Bank of England monthly.

SECRET.

MEMORANDUM TO AUTHORISED DEALERS IN GOLD.

1. Dealings in gold coin or bullion are prohibited except with authorised dealers. A list of authorised dealers is attached.
2. Applications to purchase gold coin or bullion should be referred to the Bank of England. Until further notice gold will be made available by the Bank of England for the following purposes :—
 - (a) *To enable the buyer to perform a contract made before*
 - (b) *To meet the reasonable requirements of a trade or business carried on in the United Kingdom otherwise than by way of dealing in gold.*
3. Form C, duly signed and completed, must be obtained in respect of every sale of gold and handed to the Bank of England.
4. Prices for the purchase and sale of gold coin and bullion will be announced by the Bank of England from time to time.
5. Advances against gold and forward dealings in gold are not permitted except with permission from the Bank of England.
6. Melters, refiners and assayers may conduct their normal business but may not hold gold for any other purpose.
7. Authorised dealers should—
 - (a) Weigh and examine assays, meltings, etc., of any gold coin or bullion offered to them for purchase.
 - (b) Purchase such gold for account of the Bank of England.
 - (c) Deliver such gold to the Bullion Office of the Bank of England against payment.
8. Commissions to be agreed will be paid by the Bank of England to authorised dealers in respect of gold purchased and sold.

FORM E.**DECLARATION TO BE MADE BY A PERSON OR FIRM
APPLYING FOR FOREIGN EXCHANGE.**To
(Name of Bank or Banking Firm to whom application is addressed).I/We, the undersigned, request that the undermentioned amount of Foreign Exchange
be placed at my/our disposal.

Amount and Currency required

(In figures and in words) Say

Purpose for which required
(Precise information of nature
of goods, Services, etc., for
which Exchange is required
must be stated)Exchange to be paid to
(Give full details)State whether draft, cable or
mail transfer or other form
of delivery

Date when required

I/We declare that the purpose for which this exchange is required in no way contravenes
the provisions of Defence Regulation No. .

Name and full postal address

(Name of Person, Firm or
Corporate Body making
request)

Signature(s)

Date

Stamp of the Bank certifying the signature(s) as authorised
to sign on the banking account of applicant(s)Stamp of Authorised Dealer
(including date)

Rate

This space is reserved for the use of the Bank of England.

Posted

Date received

Checked

Regraded Unclassified

FORM T.

APPLICATION FOR FOREIGN EXCHANGE FOR TRAVELLING
PURPOSES AND FOR PERMISSION TO EXPORT FOREIGN
EXCHANGE AND/OR BRITISH BANK NOTES FROM THE U.K.

To

I/We

of

being desirous of travelling to

for purpose of

wish to purchase

(State Foreign Currency Required)

and to receive permission to take

(State Amount of British or Foreign Currency)

out of the United Kingdom.

I/We shall be leaving the United Kingdom on

..... and returning on

Date

Signed

FORM X.

To

I/We

of
 beg to apply for permission to export the undermentioned bank notes, gold, securities and/or
 foreign currency from the United Kingdom :—

Gold	Description	Weight Fine Oz.	Date Acquired
Notes	Description	Amount	Date Acquired
Securities	Description	Amount	Date Acquired

(Please continue overleaf)

I/We hereby declare that I/we are the true and rightful owners of the above-mentioned
 bank notes, gold securities and/or foreign currency.

Date

Signature

Address

.....

.....

N.B.—Proof of ownership should be attached.

FORM C.

**CERTIFICATE FOR EXPORTATION OF BANK NOTES, GOLD,
SECURITIES OR FOREIGN CURRENCY IN ACCORDANCE WITH
REGULATION OF THE DEFENCE REGULATIONS, 1939.**

This is to certify that

of
is authorised to export the undermentioned articles from the United Kingdom and in so doing
is not contravening Defence Regulation No. .

Gold	Description	Weight Fine Ozs.
		(words and figures)
Notes	Description	Amount
		(words and figures)
Securities	Description	Amount
		(words and figures)

STAMP OF BANK ISSUING CERTIFICATE.

Signed

For and on behalf of the Lords
Commissioners of His Majesty's
Treasury.

Date of Issue

Valid for period of one month only from date of issue.

FORM G.**DECLARATION TO BE MADE BY A PERSON OR FIRM
APPLYING FOR GOLD.**

To

I/We, the undersigned, request that the undermentioned gold be placed at my/our disposal.

Gold Coin or Gold Bars

Ounces fine (or approx. £
value)Purpose for which required
(Give full details)

Date when required

I/We declare that the purpose for which this gold is required in no way contravenes the provisions of Defence Regulation No. .

Name and full postal address

(Name of Person, Firm or
Corporate Body making
request)

Signature(s)

Date

Price

STAMP OF AUTHORISED DEALER.

FOR OFFICIAL USE ONLY.

Number of Gold Bars or
Amount of Sovereigns
delivered

Ounces Fine

Numbers and Markings of
Gold Bars

Sterling Equivalent

FORM E. 1.

STERLING TRANSFERS TO FOREIGN ACCOUNTS.

Name and Address of
Transferor

.....
.....
.....

Amount—

(words and figures)

£ s. d.

Say
.....
.....

Name and Address of
Transferee

.....
.....
.....

Purpose of Transfer (give
full details)

.....
.....
.....
.....
.....

I/We declare that the above-mentioned transfer is not contrary to Defence Regulation,
1939, No. .

Date

Signature

STAMP OF PAYING BANKER.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 14, 1939, 9 a.m.

NO.: 727

FROM COCHRAN.

I refer to my telegram of April 13, No. 722.

At eight o'clock this morning I had a telephone call from Pfenninger from Bern. Last night a special meeting was held there by the Board of Management of the Swiss National Bank in order to consider the inquiry from Secretary Morgenthau. It was found that this matter was entirely within the ~~Commission~~ province of the Central Bank at the present stage and only if some special decisions were to be taken would Government approval be required.

The Management wanted to let us know, Pfenninger said, that they are always ready to discuss these questions with me or with my people, adding that someone from the Management could come to Paris for this purpose at any time. They expressed a preference for direct discussion alone rather than any round table discussions among all the members of the Tripartite Agreement. Because of the political position of the Swiss they must be very careful, and they asked for absolute secrecy. The idea was put forth by Pfenninger that it might be feasible to have talks in Basel at the time the monthly meetings

- 2 -

meetings of the BIS are held, when there would not be much risk that they would attract attention. If necessary the parties interested ~~conveniently~~ could get to Basel a little before the usual meetings, or remain a day after.

BULLITT.

RECEIVED

JUN 14 1954

THE UNITED STATES DEPARTMENT OF
STATE
WASHINGTON, D. C. 20520

MA: LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: April 14, 1939, 9 a.m.

NO.: 249

No. 14 for Treasury from Heath.

Puhl, who has taken Brinkmann's place provisionally as Vice President of the Reichsbank because of Brinkmann's illness, and I had a long talk. The President of the Reichsbank is Funk, the Minister of Economics, but Puhl has in his hands the actual administration of the Bank.

My contact admitted frankly that Germany's exchange stringency was greater than it had ever been. He told me definitely that, contrary to general belief, the Czech National Bank's liabilities in foreign exchange were greater than its assets, since the Reichsbank was "loyally" meeting and would in the future continue to meet Czech importers' heavy credit commitments abroad. Under normal conditions, an importer would receive new credits from foreign suppliers when he paid off one foreign credit, but Puhl admitted that because of the international situation, fresh credits were not being granted often to Czechoslovakia.

It was not possible for me to get an estimate of the assets in gold and foreign exchange which were acquired when Czechoslovakia was taken over. I made mention of estimates which appeared in the newspapers that

Germany

- 3 -

Germany had acquired a gold reserve of 80,000,000 dollars and foreign exchange availabilities of 200,000,000 dollars, but he merely repeated that the liabilities of the Czech Bank were greater than the assets.

As far as the Reichsbank was concerned, he told me, it did not favor absorption of the Czech Central Bank by the Reichsbank. Its preference was for the Czech Central Bank to remain as "a more or less" autonomous institution, although working closely with the Reichsbank, issuing Czech currency. If it were determined that it would be "politically inadvisable" to issue Czech currency, it could issue its own form of Reichsmark currency.

Puhl made reference to the recent negotiations between the Reichsbank and Slovak officials. He asserted that the first thought of the Slovak officials was to issue their own monetary unit, getting rid of the Czech currency.

The "new financial plan" was described by Puhl as a provisional measure made necessary by the over-issuance of long term Reich loans to the point where necessary access to the money market was not available to industry.

END SECTION ONE. RECEIVED

CHIST.

APR 11 1944

EA:LWW

RECEIVED
APR 11 1944
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

PARAPHRASE, SECTION TWO, TELEGRAM NO. 248
of April 14, 1939, from Berlin

57

Puhl said that the new plan was in effect merely a cessation of long term borrowing by the Reich in favor of borrowing on short term. The inflationary dangers of over-issue of tax certificates were frankly admitted by Puhl. However, he said that a real effort was being made to reduce governmental expenditure, as it was realized that governmental economy was necessary. Incidentally, I may add my personal comment that Puhl is inclined to take the optimistic view.

Puhl made reference to the imposition of countervailing duties on imports into the United States of German goods as "regrettable", but said that there was no present possibility that there would be devaluation of the mark. The present political situation he said was frankly one resembling war. It was not possible to consider mark devaluation or relaxation of trade and exchange restrictions in view of this atmosphere and with exports still declining. Only if there should be appeasement could such a step be taken.

As for the Reichsbank, Puhl asserted that it would do all it could to promote reasonably normal financial relations. He insisted that the new President, Funk, was "a very reasonable man", who told his staff when he took over his duties that he "was not a wild East

Minister"

- 2 -

Minister" and that they need have no fear of his policies.

Puhl made reference to the April 25 meeting of the Standstill bankers in Berlin. He said that no substantial change was contemplated in the Standstill Agreement, except that in the course of time the Agreement had become very complicated and an endeavor would be made to simplify and clarify it.

The books of the Reichsbank still carry the name of Brinkmann as Vice President, Puhl said, because Brinkmann's doctors still are not ready to admit that he could not completely recover from the nervous breakdown from which he is now suffering. However, the indication was that this recovery would not be sufficient to permit him to resume his position as Vice President of the Bank.

END SECTION TWO.

END MESSAGE.

GEIST.

RECEIVED

APR 26 1935

RECEIVED
APR 26 1935
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 14, 1939, 5 p.m.

NO.: 736

FROM COORAN.

The uncertainty over rates of war risk insurance on gold has affected continental exchange markets. The British Government is now striving to relieve this question. The failure of the Belgian authorities yesterday and early this morning to peg the belga may have been due to the foregoing. Today in small amounts the French control has been both a buyer and a seller of sterling. Because of the international outlook of sterling. Because of the international outlook French rents and share markets are weak and nervous; this is mainly due to reports that the French army has requisitioned heavy commercial delivery trucks, and to rumors on the Bourse that general mobilization is imminent.

Pressure on both the Swiss and Dutch markets. On these markets foreigners are selling securities, and are withdrawing their holdings. Part of the funds of the Swiss authorities as being transferred to Great Britain and the United States. There are reports in the press that Dutch businessmen are traveling heavily to London, allegedly for the purpose of spreading their investments.

There are three stories in AGENCY ECONOMIQUE of Paris today coming from the United States, regarding

- 2 -

economic and financial measures to be taken in a crisis. There is included a report of a meeting held in Washington on Tuesday of the principal officials interested in financial market control. Mention was made of the idea of an orderly liquidation of foreign securities through a pool in collaboration with foreign governments.

END SECTIONS ONE AND TWO.

BULLITT.

EA:LWW

REB

GRAY

Paris

Dated April 14, 1939

Rec'd 4:52 p. m.

Secretary of State,
Washington.

736, April 14, 5 p. m. (SECTION THREE)

The French Government published a new form of statement of the public debt in today's JOURNAL OFFICIEL. It reveals that the total debt stood at 427,135,000,000 francs as of February 28, 1939. Borrowing during the first two months of the year totaled 10,932,000,000 francs. About 30% of this amount represented long term and about 70% medium term borrowing. On the other hand the statement shows that medium and short terms maturing (87%) during the current year were reduced by 4,186,000,000 francs, the perpetual debt by 1,000,000 and the debt to the Bank of France by 60,000,000. The net increase of the debt from January 1 to February 28 was therefore 6,684,000,000 francs.

The total debt of the state indicated above does not include the debts of the railways, of the departments and communes, et cetera nor does it include the war debts.

If

REB

2-#736, From Paris, Apr. 14, 5p.m.
(SEC. THREE)

If we add the joint published figures for the foreign debt (which do not include the war debts) of 16,000,000,000 francs, the railway debt of 102,000,000,000, the debt of the departments and communes of 40,000,000,000, and that of the colonies and certain state institutions of 10,000,000,000, we arrive at a total public debt as of February 28, 1939 of approximately 595,000,000,000 francs.

(END OF MESSAGE)

BULLITT

NPL

EMB

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APR 19 1940

THE DEPARTMENT
OF THE ARMY
WASHINGTON, D.C.
RECEIVED

MM

GRAY

London

Dated April 14, 1939

Rec'd. 7:12pm.

Secretary of State

Washington, D.C.

RUSH.

483, April 14, 7pm.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

One. At Sir Frederick Phillips' request I called at the British Treasury this afternoon and he gave me two copies of the British financial regulations which will be promulgated upon the outbreak of a war together with copies of the various forms and notices, on the understanding that these documents be treated as secretly and confidentially as any information can be because if anything leaked very real difficulties would be created.

Accordingly Phillips requested that these documents be sent directly to you and that no reproductions be made of them. He also said that two were being supplied inasmuch as you might wish to place one in the hands of the chairman of the Federal Reserve Board. They go in a letter addressed to you in the pouch which leaves London tonight for the QUEEN MARY. Phillips referred to the

fact

was 11:40/
has these
documents

mm 483, April 14, 7pm, from London.

-2-

fact that Bewley is scheduled to sail for England on April 21; consequently he had authorized him to be prepared to stay on in Washington for a day or two longer in the event that you wished to clarify through discussion with him any aspects of these documents.

Two. Phillips then stated that he was instructed by the Chancellor of the Exchequer to express appreciation for the American memorandum (my 473, April 13, 2pm) and to agree in principle to the consultations suggested therein. He added that the extent to which the British Treasury could enter consultative exchanges was conditioned by whether bilateral exchanges were intended or "a general confabulation". He was obviously leary of any such general consultations and therefore I ventured to express a personal opinion that no such suggestion was intended; that the intended procedure was for Cochran to consult with the continental adherents of the tripartite accord just as I had with him and if the other countries wished to undertake any bilateral conversations with each other naturally they were at liberty to do so. I added, however, that I would obtain from you confirmation on this matter and would communicate with him again. He said that they wanted the position to be thus clarified before proceeding further.

Phillips

mm 483, April 14, 7pm. from London. -3-

Phillips then went on to say that he thought the American figures of British holdings of American securities were quite wide of the mark due to the amount of foreign operations through London and that he estimated holdings by British residents of American securities were no more than pounds (Sterling) 150,000,000 to pounds (Sterling) 200,000,000 and probably much nearer the former than the latter figure. He also said that he understood and appreciated our desire to prevent panicky selling by foreigners of American security holdings upon the outbreak of a war but he did not understand the significance of the reference to foreign balances in the United States and to the commodity and money markets. As to the prices of commodities in the United States upon the outbreak of a war he thought it was "anybody's guess what would happen".

Phillips concluded by saying that any background information as to what we had in mind would be very much appreciated and in this general connection he referred to the two documents mentioned above and expressed the hope that we would reciprocate in passing on to him information regarding emergency measures we propose to take in the event of an outbreak of a war in Europe.

Three.

mm 483, April 14, 7pm. from London. -4-

Three. In the course of a conversation with Sir Frederick Leith-Ross, he referred to the financial economic implications of the recent guarantees given to Poland, Greece and Rumania and confirmed that these countries which, as reported in my 80 January 20, 3pm have for some time past been seeking financial facilities, particularly through the pounds (Sterling) 10,000,000 "political" export credit guarantee scheme, are now pressing most strongly for such assistance on the basis of war needs. He implied that they are asking mainly for arms, material and other supplies needed in time of war, and that they had suggested that if Great Britain was not in a position to make them available, they wanted funds with which they could make similar purchases, particularly in the United States. I gather that the traditional British answer of "no parliamentary authority to do so" is wearing pretty thin under the stress of dynamic events. Incidentally I learned from the export credit guarantee department that it is anticipating that a substantial increase will be made in the existing pounds (Sterling) ten million political credit scheme and steps are already being taken to expand its organization facilities.

From

mm 483, April 14, 7pm. from London. -5-

From these and other conversations it seems clear that the British monetary authorities feel themselves faced with a dilemma; whether an immediate war is sufficiently inevitable to make it desirable for them to spend lavishly their not unlimited financial resources in aiding potential allies or whether they should conserve their resources against all contingencies and only make available to their potential allies enough to keep them in line but not enough from the point of view of military safety. Furthermore regardless of expenditure the problem of supplying war materials to potential allies without interfering with the British armament program will require foresighted and careful handling if price rises through bottlenecks are to be avoided.

KENNEDY

CSB

RECEIVED

APR 15 1940

THE SECRETARY OF THE TREASURY
OFFICE OF THE SECRETARY
TREASURY DEPARTMENT

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

April 14, 1939

Morris Ernst tried to see you this afternoon, and when he found you were tied up, he asked me to mention to you that he had learned that some of the New York banks had paid huge tributes to get out of Germany their deposits in that country. He thought you might want to look into this as a possible means of showing that Hitler, Goebbels, et. al, are political grafters. This might be followed up by Archie Lochhead through the Federal Reserve Bank in New York or by the Comptroller of the Currency.

E. H. F.

Secretary Morgenthau

April 14, 1939

E. H. Foley, Jr.

Morris Ernst tried to see you this afternoon, and when he found you were tied up, he asked me to mention to you that he had learned that some of the New York banks had paid huge tributes to get out of Germany their deposits in that country. He thought you might want to look into this as a possible means of showing that Hitler, Goebbels, et. al, are political grafters. This might be followed up by Archie Lochhead through the Federal Reserve Bank in New York or by the Comptroller of the Currency.

(initialed) E. H. F., Jr.

EHF:s Typed 4/14/39

April 14, 1939.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

Reference is made to your letter of April 11, 1939, transmitting a proposed Treasury Decision imposing countervailing duties, under section 303 of the Tariff Act of 1930, upon "silk goods" imported into the United States from Italy, and requesting my opinion as to its form, substance, and legality.

Section 303 of the Tariff Act of 1930 (46 Stat. 687; U.S.C., title 19, sec. 1303), reads:

"Whenever any country, dependency, colony, province, or other political subdivision of government, person, partnership, association, cartel, or corporation shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article or merchandise manufactured or produced in such country, dependency, colony, province, or other political subdivision of government, and such article or merchandise is dutiable under the provisions of this Act, then upon the importation of any such article or merchandise into the United States, whether the same shall be imported directly from the country of production or otherwise, and whether such article or merchandise is imported in the same condition as when exported from the country of production or has been changed in condition by manufacture or otherwise, there shall be levied and paid, in all such cases, in addition to the duties otherwise imposed by this Act, an additional duty equal to the net amount of such bounty or grant, however the same be paid or bestowed. The Secretary of the Treasury shall from time to time ascertain and determine, or estimate, the net amount of each such bounty or grant, and shall declare the

not amount to determined or estimated. The Secretary of the Treasury shall make all regulations he may deem necessary for the identification of such articles and merchandise and for the assessment and collection of such additional duties."

From supplemental data submitted on April 13, 1939, it

appears that the Treasury Department has found the following factual situation to exist:

"Investigations by the Treasury Department have disclosed that Royal Decree No. 1267, dated May 29, 1937, and published in the Gazzetta Ufficiale del Regno d'Italia of August 4, 1937, provides for certain payments to be made to Italian exporters by reason of exportations of silk goods. The price to be paid for Italian silk cocoons is fixed annually by the Italian Government. On the basis of this price for cocoons, the price to be paid by manufacturers of raw silk is fixed in advance for one year. The basic rate of payments made in connection with exports, referred to in Decree No. 1267 as the 'integration quota', equals the difference between the fixed Italian price and the monthly average New York-Yokohama price for raw silk. An extra amount of 4 lire per kilo is paid on exports to the United States. The basic rate is adjusted for different silk products according to the kind of silk used and the stage of its manufacture. On the basis of available data for the last half of 1938, the subsidy for the silk year 1938-1939 will range from 6 to 63 lire (30¢ to \$3.30) per kilo (2.2 lbs.) of silk in the exported articles."

Thus the exporter of Italian silk products, upon exporting any such products to the United States, is paid a substantial percentage of the government-fixed cost or value of the raw silk entering into such products--the amount so paid being dependent in each case upon the kind of raw silk of good exported and the extent to which they have been manufactured. Such payments are made only with respect to goods exported. The Italian Royal Decree No. 1267,

- 3 -

copy and translation of which you furnished, states that the purpose of such payments is to facilitate "the exportation of silk products" and to cover the "expenses incident to sales" on the American markets. The effect, manifestly intended, is to give the Italian exporter of silk products such financial aid as will enable him successfully to compete in the markets of this country. This constitutes the payment or bestowal of bounties or grants upon the "manufacture or production or export" of silk articles or merchandise within the meaning of section 303 of the Tariff Act of 1930. Dorne v. United States, 187 U. S. 496; Nicholas & Co. v. United States, 249 U. S. 34.

It is my opinion, therefore, that it is the duty of the Secretary of the Treasury to impose countervailing duties under section 303 of the Tariff Act of 1930 upon dutiable silk merchandise imported into the United States from Italy, 38 Op. A.G. 489; and I find the proposed Treasury Decision submitted by you appropriate in form and substance to accomplish that purpose.

Respectfully,

(Signed) Frank Murphy
Attorney General.



TREASURY DEPARTMENT

74

INTER OFFICE COMMUNICATION

DATE April 14, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Vice President Garner's Request of March 14, 1939:
Question: Has the United States Government ever
Used Public Funds to Enable American
Citizens to Collect on their Foreign
Investments?

1. The United States Government has made no loans to a foreign country for the purpose of enabling that foreign country to pay its obligations to United States Citizens.
2. However, there have been numerous cases in which the United States Government has "intervened" or "interposed" with its military or diplomatic power for the purpose of protecting or promoting claims and property interests of American investors in foreign lands. Almost all of such instances have occurred in Latin American countries.

The United States Government has also used pressure on American banking and business interests to make investments in foreign countries which would facilitate the development of the foreign policy.

3. The Export-Import Bank was an attempt at a new policy in that public funds were used for the first time to finance American exporters or exports. In one case this financing operation facilitated the collection of debts arising from prior commercial transactions.
4. Loans (or tariff concessions) extended by the Government to a foreign government for the stated purpose of facilitating trade and strengthening the economy of the borrowing country may be made the inducement (and directly or indirectly may provide the funds) for additional payments to foreign holders of defaulted obligations of that country.

There have been instances when the State Department disapproved of loans by the Export-Import Bank because the borrowing governments had not made satisfactory settlements with the Foreign Bondholders Protective Council on defaulted debts.

Secretary Morgenthau - 2

The attached memorandum and appendix contain a description of instances illustrating governmental assistance in the collection of private debt and the promotion of financial and economic interests.

Protection and Promotion by the United
States Government of American Economic
and Financial Interests in Foreign Countries

The notable instances of American governmental action to protect and promote American economic and financial interests abroad may be summarized under four headings: Our general Caribbean policy, our Mexican policy, our Cuban policy, and our Chinese policy.

I. Outside Cuba and Mexico our Caribbean policy has been dictated largely by the strategy of security and protection, for which purposes we have sought to forestall any excuse for foreign intervention other than American.

A. We acted to insure that any economic dependency of a Caribbean state shall be a dependency on the United States and not on a European power:

1. We urged Santa Domingo, Nicaragua, Haiti, Honduras and Guatemala to pay off debts to foreign countries through American private loans. We urged American bankers to undertake such loans apparently with the understanding that adequate safeguards would be provided for the protection of the loans.
2. We discouraged the granting of major business concessions to foreign interests in Panama, Costa Rica, Nicaragua, Haiti and Colombia.
3. Some instances of efforts to cause a transfer of public debts from European to American hands follow:
 - a. During 1910-1912 the State Department urged American bankers to develop a financial plan for Nicaragua and to convert the public debt held by European interests into an American loan. State Department negotiated with Nicaragua a treaty safeguarding a loan contract which was negotiated with Nicaragua by American bankers. When the United States Senate refused to ratify the treaty, American bankers went ahead with a smaller loan and by private arrangement secured the right to select a Collector General of Customs, nominated by the bankers and approved by the State Department (1912).

b. During 1908-1911 the State Department advised Honduras to reject a British refunding contract as onerous and urged American bankers to undertake the refunding. American bankers arranged a loan contract while the State Department negotiated a treaty to safeguard it. Treaty was rejected by Honduran Congress, criticized by American Congress, and loan contract was withdrawn by American bankers.

c. In 1910 the State Department exerted pressure to obtain American participation in the National Bank of Haiti and again in 1920 to obtain full American control of the Bank.

d. From 1915 to 1922 the State Department worked to arrange a private American loan for Haiti that would lessen the ties with European bankers and bondholders.

B. We safeguarded the processes by which Caribbean nations could meet their obligations both to foreign and American interests:

1. We temporarily intervened in Panama seven times, in Honduras five times, in Nicaragua six times, and once in Guatemala and Costa Rica. We set up military governments in Cuba and the Dominican Republic, and maintained permanent forces for long periods in Haiti and Nicaragua. We set up customs receiver-ships in Nicaragua, Haiti, Salvador, and the Dominican Republic.

2. We used, as devices of influence, recognition and non-recognition of governments, displays of force, and arms embargoes.

3. Between 1854 and 1913 we disembarked military forces some fifty times "to protect life and property of American citizens" in Latin America. Of these fifty, fourteen occasions were on the Isthmus of Panama.

4. Some specific instances of this safeguarding process are the following:

a. The State Department appears to have refused to recognize the Theodore and Sam governments in Haiti because they would not submit to American customs control. Overthrow of Zamor and Theodore governments (1914) was largely due to lack of

- 3 -

money which was in turn due to action of the American-operated National Bank whose action was not disapproved of by the State Department.

b. Military occupation of Haiti in 1915. American forces were maintained until 1934 during which time American administrators exerted pressure for the adoption of a new constitution and for the submission of all proposed legislation to the United States for approval.

c. 1902-1907. Originally acting in defense of an American company, the State Department was led to take over the Dominican customs to prevent partial receiverships by other foreign creditor nations.

d. The State Department assumed a military government of Dominican Republic from 1916 to 1922 in an attempt to compel acceptance of a treaty providing greater safeguards to foreign creditors than were offered by the Convention of 1907.

e. Evacuation treaty of 1924 in Dominican Republic continued customs collection under American direction.

f. In Honduras 1910-1911, we impeded revolution by the presence of a cruiser and impeded existing government by setting up neutral zone. American arbitration of the matter followed.

g. Mediation of the Honduras-Guatemala boundary dispute of 1917-1918.

h. In 1911 a loan contract brought funds from the United States bankers to Nicaragua as well as an American collector general of customs. Abolition of concessions granted under previous governments was negotiated and a mixed claims commission (composed of one Nicaraguan and two Americans) was established to consider claims arising from this set.

i. In Nicaragua American troops were landed in 1912 to suppress a revolution and remained steadily in Nicaragua until 1925. Armed support was extended a presidential candidate in 1912 (subsequently elected) and again in 1926.

j. In the Dominican Republic recognition was withheld from governments in 1914 and 1916 pending their acceptance of American supervision of collections of internal revenue.

C. We have refused to attach significance to contractual stipulations whereby American firms renounced the right to ask support of their Government and have even discouraged the making of contracts containing such stipulations.

D. Upon numerous occasions the State Department has acted directly upon appeal of American enterprises in the Caribbean Republics. Eleven instances are cited below:

1. Upon appeal of San Domingo Company (American-owned) in 1902, the State Department helped to negotiate a settlement.
2. Upon appeal of sugar planters against sugar tax enforced in Dominican Republic in 1905 the State Department entered upon negotiatory activity.
3. Hollander was engaged to investigate Dominican situation in 1905-1906, leading to the debt-adjustment plan.
4. The State Department indicated disapproval of a port-charges action by Dominican Republic in 1906 as unfriendly act toward American enterprise.
5. Upon an appeal by American-owned railway in Haiti in 1913, the State Department induced Haiti to accept delivery of certain sections of the railway, with appropriate financial action.
6. Upon an appeal by the American-owned railway in Haiti in 1914, the State Department advised Haiti that it would act to safeguard the rights of the company.
7. Upon request by the American-operated Bank, the State Department furnished a ship to transfer gold to New York, despite the protest by Haitian government against such transfer.
8. Upon the suggestion by the American-operated Bank that issue of paper was undesirable, the State Department protested to Haiti.

- 5 -

9. The State Department insisted in the Haitian Constitution of 1918 upon a clause permitting foreigners to hold land in Haiti.

10. The State Department refused to recognize the law of 1920 in Haiti which restricted the right of foreigners to acquire land.

11. Upon suggestion of American interests, neutral areas were established in Nicaragua during disturbed periods in 1910, 1912, and 1926-27.

E. Sometimes the State Department's action has been favorable to American interests, although there is lacking clear evidence that the action followed upon appeals.

1. The tariff law of 1919 under the Dominican military government favored American trade, aided big American sugar companies using heavy machinery, and aided American manufacturers whose market was broadened. There is wide belief that American sugar planters did not feel that the intervention was a good idea for them.

F. Some observations worthy of note:

1. There is abundant evidence that the State Department has used pressure on private banks and firms to get action which would assist our foreign policy, as well as having shaped our foreign policy to protect private interests.

2. Among the conditions that American private enterprise has liked abroad are cheap labor, cheap land, high interest rates, and a government that can be influenced easily. The recent attempts by Latin American countries to raise wage levels and the standard of living of the population, and to provide low interest rates for native industry has reduced the attractiveness of these countries as a field for investment by American interests.

3. Private business has not always considered its interests aligned with the bonded debt interests that sought State Department protection. At the present time, particularly, the interests of United States exporters are in opposition to the interests of bond holders.

4. Actual military engagements are not necessary to exert influence. The mere presence of a warship has great moral influence.

II. In Mexico:

A. We have insisted upon the right to protest against internal economic policy. The State Department has protested vigorously against Mexican laws and constitutional provisions relating to taxation, forfeiture of mining properties, expropriation of land, and exploitation of oil properties, that were allegedly confiscatory or discriminatory.

B. Such devices as recognition and non-recognition and arms embargoes have been used to influence Mexican-American relationships. On one occasion, for example, a non-retroactive interpretation of a law was projected as a condition for recognition.

C. Some instances are cited in which the State Department has insisted that "American property shall not be confiscated" and has protested against Mexican laws that have an allegedly confiscatory effect upon American holdings.

1. 1915 - Villa decree that mines abandoned for 60 days shall be subject to forfeiture. Also, that exploitation work must be conducted on each five contiguous pertenencias.
ACTION. Mining men protested to State Department which in turn protested to Villa that the act was confiscatory of American property. Also, the State Department pointed out the impossibility of continuous operation because of revolutionary conditions. Decree was not enforced.
2. 1916 - Similar decree by Carranza. Suspension of mining operations for over two months in succession or for three months in one year would subject property to forfeiture.
ACTION. State Department requested annulment on ground that it is confiscatory of property which Americans could not operate because of uncertain railway service or excessive railway rates or confiscation of supplies. Modification of decree followed.
3. 1917 - 1918. 1917 Constitution vested subsoil ownership in the nation and raised question of status of properties owned by Americans. The chief issue was whether it was retroactive for properties acquired before May 1917.

- 7 -

ACTION. For several years the answer was not clear. When Obregon became President the State Department set up a non-retroactive interpretation as a condition to recognition. A United States-Mexican commission in 1923 reached agreement: A mutual statement making a distinction between those who had performed positive act toward using subsoil and those who had not, which was part of the basis for recognition in 1923.

4. 1925 - Law provides that if they have performed positive act toward oil exploitation before May 1917, owners may register their holdings and exchange oil rights for a 50 year concession. The 50 year period was to run from date of the positive act so that if done in 1885 the remaining period of exploitation would have been very short.

ACTION. State Department objected to the act as confiscatory. Calles Amendment followed the Court decision holding the Act unconstitutional.

5. 1915 - Carranza agrarian decree provided for expropriation of land for villages.

ACTION. United States-Mexican Commission of 1923 debating on methods of indemnification agreed on indemnification in bonds for lands up to 1700 hectares but for beyond that size the payment was to be cash. Also, it was agreed that payment in bonds shall not constitute a precedent for payment by bonds for expropriation of any other property.

6. 1925 - Alien land law attempted to oust foreigners from ownership of real property. Mexico assured that it was not retroactive. But one clause is disturbing, i.e., that foreign corporations holding stock in company owning rural land shall divest self of holdings within 10 years. Idea was that they intended to cut off inheritance of real property, and since corporation's life was perpetual, such a 10 year clause was inserted.

ACTION. State Department protested.

7. 1938 - Cardenas issued a decree expropriating properties of oil companies in Mexico. On March 30 and again on July 21, Secretary Hull made statements relating to proper procedure and method of payment in expropriation of property.

D. Regarding taxation, State Department's view has been that it will not object to taxes properly levied unless they are confiscatory or discriminatory.

1. 1915 - Tax decree affecting Mexico City Americans.
ACTION. State Department admitted that it was not confiscatory or discriminatory but because conditions for payment were unsatisfactory, it protested. Decree was annulled as far as affected foreigners.
2. 1915 and 1916 - Forced loans and contributions requested of foreigners.
ACTION. State Department protested.
3. 1915 - Carranza tax on mining properties.
ACTION. State Department protested because it is more than the industry can bear and therefore confiscatory.
4. 1916 - Mining tax on a progressive rate basis.
ACTION. State Department protested to it as confiscatory in its object.
5. 1917 - Tax on oil and petroleum.
ACTION. Lansing instructs ambassador to protest as confiscatory of American rights.
6. 1918 - Carranza decree. Double tax on oil industry by taxing both the land and the production.
ACTION. State Department protested as confiscatory. Mexico stated it is merely fiscal legislation and that it can not accept interference on such matters.
7. 1916 - Carranza decree created an issue of currency and made it compulsory to accept at certain ratios for payment of debt.
ACTION. State Department refused to accept the decree because depreciation of currency diminished and therefore confiscated existing obligations.

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E. Action by the United States Government which has been less clearly and directly on behalf of private enterprise includes the aid reported to have been contributed by Ambassador Wilson to the downfall of Madero; non-recognition of Huerta and the arms embargo, capture of Vera Cruz, etc; and the sending of Pershing into Mexico to capture Villa.

III. In Cuba:

A. Our intervention was a decisive factor in the securing of independence, and the Platt Amendment established a peculiar political status that facilitated the exercise of influence on Cuba and anticipated intervention under certain conditions.

B. Among the devices used have been recognition and non-recognition, arms embargoes, landing of armed forces, display of force, and military government. In addition to such activity, which served to protect the life and property of American citizens, direct influence has been asserted over the granting of concessions and the capacity to borrow.

C. The State Department apparently acted to avoid intervention if possible, and for a considerable period sought to act so that the cause for intervention would not arise.

D. From an economic viewpoint, the United States Government interpreted the Platt Amendment as giving it a sort of advisorship over Cuban loans and the right to pass on concessions granted by Cuba to foreigners, lest the concessions or loans prove an improvident strain on the Treasury:

1. In 1911 and 1912 the United States on several occasions protested the granting of concessions to both American and European companies.

2. A typical instance of control exercised over Cuban governmental borrowing was that in 1921 when approval by the United States of a large loan was conditioned upon improvement of financial administration.

E. In 1903 a reciprocity treaty between Cuba and the United States gave Cuban products, including sugar and tobacco, a 20 percent reduction from American tariff

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rates and American products a 20 to 40 percent reduction from Cuban rates.

This treaty and the Platt Amendment were abrogated in 1934 when a series of measures were taken as part of a policy of active cooperation with the Mendieta regime:

1. In accordance with the Jones-Costigan Act, Cuba was assigned an annual quota of 1,902,000 short tons of sugar in the United States market. At the same time President Roosevelt lowered the duty on Cuban sugar from 2 to 1½ cents a pound. This assured Cuba a definite place in the market of its principal customer.
2. A new Cuban-American trade agreement further reduced the duty on Cuban sugar and also lowered tariff duties on Cuban rum, tobacco, and fresh fruits and vegetables. In return, Cuba reduced its tariff rates on many American products.
3. In 1934 the Export-Import Bank loaned \$4,000,000 to the Mendieta Government. This was the first loan by a United States governmental agency to a foreign country.

F. Other activity included:

1. Landing of armed forces following difficulties arising out of presidential elections of 1905, and administration of the Government by an American governor from 1906 to 1909.
2. Landing of armed forces in 1912 to protect mines and sugar mills during the negro insurrection.
3. Sending of naval vessels and landing of forces in 1916 upon the outbreak of a rebellion against Menocal to which rebellion the United States indicated its opposition.
4. Landing of troops in 1917 to prevent possible destruction of sugar by revolution against Menocal. Troops not withdrawn until 1922.
5. Arrival in 1921 of General Crowder as personal representative of President Wilson. Crowder investigated local situation thoroughly, acted as Ambassador from 1923 to 1927, and participated actively in the Cuban Government's effort to deal with an adverse economic and electoral situation.

- 11 -

6. Placing of an embargo on munitions sales to insurrectionists of 1924 and sale of war equipment to the existing government.
7. Ambassador Welles' activity as intermediary between Machado and opposition groups.
8. Refusal to recognize Grau San Martin Government in 1933 and recognition of Mendieta Government in 1934.
9. Arms embargo of 1934 prohibiting export of arms and ammunition to Cuba except on application for license and approval by the Cuban Government.

IV. In China:

The United States Government has at different times encouraged and discouraged the making of loans by American bankers. Also, naval vessels have been available in strategic places during disturbed periods. Some instances of American action are:

- A. 1895-1900. The American Minister supported American activity to secure railway contracts.
- B. 1909. Secretary Knox proposed that China be lent enough money to purchase all the railways in Manchuria.
- C. 1911. President Taft sent personal telegram to the Chinese ruler requesting "equal participation by American capital" in the Hukuang Railway loan.
- D. 1913. The United States Government refused to support American participation in the six-power consortium, but reversed its attitude in 1917.
- E. From 1914 to 1921 the American Minister sought to induce American capitalists to make loans to China, but little interest was shown in Chinese loans by the American financial community.
- F. 1938. The Export-Import Bank made a \$25 million loan to China, to be used solely for the purchase of commodities in the United States. As far as is known, no stipulations were exacted from China as to matters of debt settlement, treatment of American business interests in China, or as to relations with third countries. This transaction was probably unique in that respect.

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V. State Department has attempted to prevent Export-Import Bank loans to Latin American countries which have not made satisfactory settlements on defaulted debts.

Department of State maintains the policy of discouraging loans by the United States Government or by government corporations to those countries which have not made a settlement of their foreign debt which is satisfactory to the Foreign Bondholders Protective Council. This policy is evidenced in its recommendation to the Export-Import Bank to decline a loan to the Chilean railroads in March 1938. The action with regard to the request for a loan by the Chilean railroad had its precedent on November 11, 1936 when a similar request for a loan by Colombia was recommended for disapproval because of the failure of the Colombian Government to reach a satisfactory settlement of its debt with the Foreign Bondholders Protective Council.

Summary of the Foreign Economic Policy of the Taft Administration -- "Dollar Diplomacy"

1. Knox urged Santa Domingo, Nicaragua, Honduras, Guatemala and Haiti to pay off debts to European countries through American private loans and urged American bankers to undertake such loans apparently with the understanding that adequate safeguards for protection of loans would be provided. As guarantees he sought to obtain control of customs collection for the bondholders.

a. Nicaragua: During 1910-1912 the State Department urged American bankers to develop a financial plan for Nicaragua and to convert the public debt into an American loan. State Department negotiated with Nicaragua a treaty safeguarding a loan contract which was negotiated with Nicaragua by American bankers. United States Senate refused to ratify treaty and loan contract was abandoned. However, the American bankers went ahead with a smaller loan than was contemplated originally by the proposed treaty, and by private arrangement they secured the right to select a Collector General of Customs, nominated by the Bankers and approved by the State Department (1912).

b. Guatemala: In 1912 the State Department tried to dissuade British Government from supporting claims of British bondholders whose bonds were in arrears and offered a plan for refunding by American bankers. The British, however, rejected the proposition and used a display of a warship to enforce its demands on Guatemala.

c. Honduras: During 1909-1911 the State Department advised Honduras to reject a British refunding contract as onerous and urged American bankers to undertake the refunding. American bankers arranged a loan contract while the State Department negotiated a treaty to safeguard it. Treaty was rejected by Honduran Congress, criticized by American Congress, and loan contract was withdrawn by American bankers.

d. Haiti: In 1910 the State Department exerted pressure to obtain American participation in the National Bank of Haiti.

e. Santa Domingo: During 1909-1913 the State Department displayed interest in broadening the Convention of 1907 (customs receivership) in order to provide greater safeguards to foreign creditors.

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2. Knox asked American bankers to participate in an international refunding loan to Liberia in 1910. The loan guaranteed by an international receivership plan was accomplished in 1912.

3. Knox, in 1909, devised a plan for private bankers (including both American and European) to finance and control all the railways in Manchuria. Proposal for internationalization failed.

4. Knox and Taft insisted successfully that American private bankers be allowed participation in the Hukuang Railway loan in 1909 (China). Taft sent a personal telegram to the Chinese ruler requesting "equal participation by American capital in the Hukuang Railway loan".

5. Knox expanded the interpretation of the Platt Amendment to include the right to pass on concessions granted by Cuba to foreigners on the ground that such concessions might result in an improvident strain on the Treasury. Some examples follow:

a. In 1912 the State Department objected to the contract with the Cuban Ports Company (British concern) as involving an obligation that might exceed Cuban capacity to pay.

b. In 1912 a concession to drain the Zapata Swamp was emphatically disapproved by the State Department as an "improvident and reckless waste of revenue and natural resources". Later indications that there was very little timber in the swamp and that American capital was involved were followed by adjustments to meet the objections of the State Department.

c. In 1912 the State Department disapproved of a concession to build the Caibarien-Nuevitas Railway under the erroneous belief that it was sought by British capitalists. Objection ceased when presence of American capital was revealed and the opposition of important British interests was disclosed.

6. Knox opposed a Panama railway concession to British and German capital in 1912, for strategic reasons.

7. Knox laid down the fundamentals of his policy before the Foreign Relations Committee, May 24, 1911:

"Shall the government of the United States make American capital an instrumentality to secure financial stability, and hence prosperity and peace, to the more backward republics in the neighborhood of the Panama Canal? And in order to give that measure of security which alone would induce capital to be such an instrumentality without imposing too great a burden upon the countries concerned, shall this government assume towards the customs collections a relationship only great enough for

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Summary of the Foreign Economic Policy of the
Wilson Administration

1. Wilson in 1913 enunciated the doctrine that concessions to foreigners by Latin American countries are dangerous because foreign interests are apt to dominate domestic affairs. However idealistic this doctrine may have been in origin, the practical effect was to keep out European capital and to permit development by American private interests. Some examples:

a. In 1913 the United States Government opposed an oil-docks-harbor concession to British interests in Colombia. This opposition caused concessionaires to abandon their negotiations.

b. Although Wilson's refusal to recognize Huerta in Mexico had a purely idealistic origin, the desire to exclude British interests whom Huerta was believed to favor probably did something to stiffen the successful opposition to Huerta.

c. In 1915 the United States Administration refused to confirm an oil concession in Haiti which had been approved by the local government.

d. The State Department urged a Costa Rican Government to cancel concessions granted by the previous government when the only concession in question was a British oil concession.

2. Wilson disavowed the principle of revenue controls in 1913 when he refused to encourage American bankers' participation in a consortium loan to China because he was disinclined to accept responsibility for protecting it. However, later his administration placed less emphasis on administrative independence of borrowers and more emphasis on the security of loans. In this regard there may be noted the effort made during the Wilson Administration to extend customs control to full revenue control in Haiti, Dominican Republic and Nicaragua, as well as the securing of customs control in Haiti in 1915, setting up of military government in the Dominican Republic in 1916, and the favoring of American bankers' participation in the consortium loan negotiations for China in 1917.

3. The Wilson Administration protested in the usual fashion against discriminatory or confiscatory economic policies adopted by the Mexican Government.

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4. The Wilson Administration in 1917 openly indicated to Ecuador its power to withhold approval from American private loans to the Ecuador Government unless it met its obligations to an American-owned company.
5. The Wilson Administration in urging American interests to acquire remaining control of National Bank of Haiti was continuing the policy of the previous administration.
6. In Cuban-American relations the Wilson representatives exercised the usual powers assumed by the United States under the Platt Amendment.

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Summary of the Foreign Economic Policy of the
Harding-Coolidge-Hoover Administration

1. Under these administrations independence of borrowers was still held secondary to security of American private loans and investments. The Coolidge statement that "the person and property of a citizen are a part of the general domain of the nation, even when abroad" illustrates the sweeping claims to the power of protection and the low significance attached to the concept of sovereignty of debtor countries.

The evacuation treaty with the Dominican Republic continued customs controls, receiverships in Haiti and Nicaragua continued, and Salvador accepted a customs control arrangement with a refunding loan in 1923. The State Department was less directly involved in the Salvador negotiations than in similar arrangements under previous administrations.

2. Under Harding the State Department asked American bankers to keep it informed of projected foreign loans so that it might have an opportunity to object should it care to do so. It should be noted, however, that the State Department did not require American bankers to consult it, did not undertake to pass on merits of foreign loans as business transactions, did not assume responsibility therefrom. The aim was merely to be allowed to voice objection in the light of possible national interests involved.

Secretary of Commerce Hoover recommended that American capital should not be used to finance foreign raw material monopolies and succeeded in discouraging American banking participation in such financing in some instances.

4. Support of Republicans who had previously opposed the treaty with Colombia which aimed to make amends for the Panama incident of 1903 was thrown to approval of the treaty in the United States Senate in 1921. The entrance of the oil-concession question in Colombia coincided with this change.

5. There was a continuing tendency, noted already in several previous administrations, for application of State Department protection to be more in support of economic rights and less in obtaining security for persons of American citizenship.

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The Export-Import Bank (1934-19__)

1. The Export-Import Bank has furnished accommodations for two types of transactions -- direct advances and guarantees with and without recourse.
2. It has extended credits in connection with exports of agricultural products to various countries, including countries in default on intergovernmental debts. It has extended credits directly to American firms desiring to export industrial products, particularly heavy machinery and railway equipment; in the usual transaction the Bank has purchased the obligation of the foreign purchaser representing up to 50 percent of the credit extended such purchaser by the American seller. In exceptional cases the Bank's participation has been much higher. In some cases it has assumed a portion of the risk without recourse to the American manufacturer or exporter. Trade with more than 20 countries has been aided by the Bank; the agricultural exports mainly to Europe, China, the industrial exports to Latin America and the Far East.
3. It has approved loans to American exporters whose working capital has been reduced because of failure of foreign governments to provide their own nationals with sufficient exchange to enable them to meet their dollar obligations. Such advances are only made against the guarantee of the foreign government concerned or of a responsible foreign bank or both.
4. In addition, the Bank has taken over from the R.F.C. and F.G.A. certain promissory notes of the Republic of China and certain Cuban debts held by the Bureau of Internal Revenue.
5. The Bank has handled four coinage programs for the Republic of Cuba.
6. A loan of \$25,000,000 was made to China.

APPENDIX I

Background and Significant Facts Pertaining to American Relations
with Mexico

1. Porfirio Diaz was the dictatorial head of Mexico from 1876 to 1911. During his regime American and foreign interests secured large tracts of oil, mineral and agricultural lands in Mexico. By aiding foreign interests to acquire holdings in Mexico and by making the following two changes in Mexican law, Diaz prepared the way for the difficulties that were to follow:

a. In 1884 the Diaz Government changed the old Spanish law, until then applied in Mexico, under which sub-soil wealth was not included in the title to land surface. The new law gave ownership of sub-soil wealth to the owner of the surface.

b. In 1886 a law was enacted requiring all landholders to prove title to their holdings. Since most small landholders had no legal title and much land was held communally, large interests — both Mexican and foreign — were able to claim valuable lands which had hitherto been considered to be the property of others. Under the Diaz regime the concentration of landholding increased to such an extent that by 1910 most of rural Mexico was included in 8,000 holdings. During the Diaz regime, relations with the United States were friendly and in 1910 a personal meeting of Taft and Diaz took place at the international boundary as an expression of good feeling.

2. In 1911 Diaz was forcibly overthrown by Madero, a liberal whose strength seems to have come primarily from the support of the Mexican people. Although some writers contend that the American oil interests backed Madero, available evidence does not clearly substantiate this contention. Madero was promptly recognized by the United States Government.

3. The American Ambassador to Mexico under Taft — Henry Lane Wilson — is believed by some students of Mexico to have significantly contributed to the downfall of the liberal Madero Government. His appointment was due to the political influence of his brother, former Senator John M. Wilson, Republican boss of the State of Washington, who was in turn a close associate of Richard Ballinger, Taft's first Secretary of Interior. In the Ballinger-Pinchot controversy Ballinger's close relationship with the Guggenheims was revealed and it is contended that Ambassador Wilson acted on behalf of the Guggenheim interests — American Smelting and Refining Company — which were in conflict with the Madero interests in Mexico.

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The following actions attributed to Ambassador Wilson are interpreted by some as contributing to the downfall of Madero:

a. Successive exaggerated reports to Washington about internal disorders.

As a result of these reports American armed forces were on February 4, 1912 mobilized on the Mexican border. This act of apparent American opposition to the Madero Government encouraged banditry and uprisings within Mexico. Immediately Orozco staged an uprising in the North and Zapata revolted in Morelos.

b. Helping to furnish arms to rebels.

This charge is supported by the following evidence: On March 23, the Ambassador telegraphed Washington for 1,000 rifles and 1,000,000 cartridges for defense of the American colony. On March 26, he requested an additional 1,000 rifles, 1,000 field service belts, and 1,000,000 cartridges for Mr. George W. Cook and Mr. Emanuel Beck whom he described as "wealthy and responsible Americans in Mexico City". Although the Department of State was "disinclined to accede" to the latter request, a large shipment of arms was sent to the Ambassador. On May 3, the Mexican Government discovered that an American concern conducting a "mail order business" under the name of the Tampico News Company was delivering arms to the rebel Zapata. Two of the Ambassador's close associates were directors of this concern — one of them being Mr. Beck.

c. Conferring with and encouraging the rebels while discouraging the Madero Government.

On February 15, 1913, the Ambassador called a meeting of the British, German and Spanish diplomats and the group delegated the Spanish minister to ask Madero to resign. The Cuban Minister to Mexico later wrote of Wilson's conduct: "... as I saw it, then and later, with the testimony of the Spanish Minister, Senor Cologan, and the numerous proofs which had been accumulating since, the [American] embassy was not other than the center of a true conspiracy against the Government..." On February 20, when Madero was overthrown, the Ambassador wired the Department of State that "a wicked despotism had fallen" and two hours later asked for instructions "as to the question of recognition of the Provisional Government now installed and evidently in secure position."

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4. Although Ambassador Wilson strongly advised the Wilson Administration to recognize Huerta — who overthrew Madero — the Wilson Administration refused to do so and subsequently recalled Ambassador Wilson.

Under President Wilson, the American Government actively intervened to cause the downfall of Huerta. Although some writers contend that President Wilson was acting solely to protect American private interests, available evidence seems to indicate that Wilson may have been motivated by more idealistic considerations.

The following measures were taken by the United States Government to bring about the downfall of Huerta:

a. Refusal of recognition.

In addition to withholding United States recognition, the Wilson Administration influenced other Governments to withhold recognition of Huerta. On May 31, 1913 Ambassador Morgan wired from Brazil: "Both Argentina and Chile have inquired what action Brazil contemplates. Brazil desires to know whether or not the United States would be incommoded if the three Powers should recognize before the United States found it convenient to do so." Secretary Bryan replied: "This Government is not ready to consider recognizing Mexico. It is hoped the countries mentioned in your telegram of May 31 may see their way clear to withhold action until our course has been determined." On June 2, Morgan replied: "Acting Minister for Foreign Relations assured me this afternoon that Brazil would withhold recognition of Mexico until our course had been determined."

b. Requests for his resignation.

- In August President Wilson sent a confidential representative to lay down conditions to Huerta, calling for his resignation, and "an early and free election" in which all parties were to participate but in which Huerta was not to be a candidate and by the result of which all parties agreed to abide.

c. Threatening statements.

On November 24, 1914, the United States Government sent a note to all governments of the world stating "... the present policy of the Government of the United States is to isolate General Huerta entirely; to cut him off from foreign sympathy and aid and from domestic credit, whether moral or material, and to force him out.

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"It hopes and believes that isolation will accomplish this end and shall await the results without irritation or impatience. If General Huerta does not retire by force of circumstances it will become the duty of the United States to use less peaceful means to put him out ..." Other notes in similar vein were sent to other Governments of the world.

d. Placing and removing of arms embargo.

On August 14, 1913 the United States Government forbade the exportation of arms to Mexico. On February 3, 1914, when uprisings were occurring, the arms embargo was removed. When Carranza was recognized on October 19, 1915, the embargo on arms shipments to Mexico was restored.

e. Military force.

On April 14, 1914 Secretary of the Navy Daniels ordered the Atlantic fleet, with the first regiment of Marines, into Mexican waters. On April 20, President Wilson appeared before a joint session of Congress and asked approval "to use the armed forces of the United States" in Mexico. On April 21, American armed forces landed and captured Vera Cruz and held it until after Huerta resigned.

5. On August 22, 1914, Carranza set himself up as chief executive of Mexico. On October 19, 1915, the United States Government granted him recognition and restored the embargo on arms shipment to Mexico. In thus supporting Carranza the Wilson Administration gave its moral support to a Mexican Government which was to take steps injurious to American interests in Mexico. It is to be observed, however, that when the Carranza Government — shortly after being recognized by the United States — declared all acts of Huerta authorities to be null and void, Secretary Lansing demanded that such declaration "should not be applied to American citizens who acquired titular interest ... during the Huerta regime."

In 1916 Wilson sent American troops under General Pershing to try to capture Villa in Mexico. This action on the part of the American Government was apparently due to Villa's raids into the United States and was not directly related to the protection of American private interests in Mexico.

In 1917 the Carranza Government adopted a new constitution, Article 27 of which provided:

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"The ownership of lands and waters ... is vested originally in the nation, which ... has the right to transmit title thereto to private persons, thereby creating private property ...

"The Nation shall have at all times the right to impose upon private property such restrictions as the public interest may require, as well as the right to regulate the development of natural resources ... in order to conserve and equitably distribute the public wealth...

"In the nation is vested direct ownership of all minerals or substances (in the subsoil) solid mineral fuels, petroleum, and all hydro-carbons -- solid, liquid or gaseous ...

"The ownership of the nation is inalienable ... Concession shall be granted to private parties or ... corporations organized under the laws of Mexico, only on condition that said resources be regularly developed, and on the further condition that the legal provisions be observed.

"Legal capacity to acquire ownership shall be governed by the following provisions:

"Only Mexicans by birth or naturalization and Mexican companies have the right to acquire ownership in lands, waters, and their appurtenances, or to obtain concessions to develop mines, waters, or mineral fuels in the Republic of Mexico. The Nation may grant the same right to foreigners, provided they agree before the Department of Foreign Relations to be considered Mexicans in respect to such property, and accordingly not to invoke the protection of their Governments in respect to the same, under penalty, in case of breach, of forfeiture to the Nation of property so acquired..."

The United States Government filed numerous protests against these provisions and laws based upon provisions of the Constitution of 1917.

In 1919-1920 a Senate Sub-committee investigated Mexican Affairs. The committee recommended that no Mexican Government be recognized unless it exempted Americans from certain provisions of Articles 3, 27, 33 and 130 of the Constitution of 1917. It further recommended that if the Mexican government refused to accede to these conditions and had not after due warnings "restored order and peace ... and effectively extended protection to our citizens ... a police force consisting of naval and military forces of our government" be sent to Mexico.

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6. In 1920 the Carranza Government was overthrown and Obregon assumed office on December 1. On June 7, 1921, the Department of State announced that it would not recognize the Obregon Government unless it signed in advance a treaty guaranteeing American rights "against confiscation".

In 1923 a conference was held to discuss American-Mexican difficulties. The United States and Mexican Governments were each represented by two commissioners and an agreement was reached concerning Mexico's oil policy and the method of payment to American owners for lands taken by the Mexican Government. Shortly after the close of this conference recognition was extended by the United States to the Obregon Government, and in December the Coolidge Administration agreed to sell arms to Obregon to enable him to suppress a revolt. No laws were enacted by the Obregon Administration putting into effect provisions of the Constitution conflicting with American interests in Mexico.

7. Calles became president of Mexico December 1, 1924.

On December 31, 1925 a law was enacted compelling all owners of petroleum properties to register their holdings and to apply not later than December 31, 1926, for 50 year exploitation concessions, to be granted without cost. It was declared that failure to do so would not mean confiscation of the land, nor would concessions be granted to anyone but the owners of the surface. Compliance with the law was a prerequisite to the granting of drilling and operating permits. Twenty-one of 147 petroleum companies operating in Mexico refused to comply with this law.

In addition to making formal protests, the State Department resorted to the following measures to bring pressure to bear on the Mexican Government:

a. On June 12, 1925 Secretary of State Kellogg gave to the press a note on Mexico in which he stated:

"... It will be remembered that we entered into two claims conventions with Mexico under which joint claims commissions were appointed to adjust claims of American citizens for properties illegally taken by Mexico and for injuries to American citizens of their rights... Our relations with the Government are friendly, but nevertheless conditions are not entirely satisfactory and we are looking to and expect the Mexican Government to restore properties illegally taken and to indemnify American citizens.

"... I have seen statements published in the press that another revolutionary movement may be impending in Mexico ...

"... it should be made clear that this Government will continue to support the Government in Mexico, only so long as it protects American lives and American rights and complies with its international engagements and obligations..."

b. On November 15, 1926, Assistant Secretary of State Robert Olds called in representatives of the Associated Press, United Press and the International News Service, telling them that relations between the United States and Mexico had reached an acute stage and that the State Department was "morally certain that a warm bond of sympathy, if not actual understanding" existed between Mexico City and Moscow, and that a "steady stream of Bolshevik propaganda" had been filtering from Mexico down through Central America, aimed at property rights and designed to undermine Society and Government as now constituted." He asked that this picture be presented to the American people and suggested that "Mexican and Bolshevik hegemony in Central America might be said to be menacing our control of the Panama Canal."

From 1925 to 1927 the United States Government was continually negotiating with the Mexican Government on behalf of American private interests in Mexico. In 1927 Dwight Morrow was sent to Mexico and in December of that year the Mexican Congress passed a law doing away with the provision for 50 year concessions and providing for concessions of indefinite length. Ambassador Morrow declared the new concessions to be practically a confirmation of old titles.

8. Both the Calles and Cardenas Administrations followed the policy of expropriating large landholdings of both Mexicans and foreigners for the purpose of returning the land to the Mexican people.

9. Under the Cardenas Administration a labor struggle led to expropriation of American and British oil properties in Mexico. On November 3, 1936 the Syndicate of Petroleum Workers submitted demands for wage increases with which the companies refused to comply. On appeal of President Cardenas, a conference was held between workers and oil representatives lasting from December 1936 to May 25, 1937, but no agreement was reached. On May 27, the workers struck and on June 7 the Syndicate agreed to submit the dispute to the Labor Board as a conflict of "economic order". After investigations by its committee of experts, the Labor Board on December 18, 1937 recommended increases in wages and extensive welfare benefits. On December 28, the oil companies filed a petition for injunction with the Mexican Supreme Court against the recommendations of the Labor Board. On March 1, 1938, the Supreme Court denied the injunction and sustained the Labor Board in its findings. The 17 oil companies then issued

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a statement declaring that "their inability to comply remains unaltered by today's verdict" and the Labor Board set Monday noon, March 7, as the deadline for compliance with the award. When this hour passed without any move on the part of the oil companies, the Government, acting on petition of the Syndicate, embargoed the corporation's bank deposits in amount necessary to cover payrolls during the strike (May-June 1937) but made no further move. President Cardenas conferred with the oil companies in an unsuccessful attempt to work out a solution. On March 14, the Labor Board warned the companies that they must accept the recommendation by the following day. On that date the companies formally advised the Board that they were unable to comply. On March 18, the Board, in response to union demands, declared the labor contract between companies and the workmen broken, making the former liable under the Labor Law for dismissal wages to all their employees. As a consequence, union leaders ordered work suspended on midnight of that date and that evening (March 18, 1938) Cardenas issued a decree expropriating the properties of the oil companies. The decree states that payment for the properties is to be made within ten years.

. On March 27, 1938 the Secretary of the United States Treasury announced that monthly purchases of Mexican silver would be discontinued after April 1.

On March 30 Secretary Hull issued a public statement, recognizing the right of the Mexican Government "to expropriate properties within its jurisdiction" but pointing out that "in accordance with every principle of international law ... the properties of its nationals so expropriated are required to be paid for by compensation representing fair, assured, and effective value to the nationals from whom these properties are taken".

On July 21, Secretary Hull, in a note to the Mexican Government which explicitly referred only to prior agrarian expropriations, contended that expropriation unaccompanied by prompt and adequate payment was "contrary to the accepted practices of international law" and proposed arbitration of the question "whether there has been compliance by the Government of Mexico with the rule of compensation as prescribed by international law" in the case of American lands seized since 1927.

Appendix II

Background and Significant Facts Pertaining to American Relations with Cuba

1. By Joint Resolution of April 20, 1898, the American Congress authorized the use of military force to effect Spanish withdrawal from Cuba and declared that Cuba should be independent. The Treaty of Paris (April 11, 1899) terminated Spanish sovereignty over Cuba and made the United States temporary trustee. The United States established a temporary military government in Cuba immediately following cessation of hostilities. The military government was under the direction of the United States Department of War.

In March 1899 Congress passed the Foraker Amendment to the Military Appropriations Bill providing that no franchises or concessions were to be granted by the United States during its occupation of Cuba. It was subsequently ruled that this amendment did not cover mining claims, not prevent the construction of a railroad on purchased property, nor prevent cancellation of old franchises, nor preclude the grant of a ten-year monopoly to the Jai Alai Company.

2. The United States military government called a constitutional convention which met in November, 1900. On February 21, 1901 a Constitution was adopted leaving the nature of Cuban-American relations unspecified. To remedy this situation, Congress passed the Platt Amendment to the Army Appropriation Bill, approved March 2, 1901, outlining the terms under which withdrawal of American troops might be authorized. This amendment specified that the Cuban Constitution was to contain provisions specifying, among other things, that Cuba could not make compacts with foreign powers impairing its independence and that the United States might intervene to preserve Cuban independence or to protect life, property and liberty on the island. The Constitutional Convention rejected the amendment and sent a Commission to Washington. On May 28, 1901 the Convention accepted the Platt Amendment but added its own interpretation. The United States Government refused to accept it in this form and on June 12, 1901 the Convention adopted the Amendment as passed by the United States Congress. It was made an appendix to the Constitution and was included in a permanent treaty between the United States and Cuba. On May 20, 1902 the American military government was terminated.

3. In 1903 Congress approved a Reciprocity Treaty between the United States and Cuba, giving Cuban products, including sugar and tobacco, a 20 percent reduction from American tariff rates and American products a 20 to 40 percent reduction from Cuban rates.

A Reciprocity Treaty had been urged earlier by Roosevelt, Root, and Wood, but the domestic beet and cane sugar producers had united to oppose the measure. It was felt the measure would benefit primarily the domestic refiners. When the possibility of closer trade relations

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between Cuba and Europe, especially Great Britain, arose, Roosevelt sent Colonel Bliss to Havana to negotiate. A Reciprocity Treaty was signed December 11, 1902, Congressional approval came December 17, 1903.

4. The presidential elections of 1905 occasioned the second military intervention of the United States. Cuba's first President, Estrada Palma, a Moderate, was elected to succeed himself, after the Liberals had stayed away from both primary and final elections. Prior to the elections, numerous local officials had been dismissed and replaced by Moderates, and the final registry of voters was alleged to contain thousands of fraudulent names. Estrada Palma took office for his second term May 20, 1906. Revolt broke out August 16, 1906. On September 8, 1906, Steinhart, U. S. Consul General in Cuba, telegraphed the State Department in Washington that President Palma had requested war vessels; this was followed by several similar messages. Two war ships were sent, arriving September 12. Taft and Bacon were sent to Havana to negotiate, arriving September 19. Their proposals were rejected by Estrada Palma who then resigned, together with the Vice President and Cabinet, on September 28, 1906. Thereupon the Moderates decided to stay away from Congress which was then without a quorum. Cuba had no government. On September 29, 1906 Taft published a proclamation establishing a Provisional Government under the control of the United States.

Magoon, an American, became governor on October 13, 1906. Under his Administration Cuban government expenditures increased heavily. Public works, especially roads, were built on a big scale. American firms obtained contracts for large public works projects in Havana and Cienfuegos, and toward the end of the Administration contracts were awarded to American firms on projects to be completed after the American Government had terminated. Many of these were abrogated in 1909 by the Gomez Administration. It is claimed that jobs were created to meet patronage demands. Among the achievements of the Magoon Administration were changes in the law governing elections and a census to enumerate the voters. Presidential elections were held in 1908 and were won by Gomez and Zayas, Liberals. In 1909 the United States withdrew its Provisional Government.

5. In September of 1911 a Cuban veterans organization made strong pronouncements against officeholders who had been Spanish sympathizers. The possibility of another revolution arose. Then on January 17, 1912, Secretary Knox informed the Cuban government that the United States was concerned and intimated that Cuba ought to prevent developments that might compel the United States to take measures. Thereupon the veterans' organization reached an agreement with the government whereby the campaign against officeholders ceased.

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On March 5, 1912 the State Department sent instructions to Minister Beaupre to prevent action on a proposed British railway (Nuevitas-Calibarien) concession involving a Cuban subsidy. Later it developed that the proposed subsidy was to go to an international group, including some Americans, and that the real protest against the subsidy had arisen from the British-owned Cuban Central Railway. The British protest abated when it was announced that the loan would be floated in London and the State Department dropped its objections.

Though Gomez had announced his intentions not to resort to a loan, a loan of \$16,500,000 was placed with Speyer and Company in June 1912 to continue the sewage and paving projects in Havana and the sewage and aqueduct projects in Cienfuegos which had been authorized by Magoon.

An additional loan to continue work on the Havana-Cienfuegos project became necessary in 1914, during Menocal's administration, when a \$10,000,000 loan was contracted for with J. P. Morgan and Company.

6. On May 20, 1912, a negro insurrection arose. It is sometimes alleged that the insurrection was instigated by Gomez or that the object of the revolution was American intervention. On May 25, 1912, the United States notified Cuba that troops would be landed if the Cuban government failed to protect American lives and property, and at the end of May marines were actually put on shore at Daiquiri to protect property of the Spanish American Iron Company. Several days later troops were stationed at El Cobre to protect copper mines and at sugar mills. In response to a cable from Minister Beaupre, battle-ships were ordered to Havana.

On June 6, 1912, Minister Beaupre cabled Washington that Cuba might need funds for suppressing the revolt and that this might be an opportunity for imposing some fiscal control. This did not eventuate and when Cuba later found it necessary to borrow for other reasons in 1913-14 no fiscal control was imposed.

7. On June 18, 1912, Gomez gave forest privileges and public lands in the Zapata Swamp to the Compania Agricoltora de Zapata. Thereupon Minister Beaupre reported to Washington, on July 5, 1912, that valuable timber lands were being given away and asked for instructions to object to the concession. Secretary Knox responded July 17, 1912 with instructions to convey to the Cuban Government the disapproval of the United States. Upon investigation, it was discovered that an American contractor named Isaac P. Champion was interested in the concession and agents of the United States Government reported that the timber in the swamp was relatively valueless. Ultimately, the State Department withdrew its objections.

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8. In February 1911 the Dredging Concession was granted the Ports Company of Cuba. The company was to improve a number of harbors and maintain them in return for which port dues were to be assigned to it. The contract for the work was let to the T. L. Houston Contracting Company, in which T. L. Houston and Norman H. Davis were interested, and the financing was arranged by the Trust Company of Cuba, of which Davis was General Manager. The company issued bonds to the extent of \$7,000,000, of which \$6,000,000 were taken by Sperling and Company and offered in London. Shares were issued to the promoters.

On June 23, 1911 the United States delivered a protest to the Cuban Minister against the scheme and requested that the project be revised. A year later the State Department criticized the scheme as in conflict with the Platt Amendment and for failing to provide for termination of the concession at an equitable valuation. Thereupon Gomez issued a decree May 12, 1913, with the approval of the United States, providing that Cuba might terminate the concession by purchase of outstanding stock at a value to be fixed by a board on which the United States was represented.

Shortly thereafter Menocal came into power. On June 18, 1913 he cancelled the May 12 arrangement and on August 4, 1913 he cancelled all rights of the Ports Company. The United States made strong representations to Cuba, claiming the action was tantamount to violation of the Platt Amendment. Menocal then endorsed indemnification of the bondholders, once on March 18, 1915 before a legislative committee and again on June 21, 1916 in a special message to Congress. Meanwhile, both United States and Cuba had entered the World War. Norman H. Davis had become financial adviser to the Treasury Department in Washington, on allied loans. Cuba was interested in a \$15,000,000 loan for war purposes. On April 3, 1918, Menocal issued a decree authorizing the exchange of \$7,000,000 of 5 percent Cuban Treasury bonds for the same amount of bonds of the Ports Company. At the same time the assets of the company were returned to it. That same month Cuba received her war loan of \$15,000,000 from the United States.

9. The Presidential elections of November, 1916 between Menocal and Zayas were so hotly contested that some of the returns were thrown out as fraudulent and new elections ordered in some districts. Liberals claimed they had been deprived of a victory by government chicanery. Revolt broke out in February. With the outbreak of the rebellion, the United States definitely allied itself on the side of the Menocal regime and issued statements indicating its opposition to the revolt. American war vessels were stationed at Santiago, troops were landed there and at Guantanamo and were sent to points where important American properties were thought to be threatened. The revolt was virtually broken by the capture of Gomez early in March. Supplementary elections were held in February and April. Liberals made no attempt to participate. In the Santa Clara election more votes were cast for the Conservatives than there were registered voters. The election of Menocal for a second term was thus confirmed and he assumed office on May 20, 1917.

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10. Cuba entered the World War shortly after the United States and during the war period adopted many of the war measures inaugurated in the United States. Menocal retained the extraordinary powers granted him in consequence of the February revolution and of the declaration of war and thus remained a virtual dictator to the end of his rule. In 1917 he asked the United States to send troops to Cuba to prevent damage by revolution to much needed sugar. Troops were sent to Oriente and to Camaguey and were not withdrawn till 1922.

Cuba naturally became involved in the sugar control scheme inaugurated during the war period. The International Sugar Committee had fixed a price of 4.6 cents per pound for Cuban sugar, to which the Cuban producers were not at first willing to agree. Then a flour shortage developed in Cuba. Food cargoes from the United States were delayed in shipment and proper licenses could not be obtained from Washington officials. Finally in January 1918 contracts were signed by Cuban representatives, appropriate decrees were issued in Havana, and full allotments of food and other supplies moved to Cuba.

11. Long before Menocal's second term was up, there were rumblings about the forthcoming election. Upon the invitation of both Conservatives and Liberals, General Crowder came to Cuba in March 1919 to assist in drawing up an election law which, when finally framed, placed great reliance upon the judiciary. In August 1920 the Liberals threatened to stay away from the polls, whereupon the United States announced that it would have official observers on hand for the November elections. The observers came but could not prevent election evils. As a result of difficulties growing out of the elections, President Wilson sent Crowder to Cuba in January 1921 as a personal representative. Crowder objected to the delays in decisions on disputed cases. Action was taken, elections in many districts were annulled, and new partial elections scheduled for March. The Liberals stayed away again and Zayas won. Despite protest by the Liberals, the United States recognized Zayas in April, and on May 20, 1921, he was inaugurated.

12. Meanwhile, Crowder turned his attention to finances. The War and the accompanying rise in the price of sugar created unprecedented prosperity for Cuba. The sugar boom reached its climax in May 1920. The price of sugar broke at the end of May and declined with increasing rapidity through August and September. Banks had made heavy loans to finance the sugar crop and their security was wiped out. Bank runs developed and on August 10, 1920, a moratorium was declared and later extended. American interests wanted removal of the moratorium. Crowder endorsed two measures introduced by Senator Torriente, one providing for gradual lifting of the moratorium and the other for liquidation of banks. Both were pushed through the Cuban Congress. Meanwhile, the sugar market rallied a bit under efforts of the Sugar Export Committee but this advantage was wiped out when the Emergency Tariff Bill

passed by the American Congress in April 1921 raised the duty on Cuban sugar. On April 9, 1921, the Banco Nacional, a government depositary, closed its doors, followed by other banks in May and June, when the Banco Espanol was turned over to the Liquidation Commission. Seeking expert advice regarding the banking system, Crowder caused W. P. G. Harding, of the Federal Reserve System, to be invited to Cuba. Harding studied the situation for some months and drew up a plan for the Cuban banking system, but nothing came of it.

13. When Zayas assumed office in 1921, Cuban government finances were in bad shape. Almost immediately Cuba fell behind on her debt service. Loans were authorized by the Cuban Congress, but Crowder, in July 1921, advised the United States State Department to withhold consent till Cuba agreed to grant the American Minister general financial supervision. The United States also insisted on a balanced budget, authorization of additional revenues, and reorganization of customs. The State Department failed to approve a loan and in August 1921 advised Cuba to cover the floating debt by a cut in the budget. Meanwhile Crowder had also insisted to Zayas that before Cuba could get a loan, the unfulfilled contracts with the Department of Public Works would have to be straightened out. In August 1921, Zayas issued a decree annulling illegal contracts and forcing an adjustment on others. This necessitated an investigation which was carried out by a United States military attache.

In October 1921, Dwight Morrow, representing J. P. Morgan and Company, arranged a contract for a five million dollar loan which was ultimately to become part of a fifty million dollar loan to be advanced after Cuba had reduced the budget and enacted certain customs and other legislation. The first part of the contract was carried out in January 1922 after the State Department decided not to impose any conditions on the five million dollar loan.

Popular clamor for the dismissal of certain members of the Zayas Cabinet brought resignation of the Cabinet on June 15, 1922 and the appointment of the so-called "Honest Cabinet", in the selection of which Crowder was reputed to be active. It reduced the budget and straightened out the contract situation in the Department of Public Works.

The question of a fifty million dollar loan now arose. Publication of Crowder's famous Memorandum No. 13 of July 21, 1922, disclosed Crowder's demand for a fifty-five million dollar budget and a sales tax as prerequisite to American approval of a fifty million dollar long-term external loan. A storm of disapproval arose but the required measures were adopted. The loan was awarded to J. P. Morgan and Company in 1923. Most of the proceeds were applied to the floating debt.

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14. Aroused over waste and corruption, the War Veterans organized in 1923. In April 1924 a revolt broke out under Colonel Frederico Laredo Bru, but was quickly put down. The United States put an embargo on sales of munitions to the insurrectionists and sold war equipment to Zayas.

15. Gerardo Machado was elected President in the Fall of 1924 as a candidate for the Liberal party. He assumed office at a time when Cuba was beginning to suffer from the effects of world overproduction of sugar. To improve the economic life of the Republic, he attempted to raise the price of sugar by restricting production; he inaugurated a protective tariff policy to increase local agricultural production, and embarked on an ambitious Public Works program, the feature of which was the construction of a 700 mile central highway. Originally Machado took a strong position against foreign loans and announced his intention to run for only a single term of four years. In 1928, however, he brought about his re-election for a term not to expire until May 1935.

16. When it became evident that the special taxes authorized in the Law of 1925 would not provide necessary funds for the Public Works program envisaged in that Law, the Government made arrangements for a foreign loan. In February 1927 the Government made an agreement with the Chase National Bank whereby the latter was to purchase road construction certificates against work completed up to an amount of \$10 million dollars. Still hoping to avoid a long-term foreign loan, Machado in June 1928 made a second contract with the Chase Bank transforming the original \$10 million into a revolving credit of \$60 million. Under this agreement the bank sold \$20 million of work certificates to the American public and advanced \$37,700,000 of its own funds against Cuban Government certificates which it retained in its own portfolio. These certificates matured between 1932 and 1935. Unable to repay these certificates by the date stipulated, the Cuban Government made still a third agreement with the Chase Bank in 1930 providing for an \$80 million issue of bonds maturing in 1945. The bank agreed to purchase \$40 million of these bonds, cancelling the short-term certificates it held, and in addition granted the Cuban Government a one year \$20 million credit. In addition to these obligations the Government had borrowed \$9 million from J. P. Morgan in 1927, due in 1937. Moreover, in 1930 a bond issue of \$42 million was authorized in connection with the Chadbourne Sugar Plan. The result was that on December 31, 1932, the total public debt of Cuba amounted to \$178 million plus a floating indebtedness of between \$35 and \$75 millions.

Again unable to meet interest payments on its Chase obligations, the Government signed a contract with the Chase Bank in June 1932, under which the latter advanced more than \$2 million to meet forthcoming service charges and signed a second contract in December of

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1932 for a further loan of more than \$3 million to meet service charges falling due at that date. Foreign oil companies also agreed to advance certain sums for six months to be credited against future taxes and in March 1933 the Chase Bank agreed to extend for 90 days the \$20 million credit originally made in 1930 for one year. In April the Congress authorized the President to declare a delay in the service of both the external and internal debt.

17. In August of 1931 a revolt against Machado had broken out but was quickly suppressed. Political difficulties multiplied rapidly thereafter. An organization known as the A.B.C. came into existence and worked constantly against Machado. Terrorist activities and political murders by both sides resulted. By the Spring of 1933 the country was in a state of ferment.

Shortly after his inauguration, President Roosevelt appointed Sumner Welles as Ambassador to Cuba. Welles succeeded in opening negotiations between Machado and the opposition groups for restoration of constitutional Government. In August of 1933, however, a general strike followed by defection of the Army forced Machado and members of his cabinet to resign and flee. General Herrera then became acting president and appointed as his Secretary of State Manuel de Cespedes. Herrera then resigned and Cespedes became President.

18. On September 5, 1933, less than a month after formation of the Cuban Government, the rank and file of the Cuban army revolted under the leadership of Sargeant Fulgencio Batista and promptly replaced the Cuban Government with a committee of 5 which then elected Dr. Grau San Martin as president. Dr. Grau San Martin assumed office on September 10, 1933. The new Government was frankly revolutionary and radical. When reports of the revolution and attendant disorders reached Washington, war vessels were ordered to Cuban waters, virtually the entire Atlantic fleet was marshalled for quick action, and 1,000 marines were concentrated at Quantico. The United States refused to recognize the Grau regime. Politically the regime could not claim to represent even a majority of the revolutionary factions and public order was threatened by the anomalous position of the army whose commissioned officers were in revolt against the main body.

Non-recognition by the United States had the effect of strengthening the Government by arousing anti-American feeling. To allay this sentiment, Secretary Hull issued a statement on September 11, in which he asserted Washington was willing to let Cuba solve its own problems. A few days later the Secretary announced that Americans in danger would be asked to come to port towns for protection and that landing parties would be used only for the protection of lives and not property.

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The Grau Government suspended deposits of public works' revenues with the Chase Bank and on January 12, 1934, ordered cessation of all payments on the public works' debt. On December 30, 1933, it seized a \$10 million property of the Cuban-American Sugar Company in Oriente Province. On December 6, the President issued a decree drastically lowering the rates to be charged by the Cuban Electric Company and when a strike occurred in January, the Government assumed control of the concern for three weeks.

On January 15, 1934, Grau was forced out of office. Hevia became President of Cuba but his regime was denied support and on January 18 he presented his resignation to Batista. That same day Colonel Carlos Mendiata became the new President. Shortly thereafter on January 23, President Roosevelt announced recognition of the Mendiata Government. At the same time the United States withdrew some of its war vessels, though the last vessel was not withdrawn until September 1934 following the signing of the Reciprocity Agreement between Cuba and the United States.

19. On March 9, 1934, the second Export-Import Bank was established in the United States and on April 30, 1934, this bank loaned Cuba \$4 million for the purchase of silver to be coined and used for Government salaries, agricultural reforms, and public works. On April 10, 1934, the Government stopped amortization payments on the external funded debt until such time as the total annual Government revenues should exceed \$60 million. A week later a commission was appointed by the Cuban Government to study the question of the Chase Public Works loans contracted by Machado. This commission in its report rendered on June 18, declared that the right of repudiation of the Chase Bank loans was incontrovertible, but advised the authorities on ethical grounds to make some settlement with those who had bought the bonds in good faith.

On January 29, 1934, Roosevelt signed an Arms Embargo prohibiting the exportation of arms and ammunition to Cuba except upon an application for a license and approval by the Cuban Government.

20. The two most important Acts of the Roosevelt Administration as regards Cuba were: (1) The repeal of the Platt Amendment and (2) measures to revive Cuban-American trade. On May 29, 1934, the two Governments signed an agreement setting aside the permanent treaty except in so far as the Naval Base at Guantanamo is concerned. Economically Cuba was aided both by the Jones-Costigan Act of May 9, 1934, and by the Reciprocal Trade Agreement of October 24, 1934. The Jones-Costigan Act made sugar a basic commodity under the Agricultural Adjustment Act which authorized the Secretary of Agriculture to fix maximum quotas for importation of sugar from Cuba and insular possessions of the United States. At the time of passage of this Act Roosevelt lowered the duty on Cuban sugar from

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2¢ to 1½¢ per pound. Under the Reciprocal Trade Agreement the duty on Cuban sugar was lowered still further to 9/10¢ per pound and reductions were also made on such products as rum, molasses, tobacco, fresh fruits and vegetables. The Cuban Government in return reduced import duties on American goods, usually by increasing the American preference established by the 1902 Treaty, making especially valuable concessions on lard, wheat, flour, passenger automobiles, cigarettes, and other articles.

21. Economic improvement failed to present political peace and in March 1935, discontent came to a head in a general strike. At the urging of Colonel Batista, the Government adopted an aggressive policy, constitutional law was suspended, a state of siege was declared, and army rule established throughout the island. Civil rights were suspended; the death penalty was prescribed for sabotage. These extreme measures were successful and on March 12, the workers began to return to their jobs.

On June 12, 1935, a new constitutional law was decreed providing for general elections in December of the same year. Election difficulties resulted in the invitation to Dr. Harold W. Dodds, President of Princeton University, to serve as Advisor. Dodds suggestions were not wholly acceptable and after further difficulties President Mendiata presented his resignation on December 11, 1935. The election, which was finally held in January 1936, gave victory to Gomez who was inaugurated May 20 of that year. Gomez was removed from office in December 1936 and Frederico Lareda Bru, the Vice President, became chief executive.

Appendix III

Significant Facts Relating to American Intervention
in Nicaragua

1. During the regime of the Nicaraguan dictator Zelaya, the George D. Emery Company, an American concern, secured a concession for lumber operations in Nicaragua. After the company had been operating for some time, it fell into a dispute with Zelaya, who contended that the company was not fulfilling the terms of the contract. After some controversy the Government of Nicaragua cancelled the concession and the company filed claims for damages. The Government of the United States took up the claim of the Emery Company and Secretary of State Knox secured an agreement with Nicaragua on May 25, 1909, to submit the dispute to arbitration. The tribunal awarded to the United States Government "for and in behalf of the George D. Emery Company," the sum of \$600,000 in gold to be paid in installments for a complete release of all its claims against the Nicaraguan Government. Before all payments were made, however, the revolution described below broke out and this claim remained against Nicaragua for subsequent settlement.

2. Another American interest of prime importance in Nicaragua was the La Luz and Los Angeles Mining Company, which was working the United States Nicaragua Concession. Important American citizens were connected with this mining concession and Philander C. Knox, before becoming Secretary of State, had served in his capacity as a lawyer, as counsel for the company and had passed upon the validity of the original agreement. This company also became involved in difficulties with Zelaya, who insisted that the concession was objectionable and wished to cancel it. In hearings held before the Senate Foreign Relations Committee in 1927, Thomas B. Moffat, the American Consul at Bluefields, Nicaragua, during the period under discussion, declared that this claim was "the cause of the desire to eliminate Zelaya."

In October 1909, a revolution against Zelaya occurred. According to the testimony brought out in the Senate hearings, the resident manager of the company operating the United States Nicaragua Concession had suggested to the American Consul that Adolfo Diaz, local secretary of the company, be installed in the Presidency of the republic and told the American Consul that his future promotion would be assured if he would "put Adolfo over the line there." Several days before the revolution occurred, the American Consul at Bluefields informed the State Department that in his opinion a revolution would start on about October 8. A few days later he announced that a revolution had occurred, that the new Government

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was "friendly to American interests," and that "the foreign business interests are jubilant."

As soon as the uprising occurred, Secretary of State Knox severed diplomatic relations with the Nicaraguan Government.

According to testimony given in the hearings of the Senate Committee, money and arms were supplied to the rebels by the Americans in Nicaragua. At this same hearing one of the rebel leaders also testified he had been assured the support of the American Government in any uprising which he might undertake.

While the revolution was under way, the United States Government sent American forces under Major Smedley Butler to Bluefields, where they prevented Government forces from pursuing the rebels who held the town at the time. When the Nicaraguan Government attempted to blockade the harbor of Bluefields in order to prevent revolutionists from obtaining arms and supplies, the United States acted to keep the harbor open, compelled payment of customs to the rebels, and informed the chief of the Government forces that a shot fired at an incoming American vessel would mean declaration of war against the United States.

The rebels gained complete control of Nicaragua and two rebel leaders — Estrada and Diaz — were installed as President and Vice-President of the new Government. In February 1911, the American minister to Nicaragua reported that "the natural sentiment of an overwhelming majority of Nicaraguans is antagonistic to the United States," and a month later, he wrote: "As the matter now looks to me, Estrada is being maintained solely by the moral effect of our support and the belief that he would unquestionably have that support in case of trouble."

3. Shortly after his installation as President of the Nicaraguan Republic, President Estrada was informed by the American Minister that he must resign and leave the country as the United States Government would no longer recognize him. Estrada complied with this request and Adolfo Diaz — former local Secretary for the American mining company was installed in the Presidency. The American Minister announced the news to the State Department and added that "a war vessel is necessary for the moral effect". The American vessel Yorktown was ordered from Panama to intercept a filibustering movement against the Diaz Government. Secretary of State Knox instructed the American Minister in Nicaragua to inform Diaz that the United States "renews assurances of support in assisting his Government in so far as it properly may," and to warn the principal rival of Diaz that "since Diaz is the constitutional President, recognized by this Government as such," the General "must see it to be indispensable to his own interest that Diaz remain in office".

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4. In 1909 Zelaya had refunded the Nicaraguan foreign debt, the Ethelburga Syndicate acting as his agent. Debt service was suspended at the time of the revolution and the British Government protested on behalf of British bondholders. The State Department suggested to American bankers that they undertake the conversion to dollars of the Nicaraguan foreign debt and sent a financial expert to investigate the financial status of Nicaragua.

On June 6, 1911 the Knox-Castrillo Convention was signed. In this convention Nicaragua agreed to refund its public debt and promised to give the refunding loan a first lien on its customs duties. The Collector General of Customs, "who need not be a Nicaraguan," was to be chosen with the approval of the United States and was to be afforded full protection in the discharge of his duties. The Nicaraguan Government agreed to settle all claims and to establish its finances on a sound and stable basis, and it was further specified: "The Government of the United States, should the circumstances require, will in turn afford such protection as it may find requisite." Shortly thereafter, American bankers arranged to float a \$15 million Nicaraguan loan, but when the American Senate refused to ratify the treaty, they refused to float the loan.

When the American Senate refused to ratify the convention of June 1911, a Treasury Bills Agreement was signed September 1, 1911, with the Nicaraguan Government. The American bankers agreed to take up \$1½ million Nicaraguan Treasury Bills and in return received almost complete control over the financial life of the country. A Mr. Clifford D. Ham, an American citizen, was nominated by the bankers, approved by the American Secretary of State and appointed Collector General of Customs by the President of Nicaragua. The bankers were given an option to secure 51 percent of the shares of the National Bank, which was to be established under the Treasury Bills Agreement and also secured an option to purchase 51 percent of the stock of the Pacific Railway, together with its steamship lines. The National Bank was to have the exclusive right to issue legal tender notes and it was made the fiscal and disbursing agent for the Government and depository of Government funds. The Pacific Railway was to be reorganized and incorporated in the United States with its management under control of the bankers.

A tribunal composed of one Nicaraguan and two Americans was also established to pass upon claims lodged against the Government of Nicaragua by foreigners, including American citizens and concessions.

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5. In July 1912, American troops suppressed a revolution against Diaz. Diaz then had himself reelected — although self-succession was prohibited by the Nicaraguan Constitution — and the United States immediately recognized him. After this election, most American troops were withdrawn but a so-called legation guard remained stationed in the capital. In October 1913, American bankers extended another \$1 million loan to the Nicaraguan Government and exercised its option to buy 51 percent of the stock of the Pacific Railway. The contracts covering both of these financial transactions were first submitted to the State Department for approval.

6. In 1916 the Bryan-Chamorro Treaty was signed, giving the United States the right to construct a canal across the isthmus by any route through the territory of Nicaragua and granting the United States 99-year leases on certain strategic positions to be used as naval bases. In return the United States paid Nicaragua \$3 million which was to be spent under United States supervision. Most of this money was used to satisfy claims of foreigners against the Government, although the internal financial situation was difficult. Both Costa Rica and Salvador protested against provisions of the treaty and their complaints were submitted to the Central American Court of Justice for consideration. The Court decided unanimously in favor of Costa Rica and Salvador but the Nicaraguan Government ignored the findings.

7. American marines were stationed in Nicaragua continuously until 1925. Throughout this time, the American Government and American interests controlled the economic and financial life of the republic of Nicaragua. Shortly before the American military forces were withdrawn, they supervised a Nicaraguan election in which a coalition government was elected. As soon as the marines withdrew, Chamorro, a conservative candidate, rebelled against the elected government. He soon induced the elected President to resign and set himself up as President. Fighting soon began between backers of the elected Vice-President — Juan B. Sacasa — and Chamorro, and large numbers of American marines were again landed. Through efforts of the American forces, Congress was called into a special session and Adolfo Diaz (whom Americans had put into the Presidency in 1910) was made President and immediately recognized by the United States. The constitutionally elected vice-president, however, was recognized by other countries as President of Nicaragua and fighting was resumed between the liberal and conservative forces. American troops were landed to protect the Diaz Government.

In 1927, President Coolidge sent Henry L. Stimson to study the situation and to make adjustments. Stimson decided that Diaz should complete his term and that the opposition should be disarmed. In

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1928 when Diaz' term came to an end, an election was held under American supervision and the liberal leader Jose Moncada, one of the leaders of the insurrection against Diaz, was elected by a large majority.

8. The Hoover Administration began withdrawal of the American marines from that country. In 1930 about 500 men were withdrawn, leaving better than 1,800 still in Nicaragua.

In the Congressional elections of November, 1930, supervised by American forces, the liberals won a majority and in the presidential elections two years later, Juan B. Sacasa, whom the United States had refused to recognize in 1926, was elected President. Early in January, 1933, the remaining American marines were withdrawn from Nicaragua but some remained in order to officer the Nicaraguan National Guard.

Although the National Bank of Nicaragua and the Pacific Railway were resold to the Nicaraguan Government in 1920, American citizens still serve on the controlling boards of these institutions. Clifford D. Ham served as Collector of Customs in Nicaragua from 1915 to 1928 and Americans are still in charge of customs collection.

Appendix IV

Significant Facts Relating to American Intervention
in the Dominican Republic

1. The Dominican Republic was ruled from 1882 to 1899 by Ulises Heureaux under whose administration the Dominican foreign debt was greatly increased. Prior to 1892 Heureaux floated loans having a nominal value of \$1.5 million with Westendorp and Company, a Dutch firm. In 1892 an American concern known as the San Domingo Improvement Company bought out the interests of Westendorp and Company and thereafter made loans to Heureaux exceeding \$12½ million and guaranteed by customs of the Dominican Republic.
2. In 1899 Heureaux was shot. The new Government, headed by Velasquez clashed with the San Domingo Improvement Company, which it considered to be an agent of Heureaux. In 1901 the company appealed to the State Department, declaring its unwillingness to have its claims settled in the courts of the Republic. In 1902 the company again asked for intervention on its behalf and authorized the American Minister to facilitate negotiations. In July 1904 an agreement was signed between the United States Government and that of the Dominican Republic. By the terms of this agreement the claims of the San Domingo Improvement Company were scaled down and four customs districts were designated as security to be taken over if regular payments were not made by the Dominican Republic.
3. On October 20, 1904, the Puerto Plata Customs House was taken over by an agent of the United States Government to be administered on behalf of the Improvement Company. Subsequently, the Monte Cristi Customs House was similarly taken over.
4. European countries, observing the action of the United States, threatened likewise to intervene on behalf of the claims of their nationals. The State Department suggested to the Government of the Dominican Republic that it ask the United States to collect all customs of the country. The Dominican Republic accepted this suggestion and on February 4, 1905, a treaty was signed between the two Governments. By the terms of this treaty the United States Government was to collect all customs of the Dominican Republic, to administer its finances and to effect a settlement of its debts. The American Senate refused to ratify the treaty. Roosevelt then entered into an executive agreement with the President of the Dominican Republic in accordance with which the United States collected Dominican customs beginning April 1, 1905.

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5. In 1907 the American Senate ratified a revised treaty with the Dominican Republic in which it was provided: (a) That the President of the United States should appoint a customs collector for the Dominican Republic; (b) that the Dominican Government could not increase its debts or lower its taxes without the consent of the United States; (c) that an American Receiver-General would issue a \$20 million loan refunding the Republic's debt, the United States Government collecting customs for 50 years in order to meet interest payments on the loan.

6. In 1908 a \$20 million loan was floated by the Guaranty Trust Company of New York on behalf of the Dominican Republic, to be used in accordance with the provisions of the treaty of 1907.

7. In 1912, President Taft sent two special commissioners and 715 marines to investigate an uprising of 1911. The American delegation persuaded the provisional president to resign.

8. In 1913, Secretary of State Bryan notified revolutionary elements in the Dominican Republic that if they were successful the State Department would not recognize them and would "withhold the portion of the customs collection belonging to Santo Domingo." American commissioners were sent on warships to supervise elections in 1913 and 1914.

9. In 1914 the National City Bank loaned \$1.5 million to the Dominican Republic. The loan contract specified that the loan was made "in conformity with the convention between the United States of America and the Dominican Republic, ratified July 8, 1907, the payment of the principal and interest of which is secured by the pledge by the Republic of its customs revenues"

10. In November, 1914, the State Department withheld recognition of newly elected President Jimenez until he agreed to have internal revenues collected under the supervision of American officials.

11. In April 1916, United States landed troops in Santo Domingo to put down an uprising against the Government. In July the Dominican Congress elected Francisco Henriquez President. When his Government refused to sign a new treaty giving the United States Government control over the Dominican customs, Treasury, Army and Police, the United States refused to recognize him and withheld all funds due to the Government from the customs revenues. The Dominican Government still refused to sign the treaty. The United States forces in Santo Domingo then dissolved the Dominican Congress, ousted the Government officials and established a military Government operating under martial law.

12. In 1920 the American military governor issued a proclamation setting forth the conditions under which the United States forces would withdraw from the country. Among these was specified (a) ratification by the Civil Government elected of all acts of the military Government; (b) creation of a native constabulary to be organized and trained by an American military mission; (c) the negotiation of a \$2½ million loan to complete improvements begun by the military Government and extension of the powers of the American Receiver General to safeguard the loan. These terms were not accepted by the Dominican Republic and evacuation did not take place.

13. In 1921 the American military dictatorship floated a \$2½ million loan on behalf of the Dominican Republic. The Equitable Trust Company of New York handled the issue.

14. In 1922 a \$6.7 million bond issue was floated by the military Government on behalf of the Dominican Republic. Lee Higginson and Company of New York handled the issue.

15. In 1924 American forces were withdrawn after a general election was held under their supervision. The United States retained control of Dominican customs and collections and the Dominican Republic agreed not to increase its debt unless permission was granted by the United States Government.

16. In 1926, two new loans totalling \$8.3 million were floated by Lee Higginson and Company of New York for the Government of the Dominican Republic.

17. In 1930 the diplomatic representatives of the American Government induced President Vasquez to resign when a revolt against him took place. In the election that followed, General Rafael Leonidas Trujillo — once a private in the American Marine Corps — was made President.

18. In 1934, Trujillo secured from the American State Department and the Foreign Bondholders Protective Association an extension of the date of maturity of foreign bonds of the Dominican Republic. As a result the American control over Dominican Republic customs was extended to 1970.

Appendix V

Background and Significant Facts Relating to
American Intervention in Haiti

1. In 1910, with the aid of the State Department, the National City Bank and three other American banks purchased an interest in the National Bank of Haiti. Under the terms of a loan contract, the National Bank was to continue as the Treasury of the country and was to be the sole depository of Government funds.

2. About this time an American company was granted a concession to build a railroad in Haiti. Under the terms of the concession, the Haitian Government guaranteed six percent interest on the bonds issued to cover cost of construction. In 1913 work on the railroad was suspended, although the project was not completed. The Haitian Government refused to accept the work of the company and to issue bonds to it, contending that it was defective and extravagantly constructed. The company appealed to the State Department and the latter induced the Haitian Government to issue bonds to the railroad company for the work completed. In 1914, however, the Haitian Government refused to pay interest on the bonds issued, charging the company with nonfulfilment of its contract. The railroad company again appealed to the State Department despite the fact that its contract provided "In no case and for no reason shall disputes that may arise as to the interpretation of the clauses of the present contract give occasion for diplomatic recourse." Foreclosure proceedings instituted by the Haitian Government against the railroad were suspended at the insistence of the State Department and the question was still pending when the United States intervention occurred in 1915.

3. During the uprising against the Haitian Government in the early part of 1915, British, French, German and American warships landed troops in Haiti to protect property of their nationals. The other countries were then induced to withdraw their forces and United States forces remained in charge.

In July 1914 the National Bank of Haiti refused to advance funds to the Government of Haiti in accordance with the budgetary convention then in effect. The American minister to Haiti reported his belief that the Government was being deliberately pressed by the bank in order to force it to ask aid of the United States and thus obtain

United States supervision of customs collections. Although the State Department had protested in 1910 against the unusual powers granted to the bank, it did not in 1914 protest when the bank refused to advance funds to the Government.

Anticipating a financial shortage as a result of the bank's action, the Haitian Government issued paper money to meet its expenses. A representative of the National City Bank then, with the help of United States Marines, removed \$500,000 from the vaults of the Haitian National Bank; these funds were then transported on an American warship to the United States, where they were deposited in the vaults of the National City Bank in New York. The Haitian Government protested against this removal of Government funds which were not the property of the bank but Secretary Bryan justified the action on the grounds that revolutionaries might otherwise use the funds for non-legal purposes.

4. Theodore was elected President of Haiti in November 1914. The State Department ordered the American minister to inform the Haitian Government that Theodore would be recognized as provisional president when he appointed a commission to negotiate at Washington a convention covering: (a) Control and collection of the Haitian customs by the United States Government; (b) settlement of outstanding questions between the Haitian Government and the American railroad. The Haitian Government refused to comply with this request.

Historians agree that both the Zamor and the Theodore Governments were unable to continue largely because of lack of funds as a result of action by the Haitian National Bank.

In February 1915 the Haitian Government ordered customs duties to be paid to various specified agents in Haiti instead of to the National Bank. The State Department ordered Admiral Caperton to see that this Treasury service was restored to the Bank in accordance with the contract of 1910.

5. American Marines were again landed in Haiti during an uprising in 1915. Admiral Caperton, who was in charge of the American troops, postponed general elections until a candidate acceptable by American interests could be found. It is reported that Mr. Leger, who was first sounded out, refused to run, saying, "At this time I could not possibly accept the Presidency. I am for Haiti, not for the United States." A Mr. Dartiguenave, who contended that "Haiti must and will accede gladly to any terms proposed by the United States," was then elected to the Presidency under American protection. This President

then signed a treaty giving the United States control over Haitian customs, police forces, and finances. In order to guarantee its ratification by the Haitian Senate, however, American Marines seized all customs houses — thus depriving the Government of all revenue — and declared martial law. When the Senate still refused to ratify the treaty, the State Department instructed Admiral Caperton to tell the cabinet that his "Government (had) the intention to retain control in Haiti until the desired end (was) accomplished," and thus succeeded in obtaining ratification.

6. American Marines under Admiral Caperton remained in charge of the Island and in 1916 precipitated a bloody uprising against them by forcing private citizens to work on the roads.

In 1918 the Haitian Government was forced to sign a treaty agreeing to submit all proposed legislation to the United States for approval. Subsequently, the United States Government asked Haiti to adopt a new constitution embodying provisions of the treaties in force with the United States. The American administrator of Haitian finances withheld salaries of all Government officials in order to force the Government to live up to the provisions of the treaty of 1918. When the Haitian Congress refused to ratify the new constitution, the American forces dissolved both houses and called for a plébiscite. Haitian citizens, voting at polls which were guarded by American Marines, adopted the constitution in which it was declared that "All acts of the Government of the United States during its military occupation in Haiti are ratified and confirmed." The constitution also abolished a long-standing provision of Haitian law which prevented foreigners from holding land in Haiti.

In 1920 the Haitian Congress passed a law placing restrictions upon the right of foreigners to own land. Contending that this law was passed without its approval, the United States Government refused to recognize it. The law was unenforced and in 1925 a new law, more favorable to the United States, replaced it.

While the Government was controlled by American forces, a \$40 million 30-year loan was floated, a subsidiary of the National Bank handling the issue. The funds were used to meet arrears on the foreign debt and to strengthen the country's finances.

7. In 1917, National City Bank acquired the holdings of National Bank stock of other American bankers. In 1920, supposedly at the suggestion of the State Department, the National City Bank also acquired the shares held by French bankers, thus obtaining complete

control of this institution. In 1921 the American Senate investigated the Haitian situation and American forces in Haiti were reorganized.

8. American forces were maintained in Haiti from 1915 until 1934, during which time the United States maintained control of the political, economic and financial life of the country. Although military forces were withdrawn in 1934, American influence in the economic and financial life of the country still persists. The National Bank of Haiti was, in 1934, sold to the Haitian Government but a majority of its board of directors must be Americans until all debts owed to citizens of the United States are repaid. The American members serving on this board are to be nominated by the American Foreign Bondholders' Protective Council and the National City Bank of New York. The Haitian Government also agreed that the National Bank is to be the sole depository of Haitian public funds and is to have the right to inspect the collection of customs of the Haitian Government. In order to obtain adoption of the 1934 treaty embodying these provisions, the American-protected President of Haiti had to expel from the Haitian Congress all senators who had opposed its ratification and virtually appoint men in their places who would agree to vote for it.

Appendix VI

Significant Facts Pertaining to the American Acquisition of Hawaii

1. In 1874 the ancient royal family of Kamehameha became extinct and the island legislators under the influence of American missionaries chose a new king, David Kalakaua, who ruled until 1890. During this time, American interests in Hawaii were rapidly developing. A commercial treaty between the United States and Hawaiian Governments was signed in 1875, giving Hawaiian sugar free entry into the United States. Within the next ten years sugar exports to the United States increased by over ten times and American property holders in Hawaii were exceedingly prosperous. The McKinley Tariff Act of 1890, by putting sugar on the free list, thereby causing Hawaiian planters to compete with those of Cuba and Java, caused a severe depression in Hawaii. Under date of November 20, 1892, United States Minister to Hawaii, Stevens, wrote, "The loss to owners of sugar plantations and mills....has not been less than \$12 million, a large portion of this loss falling on Americans residing here and in California. Unless some positive measures of relief be granted the depreciation of sugar property here will continue to go on. Wise bold action by the United States will rescue the property holders from grave losses."

2. On January 12, 1893 an uprising against the Hawaiian Government took place. Upon the request of United States Minister Stevens, the American naval vessel, Boston, had been stationed at Honolulu and while the uprising was in progress, marines were landed. Under the protection of the marines, an American organized Committee of Public Safety proclaimed the downfall of the Hawaiian monarchy and declared the existence of a provisional government "until terms of the union with the United States have been negotiated and agreed upon." Immediately, the American minister accorded recognition to the provisional government. Historians treat this revolution as an American enterprise. United States Minister Stevens confirms this point of view by referring to the leaders of the revolution as "Four highly respectable men with Judge Dole at the head.... P. C. Jones is a native of Boston, Mass., wealthy, possessing property interests in the islands and a resident here for many years." A delegation consisting of four Americans and one Englishman was then sent to Washington to petition annexation of the islands. The leader of this delegation, Lorrin A. Thurston, described its purpose as a defence of American property rights which had become so great that "... it is no longer a simple question of political advantage to the United States or of charity or justice to a weak neighbor which the authorities at Washington have to deal with; but it is a question involving thousands of their own blood and millions of their own property."

3. Very shortly after the revolution a treaty of annexation was drawn up and submitted to the Senate. The treaty was still before the Senate when Cleveland took office and one of his first acts was to withdraw it. Walter Gresham, Secretary of State under Cleveland, wrote as follows concerning our action in Hawaii: "It is fair to say that Secretary Foster's statements were based upon information which he had received from Mr. Stevens and the special commissioners, but I am unable to see that they were deceived. The troops were landed, not to protect American life and property but to aid in overthrowing the existing government. Their very presence implied coercive measures against it." (Foster had been Secretary of State prior to Cleveland.)

Gresham closed his statement as follows: "Should not the great wrong done to a feeble but independent state by abuse of the authority of the United States be undone by restoring the legitimate government? Anything short of that will not, I respectfully submit, satisfy the demands of justice."

"Can the United States consistently insist that other nations shall respect the independence of Hawaii while not respecting it themselves. Our Government was the first to recognize the independence of the islands and it should be the last to acquire sovereignty over them by force and fraud."

4. On May 31, 1894 the Senate unanimously approved Hawaiian independence, non-interference by the United States and a declaration to the effect that we should view any interference by other nations as unfriendly to ourselves. Hawaii was finally annexed by joint resolution passed during the heat of the Spanish-American War (July 7, 1898).

Appendix VII

Significant Facts Relating to American Action in
Panama

1. In 1903, Colombia delayed in ratifying the American treaty concerning American rights to construct a canal in Panama. Shortly thereafter a revolution occurred in Panama and American warships, stationed in the vicinity at the time, were instrumental in preventing Colombian suppression of the revolt. Three days after the outbreak of the revolution the provisional government of Panama was recognized by the United States. Seven days later President Roosevelt officially received Dumas-Yarilla as a representative of the Panama Government and five days after that a treaty was signed giving the United States Government the desired concession.

Seven years later, in a speech at Berkeley, California, Mr. Roosevelt is reported to have said: "I am interested in the Panama Canal because I started it. If I had followed the traditional conservative methods, I would have submitted a dignified State paper of 200 pages to Congress and the debate would have been going on yet. But I took the Canal Zone and let the Congress debate and while the debate goes on, the Canal does also."

2. The right of police intervention in Panama by the United States is limited by Article 7 of the Canal Treaty to the cities of Panama and Colon and to adjacent territory. The United States appears to have sent troops to occupy these cities upon three occasions: In 1818, when elections were postponed; in February 1921, when a local mob broke into the presidential palace and denounced President Porras as a traitor; and in the rent riots of 1925. Upon each occasion the American troops remained only a short time. In the first case the United States intervened without the request of Panama; in the second case the intervention was apparently in response to an oral request from President Porras; in the third case, intervention came after the Panama Cabinet had authorized the president to invoke Article 136 of the Panama Constitution, thereby calling in the United States forces.

Significant Facts Pertaining to American Relations
with China

1. During the years 1895-1900 various railway schemes were promoted and assumed importance because of political implications. Minister Charles Denby took vigorous but unsuccessful steps in an effort to get the contract for the Hankow-Peiping (Peking) line for Americans. He went so far as to demand that the Foreign Office in Peiping instruct the Chinese negotiator at Shanghai to contact an American company regarding construction of the line. When Americans lost the Hankow-Peiping contract, they were promised the Hankow-Canton contract, but this also fell through.

2. In 1909 Secretary Knox proposed "neutralisation" of Manchurian railways by lending China enough money to buy all the railways in Manchuria, including the Chinese Eastern and the South Manchurian railroads. Opposition from Russia and Japan prevented this.

3. Participation in the Hukuang railway loan of 1911 made the United States a recognized member of the national banking groups which came to be known as the Consortium. During the negotiations over the Hukuang contract, President Taft sent a personal telegram to the Chinese ruler requesting "equal participation by American capital in the present railway loan". In explaining this telegram to the press the Secretary of State advanced as one reason for American insistence, the fact that general revenues of the Chinese central government were involved. The Hukuang loan totalled 6 million pounds, to be shared equally by four countries, including the United States. Interest was defaulted in December 1924, approximately one coupon a year being paid thereafter. In April 1937 the Chinese government announced a plan for servicing the loan on an adjusted basis.

4. A loan to Manchuria for purposes of currency reform and industrial development was negotiated in 1911 by a four-power group, later enlarged to include Japan and Russia. The American banks withdrew, however, before the final contract was signed in April 1913. Their withdrawal from the consortium took place because after a change in the administration, their request for continued support had brought an unsatisfactory reply. The government reply on March 18, 1913 pointed out that "The conditions of the loan seem to us to touch very nearly the administrative independence of China itself and this administration does not feel that it ought even by implication to be a party to those conditions." A divergence in policy between the Wilson and Taft Administrations on this particular point appears evident.

- 2 -

By late 1917 the State Department had again reversed its attitude towards the consortium and wired the American Minister to China that American participation was being favorably considered. After long negotiations with the French, British and Japanese Governments, the China Consortium Agreement was signed in October 1920 with the apparent support of the State Department. It is alleged that this change in attitude by the State Department was caused by American unwillingness to see Japan and the allied group make additional loans to China without American participation. The consortium expired in 1925 without having extended any loans to China.

5. In the period 1914 to 1921 Paul S. Reinsch, American Minister to Peking, under President Wilson, made numerous efforts to induce American capitalists to make loans to China. For the most part, however, the American financial community showed little interest in Chinese loans.

6. The existence of an unstable government in China has resulted in the presence of foreign troops and war vessels in China for the protection of foreign lives and property. An outstanding example of the use of force in protecting foreigners was the incident at Socony Hill, Nanking. On March 24, 1927 Nationalist troops entered Nanking. Despite efforts of the American consul to obtain protection from the Chinese authorities, Nationalist soldiers began to loot foreign quarters and killed five foreigners. A group of foreigners took refuge in the Standard Oil Company headquarters on Socony Hill. When the place was attacked, American and British vessels in the harbor threw a barrage around the place and drove away the Chinese with some loss of life. The foreigners were then evacuated.

7. In its annual report for 1936 the Foreign Bondholders Protective Council estimates the United States holdings of Chinese dollar debt at \$11 million. This includes a \$5,500,000 issue in 1919 of 2-year Treasury notes which went into default in November of 1921, and a \$5,500,000 issue of 2-year Treasury notes dated 1919, not publicly offered but taken by the Pacific Development Corporation. (Also in default since December 1921.) In April 1937 the Chinese Government announced a plan for servicing the publicly offered issue on an adjusted basis. These two issues and the Hukwang railway loan of 1911 are the only Chinese government securities mentioned by the Foreign Bondholders Protective Council as being offered and held in the United States.

April 14, 1939

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FOR THE SECRETARY:

Some time ago you asked for a study of borrowing power of those Government agencies whose obligations are outside the formal public debt limit. I have received from the Legal Division and from Accounts and Deposits a complicated set of material which seems to indicate that about \$5,700,000,000 could be borrowed by agencies empowered to issue their own obligations either with or without the guarantee of the Government. Most of this borrowing power is in the R.F.C., F.D.I.C. and the U.S.H.A. Since these agencies are not substantially indebted to the Treasury, the only way they could aid in current Government financing would be to borrow this money on their own obligations, leave it on deposit with the Treasury and, in effect, lend the money to the Treasury by allowing the Treasury to use it for general Government expenses.

ESD

April 14, 1939

Henry Hooker gave this to the Secretary.

THE SOLUTION.

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DEDICATION

TO E. R. WHO HAS BEEN
THINKING AND SAYING, TO
THE DISTRESS OF THE AUTHOR,
THAT THERE IS NO SOLUTION
KNOWN TO HER OR TO ANYONE ELSE.

PREFACE.

In the President's annual message to Congress last January, he emphasized that the most important consideration before the country was to make Democracy work. Democracy, of course, can only work when its economy works. Its economy, as at present constituted, can only work when profits or the possibility or the hope of profits are present. Recovery can only come by restoring this hope of profit. A full recovery would permit the Government to balance its budget and at the same time fulfill its obligations. The President brought out this point when he expressed the hope that the National income would approach eighty or ninety billion dollars.

Senator O'Mahoney, Chairman of the T. H. E. C., expresses the same thought in different words as follows:-

"The ABC of the problem is clear:

- A. Government deficit-spending is bad, but it must continue until private spending takes its place.
- B. Private spending must take its place or the government will go broke.
- C. If government spending stops before private spending begins, the depression is renewed. Therefore, we must find the way to bring about that revival of all private business, both corporate and unincorporate, without which there can be no permanent recovery.

This is not a brief for the abuses of the capitalistic system. If these abuses had not been attacked by this Administration through the so-called reform measures the capitalistic system would have come to an end. It will still come to an end together with the reform measures if we are not intelligent enough to make it work.

It is universally recognized that at the present moment private business is in large part paralyzed because expectation of reasonable profits no longer exist in many fields. It is idle to urge people to carry on the American economy without hope of profit the way they might lay down their lives in time of war. Without going into this subject in great detail, it is apparent that persons who are willing to lay down their lives for their country in time of war are not willing to engage in economic pursuits without the hope of profit. There is no contradiction here. In one case they try to save their country and in the other to conserve their property.

I base my solution only on those elements of which I have had personal knowledge. It is as follows:

1. MODIFICATION OR REPEAL OF THE CAPITAL GAINS TAX.

The extent to which the Capital Gains Tax has paralyzed initiative is not contained in any statistics known to the Government. Statistics only record things that happen. The Capital Gains Tax prevents things from happening, and the extent of its prevention is not statistically recorded. Statistics dividing the amount received from the tax as between returns from stock market operations and from industry proper are entirely immaterial to our inquiry. What we are interested in is a different matter. We are interested in what extent the tax has blocked activity and a division of this figure, if you like, between market operations and industrial ventures. Persons in active contact with

business know of their own knowledge that this tax has destroyed a vast amount of prospective business. I called your attention to the case of the American Ferment Company, which was within my personal knowledge, wherein the Federal and State Governments lost revenue of more than \$1,000,000. through the operation of the tax. The Government seems to feel that this tax affects a few rich persons only, whereas, in fact, it daily affects nearly the whole phase of venturesome enterprise throughout the country.

The New York Times of March 12, 1939 had this to say in connection with New York City's pending attempt to buy the B.M.T. Railroad.

"Among the reservations made by the company negotiators are several important ones, presenting serious difficulties and in some cases involving factors beyond the control of the company spokesmen. These spokesmen insisted that they retain the right to withdraw from the agreement if the transaction involves payment of any substantial amount of Federal or State taxes:

The most important element in the tax situation is the matter of the Federal tax on capital gains. Because of the manner in which the B.M.T. has been keeping its books, with the capital set-ups of its rapid transit, street car and bus units kept separately for tax purposes, there exists the possibility that the Treasury Department will impose a capital gains tax of as much as \$20,000,000; when the city takes over the properties. There is, on the other hand, the possibility that a tax levy as low as \$3,000,000. will be involved, should the Treasury Department consent to lump the capital set-ups for tax purposes. It is said to be the hope of the negotiators that the government can be persuaded to view the transaction as a 'reorganization' of the city's own transit system and forgo any capital gains tax at all.

The city's spokesmen have made it clear that they will not recommend that the city pay any part of any such tax. The company negotiators, on the other hand, are equally insistent that the agreement must

fail if a substantial tax must be met by the companies involved. . . .

The E.M.T. negotiators, it is understood, will insist, before any unification deal is closed with the city, upon satisfactory rulings by the Treasury Department on these points."

Here is a transaction which may never be consummated on account of the Capital Gains Tax. Incidentally, it is interesting to note in passing that the negotiators will try to find out from the Treasury Department in advance of committing themselves just what the ruling in this particular case would be.

A questionnaire on this subject was sent out with the result that a large percentage of the businessmen questioned placed this tax as the principal deterrent. If the Government would make an intensive inquiry on this point, which as far as I know has never been done by it, I feel certain it would arrive at a similar conclusion. As a revenue producer the tax is comparatively unimportant compared to the harm which it does. The English carefully studied the consequences of such a law and determined never to adopt it and never have adopted it. This tax can be largely avoided by doing nothing; whereas Estate taxes cannot be avoided, since all some day must die.

Many years ago one of the ablest English industrialists, Sir Hugo Cunliffe-Owen, head of British-American Tobacco Company, told me that we could never have a sound business situation in America as long as this tax existed. He had absolutely no personal interest and spoke without the slightest bias.

It might be argued that the tax was in existence during the boom of 1929, and therefore did not prevent that boom. The boom of 1929 was a very vicious phenomenon and was the forerunner of the crash which followed. It is universally conceded that the Capital Gains Tax had a large hand in creating that unhealthy situation.

2. REVISION OF INCOME TAX.

An important thing to determine in connection with any income tax is the point, if any, at which it prevents normal recovery.

An annual National income of eighty billion dollars as suggested by the President is not an unreasonable expectation. This amount was exceeded in the years 1926, 1927, 1928 and 1929, but in those years the combined maximum peak rate was only 29%. Today the rate is 75%, not including State, County and Real Estate taxes which brings the maximum peak rate to about 90%. Those eighty billion dollar years did not result from artificial Government spending. Each of these years showed a large Treasury surplus. They were preceded by a period of years of steadily increasing National incomes and steadily decreasing tax rates, as follows:

Calendar Year	National Income	Peak Rates Individual Surplus Plus Normal Tax.
1921	\$28,571,000,000.	75%
1922	31,157,000,000.	50%
1923	39,898,000,000.	35%
1924	71,908,000,000.	40%
1925	75,841,000,000.	25%

I am fully aware there were probably other factors which helped bring about the increased business activity set out above, but it is certainly significant that there is an inverse ratio between the size of the percentage of the income tax and the National income. I cannot tell without data from the Treasury Department at what point the law of diminishing returns to the Government sets in, but this would be an interesting inquiry too.

The Under Secretary of the Treasury John Hanes on this point said:

"I believe that the Treasury will collect a larger total of tax dollars with a tax bill that takes into broad consideration the effect of the dollars it will leave the taxpayer for expansion and development than it will by concentrating on the highest possible dollar it can extract from the business, profession or occupation of the taxpayer. In other words, what is left to the taxpayer is as important to the country's economy as what is taken from him.

The point is that, in my judgment, harsh or deterrent tax laws do not produce the maximum flow of revenue."

I have referred above to the fact that there is a great difference between Estate taxes which cannot be avoided and the Capital Gains Tax which defeats its own purpose if large enough, because the tax plus the risks involved kills initiative. The Income Tax in its nature would seem to be half way between these two. If the Income Tax is too large it deters income which grows out of what might be called venture enterprises, but it will only reduce what might be called investment income.

In part therefore the arguments advanced in connection with the Capital Gains Tax applies in lesser degree to the Income Tax and to

this lesser degree the latter tax is a business deterrent. I have been told that 60% represents the peak in any individual case of income tax in Great Britain, whereas in the United States the maximum State and Federal taxes may run up, as we have seen, to between eighty and ninety percent at the present time.

If tax increase is needed it might well take place on Estate taxes. Here the point of diminishing returns would only be reached if the Estate taxes became so great as to discourage those who are animated by a desire to leave property to their children. This point has certainly not been reached, especially in the lower brackets as may be seen by glancing at the following table:

Net Estate Before Deducting Exemption	Federal Tax After Allowing Credit for N.Y. Tax	New York Estate Tax	Total Federal and New York Estate Taxes
\$100,000.	\$4,500.	\$1,000.	\$5,500.
500,000.	70,400.	15,500.	85,900.
1,000,000.	177,800.	40,500.	220,300.

3. ESTABLISHMENT OF A BUREAU FOR ADMINISTRATIVE DECLARATORY RULINGS.

I have spoken about this matter to Leon Henderson, Harry Hopkins, Thurman Arnold and others many times. I am glad to say that the plan advocated seems to be on the way to adoption. In the New York Times of March 12, 1939 is the following:

"Mr. Arnold is understood to have prepared legislation to set up a procedure whereby business men may go to the Department of Commerce for advice on how the anti-trust laws affect their problems.

This will be a form of the 'administrative declaratory ruling' which several members of the committee favored in a discussion at one of last week's hearings."

Every lawyer knows that some of the decisions interpreting the anti-trust laws cannot be rescinded. Every lawyer also knows that a great deal of business which would relieve unemployment and which is in the public interest is not entered into through fear of criminal or civil prosecution under the anti-trust laws. As the situation stands now, those who would initiate this business are told to proceed at their peril. Consequently they do not proceed. Why Americans with good intentions should not definitely know what is legally right and what is legally wrong does not make sense, especially at this time when all America's enterprise and genius should be encouraged to make the nation powerful. The English tackled this problem through their Board of Trade and evolved a system which utilizes the constructive efforts of its Nationals for the good of the Empire.

4. FORBID OFFICIALS TO MAKE IRRESPONSIBLE SPEECHES NOT BASED ON FACT.

We come now to what seems to me the most important consideration in the whole solution--the spirit of approach. Whether we like it or not, Capitalism is timid. It will not function in a hostile atmosphere. The spirit with which the problem is approached will count more, in my opinion, than anything else that has been referred to. Capitalism is, as we have seen, dependant on the Profit System, but it is composed of a Profit and Loss System. In our deliberations we must not forget the Loss System. Practically every railroad in the United States rests on the bones of losses evidenced by bankruptcies and reorganizations.

The Country was built on taking risks in the hope of profit and its economy will not work if this hope is removed. What we should try to remove is injustice, corruption and human stupidity.

CONCLUSION.

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If the American Economic System cannot function for the common good it ought to be abolished. Before it is abolished, however, we should be sure it cannot function, and we should know what we are going to adopt in its place. If the present system is a failure, it is legitimate and profitable to discuss a new system. It is not legitimate or profitable to mark down the existing system as a failure if that failure has been caused in great part by the easily correctible causes.

I assume that no-one wishes to adopt the Totalitarian System of Germany and Italy, or the Communistic System of Russia, but the danger is that one of these systems will adopt us if we permit our present economy to collapse. It is for this reason that the most serious consideration should be given to what I have here written, and I welcome the reaction of the best technical tax men that you know on these points. I have limited my Solution to those deterrents of which I have personal knowledge, because I wanted to be brief. Its elements can be greatly added to, but not in this short memorandum. There is ample credit and the banks are loaded with idle money. We can go ahead for the common good if we will tackle and remove the deterrents I have enumerated.

I realize that our problem is more difficult on account of the machine element, and that those who are unemployed must be taken care of. This should be easily accomplished if recovery is permitted to take place. I am perfectly convinced that if the Solution set out above is adopted the most amazing change in the National Welfare of all the people will occur. The Nation will become solidly behind the President. The measures which he has placed upon the Shulz Books and which were so badly needed will be associated with prosperity and success and become permanent.

H.S.H.

Dated, New York,

April 14, 1933.

FEDERAL RESERVE BANK OF NEW YORK

April 14, 1939

Dear Mr. Secretary:

Despite three or four weeks of recession in the stock market, and continual war scares, the new securities market has been giving a rather good account of itself. It is true that three issues have been postponed - the award of \$17,500,000 Port of New York Authority bonds, a large refunding operation by the Gatineau Power Company of Canada, most of which was to be carried out in the New York market, and an exchange of preferred stock of the Consolidated Gas, Electric Light and Power Company of Baltimore for preferred stock carrying a lower dividend rate. Nevertheless three corporate issues were successfully floated this week, which raised more new capital - \$41,500,000 - than has been raised in any one week since last October, and the two offerings now open to stockholders of the Eastman Kodak and Commonwealth Edison Companies are reported to be progressing satisfactorily. The success of most of this financing may be attributed to the fact that serious market weakness has not extended to the highest grade bond market, but some receptivity is being shown, too, to grade A bonds and to prime common stocks.

The most conspicuously successful operation this week was the marketing of \$40,000,000 of Texas Corporation debenture 3s of 1959 at 101. The syndicate sold the issue the first day, and it has been quoted at a very small premium. Though rated Aa by Moody's, debentures raising 20-year new capital yielding the investor about 2.93 per cent are evidence of strong demand at least for high grade issues. In addition, however, offerings of \$3,800,000 West Coast Telephone Company first mortgage 4s of 1964, \$1,500,000 Philippine Long Distance Telephone Company first mortgage 6s of 1953, and the two largest municipal awards during the first part of this week are all reported to have met with a good reception. Municipal bond awards this week reported up to today totaled about \$10,000,000.

The Eastman Kodak Company stock is now quoted in the market about 18 points above the price of the new offering, \$127.50, and the Commonwealth Edison Company debentures are still at a 5 or 6 point premium. Barring an unexpected turn for the worse, it is expected that stockholders will take up almost all these issues.

No large corporate flotations are scheduled for next week, unless one of the postponed issues is offered.

Yours faithfully,


Allan Spaulding,
First Vice President.

RECEIVED
FEDERAL RESERVE BANK
APR 15 1939
NEW YORK

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

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Return to Room 286

W. Halliday

April 15, 1939.

Dear Mr. Spraul:

For the Secretary I am acknowledging
your weekly letter dated April 14th.

As you know, Mr. Mergenthan is always
most interested in studying your current
survey of the new securities market.

Sincerely yours,

W. S. Klotz
W. S. Klotz,
Private Secretary.

Mr. Allan Spraul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GWF/dbs

April 14, 1939
9:28 p.m.

HMJr: Hello.

Operator: Mr. Delano. Go ahead.

HMJr: Hello.

Preston
Delano: Good morning, Mr. Secretary.

HMJr: How are you?

D: I'm pretty good, sir. I have those letters, and any time at your convenience, I thought we might sit down and discuss the situation.

HMJr: You mean the letters from.....

D: The Federal Reserve and from Leo Crowley.

HMJr: Uh-huh.

D: Bearing on this thing -- you remember, we -- the first step was to clear that letter with them.

HMJr: Yeah.

D: I've raised some questions -- I thought if you could give Mr. Hanes and myself a few minutes.

HMJr: Well, I've got a group coming at nine-thirty and the first free minute I have -- you're going to be in all day?

D: Yes, sir.

HMJr: O. K. I'll be calling you.

D: Right.

HMJr: Thank you.

April 14, 1939
9:27 a.m.

HMJr: Hello.

Operator: Mr. Jones.

HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: How are you?

J: All right.

HMJr: Jesse, I don't know whether you've had time to read the New York Times, the story about a man by the name of Wasserman who is going to buy up all the English and French stocks with -- with the help of your financing.

J: Wasserman?

HMJr: Yes.

J: Yeah. I have not.

HMJr: Well, if you would read it and then after you've read it I'd appreciate it, if you could throw the story down.

J: Yeah, I will.

HMJr: And I'll tell you why. For your own very confidential information, we're in the process of dealing directly with the French and British treasuries.

J: Yeah.

HMJr: On their securities.

J: Yeah.

HMJr: The -- we just late last night got a cable as to whether if they pooled them could they borrow money on it.

J: Uh-huh.

HMJr: And -- and I had Foley look it up. If -- he thinks it's possible, and as soon as he gives me a ruling I was going to get in touch with you.

- 2 -

J: Yeah.

HMJr: But we're doing it between governments.

J: Yeah.

HMJr: And I'd -- I'd like -- I would appreciate it if you would throw that Wasserman story down because he -- definitely says here they had a rough outline which would involve financial backing from the R.F.C.

J: Yeah.

HMJr: And it would give -- he keeps mentioning R.F.C. over and over and over again. So.....

J: I'll be glad -- I must do it, because he came to see me, Henry, and I -- I turned him down and said, "No" and said everything in the world.....

HMJr: Yes.

J:that I could say without -- well, I didn't know the man but a fellow -- somebody made an appointment for him.

HMJr: Well, if you would throw it down it would be helpful to me.

J: I'll do it without fail.

HMJr: Thank you. And then, sometime during today or tonight I'll be getting in touch with you.

J: All right.

HMJr: Because -- as this thing progresses, because -- we're doing everything we can to make arrangements to keep the markets open. That's what we're trying to do.

J: Yes.

HMJr: And, as I say, this cable from the British only came in late last night.

J: Put me down when you can. I want to have a talk with you.

HMJr: I'm anxious to talk with you also.

- 3 -

J: So just -- if you will put that down just as soon as you can why I'll.....

HMJr: I'm sorry -- I -- I would have called earlier but I've been working day and night on this thing and the President has been pressing me very hard and I just haven't seen anybody other than just work on this European thing.

J: All right, thanks.

HMJr: But you will -- whenever -- I will be giving you a call today or tomorrow.

J: All right, fine.

HMJr: Thank you.

April 14, 1939
10:33 a.m.

HMJr: Hello.

Operator: Mr. Krock. Go ahead.

HMJr: Hello.

Arthur Krock: Yes, sir.

HMJr: How are you?

K: All right.

HMJr: Arthur, in the first place, your boys -- everybody treated me beautifully yesterday on the statement what we were trying to do.....

K: Yes.

HMJr:to keep the markets open.

K: Yes.

HMJr: And I -- I mean, I -- and then your people up in New York went off on the deep end on this Wasserman statement and -- the investment trusts.

K: Yes.

HMJr: Now, I talked to Jesse Jones and Jesse said he'd like to throw down that statement that appeared on the front page in today's Times. See?

K: Yes.

HMJr: I don't know whether you've noticed it.

K: Oh yes, I read it with great care. That -- that's Jerry Frank's story.

HMJr: No, I -- I'm talking about -- well, Jerry Frank and Wasserman.

K: Yes, that's right.

HMJr: Well now, that isn't in the wood at all.

K: Isn't it?

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HMJr: It is not. And I just talked to Jones, and I -- I'm quite sure if you send somebody around he will -- he said he'd like to throw this statement down and throw it down hard.

K: Yes.

HMJr: Now what is in the wood is just what I told the boys yesterday off the record.

K: I see.

HMJr: And what we're trying to do is to do something in an orderly way and all the agencies are working together and if the English or the French read this thing they won't understand it.

K: All right. I -- we -- we'll get it straightened out today then. I'll have somebody go to see Jones and if there's any checking needed with you -- I -- he can see you too.

HMJr: That's right.

K: All right.

HMJr: I'd appreciate it because you people -- the people up in New York did go off -- Wasserman sold them a phony bill of goods.

K: I see.

HMJr: See?

K: I see. All right, Henry, I will check on it and get started on it right away.

HMJr: Thank you so much.

April 14, 1939
11:12 a.m.

HMJr: Hello.

Operator: Congressman Taylor.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello, Mr. Taylor.

Edward T. Taylor: Hello, Mr. Morgenthau -- Mr. Secretary. Say, I called you to ask you about a matter -- some information that you have down there that I thought would be helpful to our investigating committee of the W.P.A.

HMJr: Please.

T: And because you were engaged, why I talked to Mr. McReynolds.

HMJr: Did he take care of you?

T: Why yes, I think so. Yes, and I had Mr. O'Neill, a member of my sub-committee, talk to him about some -- some data there, and I -- I'd like to have you speak to him and see that it's -- see that it's all right. We want to avail ourselves of all the authentic information we can, you understand, and -- and personally, why I want to be able to make a report that will be helpful.

HMJr: Well, Mr. Taylor, anything that the Treasury -- we've got, we'll give you.

T: Well, I appreciate that ever so much. As a matter of fact, you know, there's -- there's efforts to hamp string and smear and discredit a committee all over -- going on more or less all the time, and I'm endeavoring to steer as clear as possible of that and to -- and to get at some really constructive information if it's possible.

HMJr: Well, I'll tell McReynolds right away that -- to give you a hundred per cent cooperation.

T: All right. Thank you every so much, Mr. Secretary.

HMJr: Thank you.

T: Much obliged. Good bye.

April 14, 1939
11:13 a.m.

HMJr: Mac.

McReynolds: Yes?

HMJr: I just talked to Congressman Taylor of Colorado, and he wanted me to tell you, which of course is unnecessary, to give him a hundred per cent cooperation.

M: Oh! I'll -- he just talked to me.

HMJr: He said he did.

M: And O'Neill also, who is the head of that investigating committee on W.P.A. -- and I also talked to him -- from his office. He wanted the copy of the -- the material that we dug up on that W.P.A. study a year ago; he knew about that. I told him it was in line with the President's requests.

HMJr: Well, let me see -- we'll talk about it later, Mac.

M: O. K.

HMJr: O. K.

April 14, 1939
11:45 a.m.

HMJr: Hello.

Operator: Mr. Frank.

HMJr: Hello.

Jerome Frank: Hello.

HMJr: Morgenthau.

F: Yes, Mr. Secretary.

HMJr: It's terribly nice of you to have written me that letter, but it was unnecessary.

F: Well, sir, I felt it very deeply.

HMJr: Well, I appreciate it, and Ed Foley is in here now and I gather that between you and Jones and myself -- I gather we've made the New York Times a little ill.

F: Yes, I think so. And -- our boys tell me that there were three denials yesterday before the story was printed in the hands of the New York Times.

HMJr: Well, that -- that's outrageous. I mean, that they should print it after those denials.

F: Inexcusable.

HMJr: Yeah.

F: I -- I also called Wasserman and gave him hell.

HMJr: Yeah.

F: And he says that he's issuing a denial.

HMJr: Well.....

F: But -- but he got an approbation.

HMJr: He's -- he's a third-rater, you know.

F: Well, you know, I met him first through Henry Wallace; they are very close, and he is an interesting fellow, but garrulous and he talked to me about this thing

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and I said -- a few days ago -- and I said, "Well, it's a very complicated problem; I -- I can't say anything about it. It involves an expenditure of Government funds and that's none of our business here." Then he called me and asked me whether -- if the New York Times came to see me -- anybody from them, I would talk to them off the record. And I said, "Well, I'll talk to anybody about anything, but I -- I don't particularly care to." He was told by them, he claims, that they -- they twice contacted me yesterday, which is a complete falsehood.

HMJr: Did you talk to Krock?

F: No, I tried to get him, but he's out. I'm trying to get him now.

HMJr: But I called him this morning and told him that if he would call up Mr. Jones that he would tell him that there was nothing to it.

F: Yes.

HMJr: Well, I think between the lot of us -- we'll most likely -- back in the real estate notice get a little -- two inches of denial, most likely.

F: Yeah. Yeah, it's very likely. You know about the story of the man who's name was printed in the death column and objected and the next day they printed his name in the birth column.

HMJr: (Laughter)

F: That's the way this will be.

HMJr: Well, that's -- now look, sometime between now and Saturday night I want to see you people. When you're ready -- to talk about -- if you've made up your mind how you're going to handle the exchange.

F: Well, I'll canvass it with the other commissioners and then let you know.

HMJr: Will you?

F: Yes, indeed.

HMJr: And did Ed tell you about the message we got from England?

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F: No.

HMJr: Well, we got a comeback from them -- this is, of course, very confidential, and they wanted to know, and that's what upset me today -- that if they did take over the stocks, could they borrow money from us -- could the Government provide some way to lend them money against the stocks if they took them over.

F: Yeah.

HMJr: And then -- having got that late last night and then to see this Wasserman story this morning, naturally I was upset.

F: Yes.

HMJr: But the English have asked us that very question, and Ed's working on that now.

F: Yes.

HMJr: Whether it is legal, under the Johnson Act, for -- they used the word, if they set up a straw man, is what they said.

F: Yes.

HMJr: Could they borrow against those stocks rather than selling them. Well, that would be perfect, wouldn't it?

F: Yes.

HMJr: Huh?

F: Yes.

HMJr: But we don't need Mr. Wasserman.

F: No. All right, thank you very much.

HMJr: Again thank you for writing that letter.

F: Thank you.

April 14, 1939

(after return from Cabinet,
which was held today from
12 to 1 to permit President
to go to Mount Vernon to
make an address)

I got an opinion from the Attorney General.
(To Mr. McReynolds: We are to let the State Department
know that we have such a ruling and they should give
Italy 30 days' notice.)

I brought up the question of coal and Miss
Perkins said anybody can get all the coal they want.
I said we could not, so the President said we should
contact Miss Perkins.

The President said the Bureau of the Budget
had recommended that all lending agencies be trans-
ferred to Hopkins. (To Mr. McReynolds: I want to
know if that is so.)

Construction of public buildings to be trans-
ferred from Procurement to Public Works. Can the
President create a new department of Public Works?
(Mr. McReynolds: Not a department; I have talked to
Dan about that. HM, Jr to Mr. McReynolds: Let me know
about that.)

Cabinet April 14, 1939

THE WHITE HOUSE
WASHINGTON

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President said - Bureau of
Budget recommended
that all lending
agencies be transferred
to Commerce Dept.

Construction of Public
Bldg. transferred from
Procurement to Public Works.
Can Pres. create a new
Department of Public Works.
(over)

Have Procurement

THE WHITE HOUSE
WASHINGTON

Contact Miss Perkins,

RE TAX STATEMENT

April 14, 1939.
9:30 A.M.

Present: Mr. Hanes
Mr. Blough
Mr. Duffield
Mrs. Klotz
Mr. Gaston
Mr. Magill
Mr. Shoup
Mr. Viner
Mr. McReynolds

H.M.Jr:

Well, gentlemen and lady, what I am trying to do, and fortunately we've got plenty of time, is this. I think the Secretary of the Treasury should once more, and most likely for the last time, bring to the attention of Congress what I think, as far as the Treasury is concerned, is the one big worry the people have got, and also that they have just cause for this worry. And that is: in what direction is this country headed as far as public debt and deficits are concerned?

Nobody can work out a policy on that except Congress, but I do think it is my obligation to point to Congress that there is no policy.

Now, I'd like to make the opening part of my statement - I mean I've been thinking about this and I'm not being didactic about it; I mean that's the idea of having you people here to discuss this - but after having thought a lot about this thing, I think that the opening part of this statement should be laying down, pointing the way to Congress as to a fiscal policy, so that the man on the street knows whether this Administration has a fiscal policy. I don't - and that if we can get him to believe that we have one, via Congress, and get him to stop worrying - I think that is one of the biggest deterrents why people won't put their money into venturesome schemes.

After we have laid down this fiscal policy, then I think we ought to take up the question of what we can do in the tax structure which will look towards a balanced budget, retirement of the debt; and then take up the question also of what are the tax deterrents which might be removed

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in order to put people to work via the channels of private initiative.

Now, that's the way I feel as of this morning. Now, I take it everybody in the room has seen this statement.

Duffield: Just barely.

H.M.Jr: What?

Duffield: Just barely.

H.M.Jr: And I'd like to sit back and listen. Anybody can talk that wants to.

Duffield: May I - if you are through.....

H.M.Jr: Yes, definitely.

Duffield:tell you one trouble we run into when we try to approach it from that point of view. Right off on the fiscal policy angle, and therefore right in the first of the statement, we run into the question, what are we going to do about the "no tax" statements of the recent past? The fiscal policy as suggested in all of the drafts so far called for some additional taxes.

H.M.Jr: Well, I can answer that one; at least I'll make a bold effort. I could interpret that statement that the President made as "no new taxes as of this session."

Duffield: So that any suggestions in here for estate and income taxes would not be suggestions for enactment at this session?

H.M.Jr: Well, let me put it a little bit differently. I think it so happens that what I am going to say I think is good politics, because it's good fiscal policy. I really think that people are justified in being worried about what way is this Administration being headed along fiscal channels. Now, I think we've got to lay down what these people close to me think is a good fiscal policy, and if it should happen to run

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contrary to some statement that the President made, after all he did change his mind within three weeks and he might change it again. And as you people know - I think we went there on a Tuesday and he said he wanted to increase the social security taxes and on Thursday he was willing to - suggested that we give four alternative plans, and subsequently he told Bob Doughton no increase in the social security. So if he can change three times within six weeks, there's no reason why, if we think it is good sound fiscal policy, we can't lay it down, present it to him, if we all are in agreement afterwards, and then if it doesn't just happen to jibe maybe he'll give in.

I mean I'm thinking about it, and the more I think of it - and again I just sort of want to have something in my vest pocket in case he should tell Mr. Johnny Hanes and myself that we didn't know what was good politics, so I asked Mr. Farley to write the forty-eight State Chairmen and give them a copy of my social security statement and ask if they thought it was good politics. We have gotten answers from thirty of them and they all think it's the best thing that's happened and they are all for what they call recommendation number four, which is no increased taxes. Now, thirty of them have come in. Now, if State Chairmen don't know what politics are, certainly you can't expect me to.

And I think that - as I say, I don't want to stress the political end, but I don't see why anybody should risk his money on a long-term basis if he doesn't know what the Government's own fiscal policy is. And does that.....

Duffield: Yes, it does. But should we suggest in this statement that the treatment of income taxes and estate taxes be handled at this session, just to be specific?

H.M.Jr: I wouldn't use the words "this session." I think I would - again I'm answering your question - I would address myself to "this Congress,"

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which sits for two years. I would address myself to "this Congress," to "the Congress."

Duffield: I would like - I don't know whether you want to discuss this now and take your time, but I would like very much to have an expression from the people in the group as to whether they think a sound fiscal policy is to call for these tax increases.

H.M.Jr: Well, if you don't mind, before we get that I'd like to talk in terms of philosophy first.

Duffield: Sure.

H.M.Jr: Do these gentlemen that are here think what I said - does that make sense, see?

Duffield: Surely.

H.M.Jr: Is that what they think is my first responsibility as far as domestic recovery is concerned? Is that my first responsibility or isn't it? I'd rather address myself to that first, see, and not.....

And, this being fiscal, and not having had any chance to discuss it, if Jake doesn't mind I'd like to ask him if that is what he would say is my number one responsibility, or is that one of - or number two? Ought I as Secretary of the Treasury - you (Viner) have so often talked to me - as my responsibility, do you think I ought to do that?

Viner: Yes, I think you ought to. I think it is a duty of the financial officer of the Government to explain as best he can the policy of the Government to the public. And the more you do that sometimes the harder it may be for you, but the greater is the service you are rendering to the public. The public has a right to know. And I think this Administration on the whole has - well, I haven't compared it with others, so that's unfair - but on a number of things, because they didn't have to, they didn't explain to the public - really explain frankly just why they were doing certain things. I think the public has the right to as good an explanation as can be made. The Government never knows - doesn't always know

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fully just why it does things, but in so far as it can formulate its own thinking, it has an obligation to let the public know.

And ordinarily, if the parties are fairly evenly balanced, it is forced to explain it in the process of getting the legislation enacted or executing the policy; but when it is as strong as this Administration was most of these years, it doesn't have to do it, and very often, I think, this Administration has not really told the public why. And the more the officers feel obliged to do it, I think the more they are carrying out a basic obligation.

So I am all for your trying to formulate long-run policy for the Administration. I also think, however, that there ought to be clearing of the - I believe myself that it is important that any Administration speak with as unified a voice as it can.

H.M.Jr: Now what do you mean by that?

Viner: Well, that isn't with specific reference to this statement, but in general I'd say that if you deliver a statement there ought to be full clearance with the President beforehand.

H.M.Jr: Oh. Well, there will be.

Viner: That's a routine, of course; I suppose it would come in any case. But as far as possible I think the Administration shouldn't have contradictory statements. The next day somebody else shouldn't come out.....

H.M.Jr: Well, that's a democracy.

Viner: I think it is not merely democracy, it is a badly operating Cabinet. You see, the Cabinet or some such thing ought to clear these views and establish them as Administration views. Otherwise, you see, what may come is that this will start a debate within the Administration rather than a debate of the Administration with Congress or with the public.

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H.M.Jr: Well, I'll go through a sincere effort to show it to Mr. Eccles and show it to the other groups around - I'll go through all the motions in the best way I can, with the hope that we can get something; but I can't do the impossible.

Well now, just continuing, let's just go around as to whether this is - let's see whether this should be the emphasis of this statement, see, and then everything else would fall in its place.

Viner: Emphasis being on the long-run necessity of a financial program which puts the Government's finances in strong shape and keeps them there.

H.M.Jr: Right. That would be the keystone of the statement. What?

Viner: That's right.

H.M.Jr: Shoup?

Shoup: Yes, I quite agree that that is a thing to be done. I would even be inclined to add that the attempt to formulate the reasons and fulfill this duty will in itself be valuable, since it will help one to actually discover a program. And there is the two-fold aspect to it; in other words, I think not only of explaining why one does things, but understanding what one might do and getting perhaps a more incisive view for one's self of the thing. All of us, I suppose, feel that way, that as we go through an attempt to explain a situation new ideas occur and the thing takes new shape and we come out with a clearer point of view for ourselves, which of course means a clearer point of view for others.

H.M.Jr: Ros?

Magill: Well, I quite agree with both Jake and Carl, but I'd add a third thing, which you (H.M.Jr.) have essentially said in what you have stated, and that is that it seems to me it is essential for the country's welfare that a statement of this kind should be made. I don't see, as you have said - I don't see how business can be

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expected to go on or people can be expected to make investments, proceed on other than a hand-to-mouth basis, when for years we have gone along without any clear statement of what the fiscal policy is. I think you owe it to the country not merely as a matter of informing the country, as Jake has said, as to what the purposes and policies of the Administration are, but you certainly owe it to the country if you expect to get anything out of the country on this basis.

To answer Gene's proposition, I think it ties in with what I have just said. I think it is highly important, as a matter of your sane fiscal policy.....

H.M.Jr: Sane or same?

Magill: Sane - s-a-n-e -that you should set forth that you do expect to seek additional revenue, and I wouldn't care too much what statements had been made as far as you're concerned. Now, if it is necessary to build a bridge to past statements, you can always say that the effective operation of these taxes which you are suggesting will not come into play for some time to come; that, as we pointed out in earlier editions of this statement, you are talking about a sort of a five-year plan at the minimum and that, supposing you passed an income tax and estate tax this year, you wouldn't commence to get any money for several years ahead of this.

But I think you would be, in my judgment, derelict in presenting a statement of fiscal policy if you did no more than say, "Well, let's allow a net loss carryover, let's do this, that and the other thing, to ease some of the creaks in the wagon," without putting a motor in the thing.

H.M.Jr: Well, that's a thing I've wanted to discuss. I mean I never had a more difficult time or worked harder in my life - I think we had either seventeen or twenty-seven drafts of the statement I gave in November '37, as you know.

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Magill:

Uh-huh.

H.M.Jr:

And when you read over that part which has to do with taxes, I could almost repeat that statement word for word; I wouldn't want to change a word of it.

I don't know whether it is or is not necessary to have the tax base so that it will produce more revenue under similar business conditions than it does now. And that leads me to what Shoup says, that the advantage of - the principal by-product of a job like this is that it does clear my own thinking, and I haven't been thinking hard about it in a year and a half because - oh, what was the use? You see? And another reason is that George Haas just visited these principal business concerns, who report to us their new orders each week and the one thing they unanimously all said was that they are all buying on a hand-to-mouth basis; they are only buying each day what they need and they won't make any commitments because they don't know what the policy is in Washington.

Take this automobile situation. I'm sending Seltzer back again Monday. They had all decided that they had enough cars on hand; they were afraid they weren't going to do any more for the moment. The buying seems to be a little bit above what they expected - rather their sales - and they may have to revise their program. And they are running into an August schedule. That's secret. There is a secret agreement to bring out models in August. They are not prepared for this increase, getting ready for their August models. Parts manufacturers are getting their orders. And they may find themselves in condition that they can't take care of their business.

I'm trying to get a car for my wife and the earliest delivery we can get is three weeks. I mean it's just - I mean proving that there is this hand-to-mouth situation. I mean you can't - you've got to go down, and McReynolds has to use all his political influence in

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order to get my wife a Buick. I mean it's ridiculous, it's absolutely ridiculous.

McR: They are not manufacturing except on orders. There's nothing in the factory except on orders. They've got to have a signed order before they will take anything off the line.

H.M.Jr: I'm illustrating. And I think that here in the Treasury we definitely contribute toward that situation, because the people don't know. What?

Magill: You're right.

H.M.Jr: See? Johnny, do you want to say a piece?

Hanes: No, I haven't finished reading - I just saw this.

H.M.Jr: Just throw that aside a minute.

Hanes: I agree - you know how I feel about this other thing - I agree with you. I think you ought to start off the statement with the budget - start out with a policy that's going to lead us to a balanced budget within a period of three to five years, if possible, and state very definitely what the policy is and then suggest preferably some alternatives rather than specific plans for taxation.

H.M.Jr: But as to the.....

Hanes: As to your main philosophy and the objectives, I am in thorough agreement with it - absolutely.

Duffield: Could I ask Mr. Hanes - would you tell us a little more about what you mean by alternatives?

Hanes: Well, I will when we get started talking about details.

Duffield: All right. I guess I'm too interested in details.

H.M.Jr: Well now, let me just stop and catch my breath a minute. Mac, do you want to express yourself?

McR: Well, I am delighted to see something of this kind done, because I think the most effective and the most logical criticism there's been

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from responsible sources of this Administration has been the lack of a statement of fiscal policy during the entire Administration, and I think you can cure it here if you can get this out in a responsible way. I don't think there is any question about that. Just as an observer, seeing what the reactions have been, I think the most logical criticism that's been made is the lack of such a statement of fiscal policy.

H.M.Jr: Herbert?

Gaston: Well, I think a frank statement as to what you believe as to future fiscal policy must be reassuring, even if the statement includes an indication that the tax structure - the yield will have to be strengthened, because I think everybody fully believes that anyway. And the mere fact that you have some fairly definite ideas will itself be reassuring. And I think you can strengthen that somewhat by some specific indications of the direction in which you think tax changes ought to go.

Of course, there are these various statements that have been made, but I think that can be overcome if, for instance, we can find changes in the corporate tax structure that for the present will not yield more than the corporate tax structure itself yields, and if we can find changes in the individual structure so that it will not for the immediate present yield more than the present structure yields. I think that will be as nearly in compliance with these statements that have been made as anyone can reasonably expect.

H.M.Jr: Blough?

Blough: Well, I am very strongly in favor of it. I think so far as those statements are concerned, they oughtn't to be too great a barrier. For one thing, many of these changes should probably not be made effective until 1940, and that might be one way of explaining one's way around these statements. That is, there are

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no new taxes affecting present business, which is perhaps the thing that was particularly in mind; I don't know. But I am very strongly in favor of the policy.

H.M.Jr: As to the approach?

Blough: That's right.

H.M.Jr: Well, we've got a unanimous opinion here. Well then, is it the thing to do, because in fairness to everybody, seeing that you might say I have changed as to the method - although I did say to you (Duffield) that I wanted to bring the fiscal thing up to the front, you remember.

Duffield: Uh-huh.

H.M.Jr: And you disagreed with me, what? And the second I saw that fiscal thing - I mean the more I saw it - I made the statement that I'd rather go up on the Hill and say that and say nothing else, didn't I?

Duffield: Yes.

H.M.Jr: I asked who brought that particular thing in, remember? We were teasing about it. I don't know who did.

Duffield: Shoup.

Shoup: The first draft?

Gaston: The fiscal thing was Ros's.

Magill: That's mine. And that's the bad feature of this present draft; in my judgment, you've eliminated the best feature of the first draft.

Duffield: Well, we'll argue about that.

Magill: I mean if the Secretary wants to do what he says he does, then all that stuff ought to be not only back in but ought to be at the beginning, and you ought not to have all this monkey business in here about let's do this thing, that thing, some other little thing.

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- H.M.Jr: Well, Ros, in order to give everybody time - I mean after all I'm trying to do something which I hope will be very helpful - now wouldn't you men want to go to a room and chew this thing over, or do you want to probe me some more?
- Magill: Not necessary, I think.
- Duffield: I would like to say one thing.
- H.M.Jr: Do you want to probe me some more?
- Magill: I don't think that's necessary.
- Duffield: I don't believe the Secretary's situation is exactly as a good many of us stated here this morning, that there has been no fiscal policy and that we can speak accordingly, because as I understand it there has been a very definite policy of leaving the present tax structure approximately as it is and letting the budget balance itself, so to speak, as business improves. Now, a different statement seems to me not only to be a new statement but to differ from a policy which has now for some time been at least tacitly understood.
- H.M.Jr: I think you're right. I think that if I had to explain it I would say that the policy of the President was that we look forward to an eighty billion dollar national income and when we reach that the present tax base would balance the budget. Now, I would say that that was the President's policy. Now, what we are saying here is that we are not satisfied with it.
- Duffield: That's right, precisely. I just think we ought to understand that we are saying that.
- Hanes: Aren't we going a step further and saying that you're going to try to help this economy arrive at an eighty billion dollar income by taking out such things as you feel are stopping the progress towards that goal?
- H.M.Jr: Well.....

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Hanes: I think you are following definitely that policy; what you are trying to do is to remove the obstacles to the capital market.

Viner: I think you ought to distinguish between increasing the tax load and reconstructing the tax structure so it gets its revenue in the least troublesome way.

Hanes: That's what I mean by alternatives. When I said alternatives, I had in mind just that very point, to suggest that over a period of five years rather than over a period of one year or two years - to suggest ways and means by which the structure could be strengthened and more taxes could be brought about at the proper time, not necessarily now. But you can say, "Over a period of five years, here are the ways in which we can first remove the deterrents to business," and by deterrent I mean those things which are causing - which are stopping the flow of capital to the venturesome capital market. I'm thinking in terms of taking away those things, starting business going, coaxing, urging, cajoling, urging or bribing, if necessary, to get capital back into productive enterprise, because until you do that you are not going to get ten million people reemployed, and that after all is our fundamental problem.

H.M.Jr: Well, I think we're all thinking along the same line. I think over a week I have been gradually shifting the emphasis to a fiscal policy from a tax policy, the fiscal policy being the key-stone. And then in order to bring about an orderly financial capitalistic system, what do we have to do? We have to do what we all agree - there are certain tax deterrents which - their nuisance value far outweighs their productivity. And those things should be removed in order to bring about this thing which is going to make a capitalistic system work.

But I think the first thing we've got to do is to lay down what we think - where we're going to, and say to Congress, because it is Congress in

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the final analysis, will Congress lay down the policy so that the man who has money to invest, money to employ people and jobs to give, will go ahead and build a car. Last year, at least, they were building cars - they took a chance, Chrysler did, to build for seven days in advance of orders. But now they won't even build - last year Chrysler would run his factory for a week; now evidently they don't run it unless they've got a signed order. I don't know any better illustration, and I don't know why we can't use that as an illustration: that we have arrived at a point where a manufacturer won't manufacture unless he's got a signed order.

McR:

Of course, specifically what they have done is to get orders from all of their agents, all of their distributing agencies, for what those fellows will sign up for, and then they cut off. In addition to that, if you want anything outside of that, anything that hasn't been contemplated, they've got to have a signed order before they go ahead with it.

H.M.Jr:

Well now, again, does anybody want to probe me?

Shoup:

I would like to raise one further point if I might, and that is with respect to the degree of emphasis to be put on the effort to be made to balance the budget eventually. Is there something to be said for erring, if at all, on the side of over-emphasis, because of the fact that the forces in the economy working the other direction are so strong? That is, looking at this from the point of view of what may happen, I am continually impressed by the results of the breakdown of the past eight years of the former psychological taboo against unbalanced budgets. There has been, I think, a change in the mental climate, so to speak, of the country as a whole that makes for a willingness to accept an unbalanced budget, of course, much more readily than formerly; and that breakdown - I don't use that word necessarily in any value or judgment sense - that breakdown, it seems to me, is still going on and the actual chances of a balanced budget during the next few years seem to me personally to be so doubtful as things stand.

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that any effort to get one must carry a good deal of driving force behind it and possibly err, as I say, on over-emphasis. I raise that question rather for discussion; I don't know.

H.M.Jr:

Let me philosophize a minute. I think that this question of a balanced budget or fiscal sanity is a world condition that we have to meet with, and that I don't want at this stage to raise the taxes on account of the competition we are up against outside America. And I'll explain what I mean.

A month or two months ago I had a survey started as to what proportion of governmental expenditures was going for armaments. And the first thing you run up against is Germany, which last year spent for armament purposes somewhere between sixty and seventy percent. And up to a year ago England's fiscal policy and tax policy was held up to us as an ideal policy; they were more or less going along on a balanced budget basis, they were paying their way, and they had an excellent tax system. And then over night they just had to crack that whole thing, throw it to the winds. Why? Because they found they were against a different kind of society, they were up against a different philosophy. In order to meet that, they couldn't go along on a balanced budget basis. They threw it to the winds, and they are now going ahead in this race of armaments and they've got the disease of deficits.

Now, we can't sit here and say we're going to have a balanced budget in one, two, three, four years as long as this disease of armaments continues; it's contagious, and the last country to succumb was England.

Now I just ordered the study to be made when Chamberlain came out with his statement in the House, and that said that if this thing continues it means financial chaos for everybody and everybody is headed towards a precipice; but we are all going that way.

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Now, again going back to Germany, what are they using for money? They are no longer - they first used the tax receipts last year - not tax receipts - they used bills which were only cashable when a contract was completed. They used that up and now they are giving a fellow a tax receipt which - money which he can use to deduct from his income tax if he uses - I think it's up to forty percent or something. I mean they exhausted the one scheme and now they've got this. And Dr. Schacht, who tried to keep some sort of order, was forced out. His second in command - what's his name?

Viner:

Brickmann.

H.M.Jr:

Not Funk. No, Brickmann made a statement which I understand was more or less along sound financial lines, and they clapped him into an insane asylum. That's true. I'm right. And you're up against that sort of situation.

And, as somebody put it, on the first of March the German cash till was empty, so they walked across the border in Czechoslovakia and stole a hundred million dollars from the Czechs.

So when you're talking about balancing the budget and you've got an armaments bill of the kind that we have and you're up against that kind of fiscal policy, it's just like - a person has to be realistic and I don't see why you can't say some of those things in this statement. And just to say, "Well, we're going to increase the taxes another billion dollars" - that isn't going to solve anything. It's the same thing we're up against in world trade. And to think that trade treaties, when you're up against this other sort of technique.....

After all, these people that get these countries - I don't know how true this statement is by this Russian General in this week's Saturday Evening Post, that they secretly transferred most of the Spanish gold to Moscow - I don't know whether it's true or not, but they say that most of the supposedly Spanish Government gold is now in Moscow. But I mean you've got these - literally

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these bandits, and here we are a democracy and we are talking about a fiscal policy.

Well now, why not say some of this stuff? I mean I don't want to be in the position - and what I've always said is that to be thoroughly consistent and in order to meet this thing and to prove that this kind of Government is right, we've got to make our machinery internally go better than we have ever made it go before; and the old machine isn't working good enough now.

Now, Johnny Hanes says to even bribe them. I haven't gone quite that far. I'll say I'll do anything that's honorable to adjust the taxes to make our internal economy work, so that after eight years of Mr. Roosevelt you can say, "Well, this kind of Government works," and not say that you've got to do the way the Germans do, that eighty percent of their business is on a unit basis and they only use twenty percent for cash. Now what's the use in talking in terms of a little this and a little that when that's what we're up against?

Now, why can't I blow some of this stuff into this speech?

Shoup: Well, I think the general point.....

H.M.Jr: I mean that's the kind of thing England up to now - is it six months or twelve months ago that they suddenly came out with her armament program?

Magill: Between the two, I think.

H.M.Jr: Well, it's somewhere in there. Up to that time she was going along, setting aside a little money; then over night - bingo! - they come out with two and a half billion dollars in a rearmament program, and there goes their fiscal policy. Now, that's the kind of competition we're up against, and we are going to arm and we are going to be strong enough that we can defend ourselves.

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Now, how am I as Secretary of the Treasury, going to explain this to the people so that they will understand it and still not have them send me to an insane asylum?

Shoup:

It would be important then, wouldn't it, to have the statement realistic in the sense that it wouldn't promise too much. I think that was what I was attempting to get at indirectly, in the sense that it wouldn't give the impression that the thing is easy and we'll just do it by saying something about it; rather, that we are up against a really difficult problem and that the degree of the difficulty is the measure of our earnestness about it.

H.M.Jr:

Well, as I say, the picture is about the way I have painted it. We must quiet the fellow, not give him narcotics, but give him food in his stomach so that he will be quiet and go to work and make our own internal economy click. That's the task, isn't it?

Shoup:

Exactly.

H.M.Jr:

What? And what I am asking for isn't an easy thing, because nobody in the world has solved it. Now, can I get up and say that kind of a thing? Jake says we haven't said it. The reason we haven't said these things is because they are so darned hard.

Now, we did get out - and with his help - a thirty-page statement on gold after four years, which has been universally accepted. I have had no - it's a good statement, but it took us four years in order to express ourselves, and we finally came out with what we've been trying to do on gold. And I was pleased to see the National City Bank - in their monthly bulletin they devoted a lot of space, quoted it liberally, and everything else. They are okaying our gold statement. But it took four years, Jake.

Viner:

Yes. The situation is now quite different in these two respects: that the gold statement could have been made substantially, except for some historical changes, a year ago or say, within a few months after the Tripartite Agreement.

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- H.M.Jr: That's three years; that's three years.
- Viner: Your problem was simpler there than it is going to be here. I am again returning to the point I made originally, that on gold the Administration has left that to you and you can say within limits what you please; you can form your policy and it will be accepted as the Administration policy. Even Congress leaves you alone on that. But here you are in something where every spending agency has an interest, where the advisers of the President have an interest, where the President has an interest, and where the Congressmen have a vital and burning interest. So you've got a tougher job here; that's my point.
- H.M.Jr: It's the toughest nut to crack in the whole Administration: to get out a statement like this. I don't know anything that is more difficult.
- Gaston: Because it involves the whole budget policy.
- Viner: That's the point.
- H.M.Jr: Now, I said it in '37, I still believe in it, and the President believed in it then, and then circumstances sunk it. Now a year and a half have passed and I'd like to, with the help of you gentlemen, try it once more. It is certainly a worthy cause now and it will be terrifically difficult to do, but I want to make the effort. Now, I don't know, when we get all through and done it may look so terrible that we may not do anything.
- Viner: One question I'd like to ask. I haven't read this draft; I read the earlier draft, and as I recall it that takes the present level or even a higher level of expenditure for granted through the years. And as a tax statement, now, is that what you are after, or are you after a budget policy statement including expenditure as well as revenue?
- H.M.Jr: Well, when you talk budgets do you mean fiscal?
- Viner: Well, by the budget I mean the two sides, not merely how you're going to get enough revenue

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to meet this expenditure program but what sort of an expenditure and revenue program you are going to have.

H.M.Jr:

Do you mind if I make another little speech to try to answer you? I don't know whether I can answer you or not. I don't know what the percentage at present of our armaments expenditures is; whatever they are, they can't be reduced and if they go any way they'll go up. The only item that can possibly be reduced is that one which goes toward employment.

Viner:

Relief, you mean.

H.M.Jr:

I use the word "employment," because I think of public works, roads, and relief.

Viner:

Agriculture.

H.M.Jr:

Agriculture, which is also relief. And I think - I don't know, I think that roughly it's a three billion figure that I carry. Does that include armaments or is that just.....

Magill:

That's relief and agriculture, I think.

Viner:

Relief and agriculture.

Magill:

Three billion three or something like that.

H.M.Jr:

All right. That's the only figure you can play with.

Viner:

That's a pretty large sized figure; that's a sizeable figure to play with.

H.M.Jr:

All right, now here we are faced - we are right now entering the peak of expenditures, and if Congress doesn't do something - on account of this war scare in Europe we are not getting the benefit of the present expenditure level. Once it's spent, it's gone; it isn't something that's cumulative. Is that right?

Viner:

That's right.

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H.M.Jr:

And sometime in July, August, or September the thing will begin to slump off. Therefore it is desperately necessary, unless we are going to have a really severe depression, that we do something to get private capital to work. Now, if we could do something which really would convince these fellows they could go to work - and we've seen the thing turn over night in France - then the present level of expenditures could go down because the relief bill would go down, and that's the only answer I could give you. Can we do something now, in the next sixty to ninety days, through the legislative channels which will convince the people that they should go to work and build cars ahead, etcetera, etcetera, and give people jobs, or if we don't then the only other thing is - the present level of expenditures won't even be enough. Now does that answer you?

Viner:

Well, it answers me - at least it indicates that this memorandum will refer to the expenditure level and its determinants, and not merely to the revenue aspect itself. It is an answer.

H.M.Jr:

We are at the crossroads once more. Once more we are at the crossroads. Are we going to make one last effort to let private capital do this job or are we going to sit back and let the Government do it? And, being at the crossroads, I'd like to point out once more that sentence that the driving force of private capital is the only avenue which I think can save the capitalistic system. I'd like to do it once more.

And you've heard me make the statement so frequently that I find I'm riding two horses like an acrobat, one foot on old "Capitalistic System" and the other one on "State Socialism" and that these two horses separate and I fall between the two of them and both trod me under and kill me. And that's been the great trouble; we've had our foot on two horses and they have gradually been going further and further apart.

How does this strike you, what I've been saying the last ten minutes, Johnny?

Hanes:

All right. I like it. I agree with it.

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H.M.Jr: But I don't think in talking about fiscal policy that you can disregard what other countries are doing in the rest of the world. Now, those figures on war armaments and the proportion they bear to expenditures - you've (Duffield) got them.

Duffield: (Nods yes).

H.M.Jr: The expenditures of the rest of the world. That work has all been done. We've had the help of the State Department. To show you what they think of disarmament, they couldn't even remember who was in charge of the Bureau - they had a Bureau on disarmament and the poor old thing hadn't been talked of for so long that he was a forgotten man over there. It's tragic.

This is my day, gentlemen, subject to an adjustment to get the best out of you people. I've got two gentlemen coming in at 11:00, I've got Cabinet at 12:00, and I can not go to Mt. Vernon with the President and be available right after lunch, since the Federal Reserve are coming back at 4:00. Now, would you people want to see me after lunch, or would you want to see me

Viner: I think after lunch would be too soon. I think that this is quite a job and.....

H.M.Jr: Well, when? I mean I'd save my - Mr. Eccles I will only give a half hour, 4:00 to 4:30.

Viner: You mean coming in connection with this? They're coming in this afternoon?

H.M.Jr: No, this is.....

Duffield: No, he'll give Eccles a half hour.

H.M.Jr: No, this thing I'm doing with them is in connection with what I call my trial run in case something should go wrong in Europe. He's coming in with George Harrison from 4:00 to 4:30.

Duffield: We could be back at 4:30?

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Viner: 4:30, yes.

H.M.Jr: At 4:30.

Viner: Is that - don't you think it's better than trying to have.....

Blough: Yes, we can't do the other, I'm pretty sure.

Viner: No, we can't do the other.

H.M.Jr: Then I can go to Mt. Vernon.

Magill: I'd rather do it at 3:00, but if you want to go to Mt. Vernon.....

H.M.Jr: No, I've already told Mrs. Morgenthau we weren't going.

Duffield: Do you (Magill) think we will be through at 3:00?

Magill: No, I don't think we'll be through at 3:00, because this thing this morning opens up a lot of avenues. However, in my judgment it is important to see the Secretary again at 3:00 with what we have at 3:00.

Duffield: Rather than waiting until.....

Magill: Yes.

Viner: I don't think it will work out that way.

Magill: Because as I see the net of this thing this morning, why, it's a matter of another week or ten days.

Viner: Well, it's not a hurry-up thing and it would be a mistake to make it a hurry-up thing. I don't know what the program is, are we working on this tomorrow morning? Are you?

H.M.Jr: What I was having - also in strict confidence - I have invited - I think they're coming; haven't heard yet - Hansen here tomorrow and Walter Stewart and Riefler, and that was something

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entirely different. That was to try to invite you people, in case of war, to be - the four of you to sit as a Brain Trust for me.

Now, when do you people want to see me?

Duffield: I'd be willing to come back at 3:00 o'clock on this.

Magill: I'd like to see you at 3:00, if I can, because I pretty nearly have to go back at 4:00 this afternoon.

H.M.Jr: I see. I'm available at 3:00 o'clock. Then we'll meet again at 3:00.

RE TAX STATEMENT

April 14, 1939.
3:00 p.m.

Present: Mr. Hanes
Mr. Gaston
Mr. Duffield
Mr. Viner
Mr. Magill
Mr. Shoup
Mr. Blough
Mr. McReynolds

H.M.Jr: Where are we at?

Magill: Chairman Viner.

Viner: Chairman Magill.

H.M.Jr: I'll tell Hanes we've started.

(On phone) Tell Mr. Hanes we've started.

Magill?

Magill: Well, there - I'll reluctantly act as Chairman - there are two things, two major things I think we are bringing back to you for your answers. One is over-all; that is, who is to do this? And I feel, at least, and I believe some of the others share my feelings, that the best thing from your point of view would be to designate some one individual and have him prepare it, and then if you want to have any of the rest of us check it over

Viner: Prepared here. Has to be here.

Magill: Yes, it ought to be prepared here by somebody who is here right straight along.

Then there are a series of specific questions that have occurred to us; we have spent the morning discussing matters with each other and also going over some of the various declarations that have been made from time to time with respect to fiscal policies.

If you like, I'll just run over some of these questions that have occurred to us.

One comes out immediately. Are you willing in this

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statement to - or do you want to declare yourself for increased revenue by way of increased tax rates, or do you wish to speak primarily in terms of specific tax allowances of one sort or another? In other words, is your concept of proper fiscal policy one in which we attempt to secure revenue over a five-year period and to balance the budget by means of decreasing expenditures on the one hand and increasing tax rates on the other, or is your philosophy rather that we should make some of these tax allowances and that as a result of this and possibly other Administration action at this time national income will increase to such a degree that no increased tax rates will be requisite?

Now, what's the philosophy there? I get the impression that some members of the group here feel that it would be undesirable to indicate in this statement of your own a view that higher tax rates and increased tax revenues secured in that way may be necessary if the budget is to be balanced in the course of five years. Now, tying right in with that, do you want to say anything in this statement regarding the level of expenditures or not? And then, simply as a part of the same picture, to what degree are you willing to commit yourself to a five-year program of balancing the budget?

Then we have various questions with respect to the character of the statement. They are more or less of this sort:

To what extent must the draftsmen of the statement pay attention to what has been said in other parts of the Administration, either - or such things as might be said by Mr. Eccles or Mr. Hopkins or some of the other people?

Now then, more concretely, is this statement to be shaped primarily as a personal statement of your own, or is it to be shaped as a statement which is to be regarded as an Administration statement?

Is it to be shaped with a view to obtaining the President's approval? Is it to be shaped as a

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statement which the President will permit you to give without his approval? Or just what is the character of the statement?

I think that's about all the jaw-breakers that I need to give you.

H.M.Jr:

Well, I want to be fair to myself as well as the rest of you. I'm watching the clock, and I can't - on any one of those things you can very well run around the hour. It's ten minutes past three and I can't in the next twenty minutes - because to be mutually useful to each other, it ought to be a discussion and not my just laying down the law, so to speak. The only way I have ever developed a statement is through exchange of ideas, and I frankly - I'm just stopped by the clock.

Viner:

Well, some of these questions are very personal; I don't think anybody can answer them but you. I mean I don't see how anybody could draft a statement - its whole tone and character might change according to how you answer these questions.

H.M.Jr:

I can - some of them are very easy to answer, others are very difficult.

Will I show it to the President and consult with the President? Of course I will. I mean the only - to make the statement useful it would be my hope and desire to draft such a kind of statement that it would be an Administration statement.

Now, can I stop Mr. Eccles from talking and sniping and double-crossing me? No.

But as far as the President and myself are concerned, yes. I mean the President, last time I made a statement, was kind enough - actually he went over it three different times. When he got through, he was satisfied; and he spent a tremendous amount of time on it.

Now, as to - while we may not have a more clear fiscal policy, if anybody's to blame I'm to blame that I haven't brought it to his attention more forcibly; but I haven't felt that I saw the thing

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clearly enough myself. I'm not sure that I do now.

But I don't want to repeat what I said this morning. But what I'd like to do is to get something down where at least I felt satisfied and the people advising me felt satisfied - felt it was a worthwhile statement.

I don't want to go up and say that I'm in favor - and Hanes agrees with me on this - that I'm in favor of incorporating all corporation taxes into one and have a flat tax. I mean that's about the position that we're in now, and by - without going into the whole thing, but we - without going into any explanation, we were traded into that position. Right?

Hanes:

That's right.

H.M.Jr:

Now to go up and make a statement like that for myself would be meaningless and - well, it wouldn't accomplish what I want. I mean I want a double-barreled effect. I want something that will be helpful on the short run, by which I mean over the next - I mean which would catch on within three months, let's say, and have a beneficial effect; and the other barrel is something which would tend to satisfy the people who honestly are worried about which way we're headed over the long time, by which I mean three to five years.

Once it's down and I'm satisfied and the people I show it to are satisfied, the people that are helping me on it, of course, I want to take it across the street and get his ideas. The man is a very able person and he's got a lot of ideas. And as a matter of fact, when you go over the things we have brought to him now, the only thing that he's at all bucked up on is this question of the surplus tax; and I've asked two or three times for an explanation for myself - to explain the incorporated pocketbook law of '37, which takes the place of that, which I've been told takes the place of it, and why we don't need the surplus tax. I mean the thing he was worried about was the incorporated pocketbook as well as ... And I haven't got that.

But when you go back over the time Magill and I saw

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him in November '37, or October - I don't know when it was - ...

Magill: End of October.

H.M.Jr: ... we weren't so far apart as to the tax changes. But I think it's a whole question of how we approach him. But I very, very much want to bring it to his attention, I want to consult with him, I want to get his advice, and I'm very anxious that it should be an Administration statement as much as the November '37 statement was.

Now, does that take care of that question? That was the last one he had on the list.

Viner: What would you say on the question of deficit financing and pump-priming? If it would be an Administration statement, the Administration is so committed to big and even growing deficits whenever the economy isn't working well that you can't give them a five-year plan along those lines which will ever get to a balanced budget, or certainly which would promise it.

H.M.Jr: Well, the thing has never been put up to the President on that basis. Now, after all - to answer you - I've never had the opportunity, and I think nobody else has, of sitting down and ever talking about more than six to three months on the question of relief. I don't think he's committed himself more than seven months in advance on relief or spending.

Again coming back, I keep blaming myself, although I'm only one of many; but I don't know how he'd react if we came to him with a fair plan on a fiscal policy. I certainly wouldn't be timid about bringing it to him, and I think I'm negligent if I don't.

Magill: Well now, I had this idea.

H.M.Jr: That's the way I feel. I mean there's a double-barreled thing: the three months, something that will catch on within three months; and something that will be good for three to five years.

Magill: I had this idea to start with, but I gathered that I was almost alone in having it this morning, and that was that what you wanted from us, at least from

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us outside the Treasury, was our own best judgment as to the measures which should be taken along fiscal lines at this time, and that we should give you that without pulling punches or shading it any on account of what statements might have been made at a time or another in the past.

H.M.Jr: That's right.

Magill: Now, I think one reason why the statements that we've got now are watered down to the degree that they are, has been by means of the attempt to take what we have given and make it into something - bridge it over into Administration policy/one sort or another.

H.M.Jr: I don't think that's fair to the people who have worked on it, because the only watering that I know has been done I'm responsible for. I've said that there are two things which I wasn't sold on. One was the abolishing the intercorporate dividend, the other was consolidated returns.

Magill: That isn't what I mean at all.

H.M.Jr: I've said that consistently, remember - when you first brought it to me.

Magill: No, on that - I perhaps should just say

H.M.Jr: And I don't think they are important in a big broad program.

Magill: I should say, just to clear myself, I'm sure, as far as I'm concerned, any of the propositions which I might suggest I should expect you to correct and change or throw out, as you might see fit. That's quite within the possibilities.

On the other hand, I took it and I take it from what you have just said that what you want presented to you is a statement which represents the best judgment of the people that are preparing it, and doesn't represent their ideas of what Marriner Eccles might think, or Harry Hopkins might think, or somebody else might think.

H.M.Jr: These people have worked with me closely enough by now that I think they know that I've never asked

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them to give me a politic statement. If I've asked them, I've never got it.

So I'm not asking for that, and what I was asking was that - and I said it was one of the most difficult tasks I have ever had confront me - that, in view of the world situation and the world competition in spending money for armaments, what is a good sound fiscal policy to see the United States of America over this present desperate situation? That's what I want.

Now, I don't know whether - if my memory serves me correctly, I don't think that Viner wants additional taxes at this time.

Viner: Oh no. This year?

H.M.Jr: Yes.

Viner: No. But the issue is presented differently, in terms of a five-year program, which would show a way whereby the budget would be, say, probably balanced within five years, and there you can space any additions to taxation that might be necessary, as you think is expedient. But I'd certainly say that no statement ought to come from the Administration urging any net increases in tax rates this year; I'd say decidedly not. Psychologically the situation is not at all proper for that.

H.M.Jr: Well, that's the kind of advice that I want. Then you fellows say, "Well, do you agree with that or not?" and then I can say "Yes" or "No." And I would say that the best judgment that I have and that the President has - that I would underwrite what he says for this year.

Now, where do we go the second, third and fourth year? That's the sort of thing, you see. And everybody seems to be sort of - a kind of - over-polite; I don't know just what is the matter.

Duffield: That meeting yesterday spoiled you.

H.M.Jr: Why?

Duffield: Because they weren't polite in that one.

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H.M.Jr: Oh.

No, but we've had - the last two days we've accomplished a lot, and I don't feel very peppy; I haven't got very much drive to put into this thing.

Magill: Have you got any

Viner: What about

Magill: ... observations you want to make ...

Viner: ... the expenditure side? The drafts that I read - I didn't have time to read all of them; I read two of them - the drafts I read said virtually nothing about expenditures. And in the first place, you can't talk about any program of balancing the budget or unbalancing the budget unless you take into account the expenditure side, what is the schedule of expenditures and what should it be? Now, there again I'd also say that I would not support any deliberate reduction in expenditures this fiscal year.

Magill: What would you do over five years?

Viner: But over five years - well, I'd have to study the lay-out; I haven't got a figure on hand now. But I feel pretty sure that there isn't enough in our program that's worthwhile keeping for what it does at the cost it involves, to justify more than a six and a half billion dollar top for our - as a continuing load.

Magill: Get it down to six and a half and I'll give you a Jefferson nickel.

Viner: Well, there let me say that that's the kind of change that can't be made without some form of a political convulsion, so that the existing Administration, instead of eating its own words, is just lambasting a previously ousted Administration. In other words, it will be a new Administration that will put our budget in order. That seems to me perfectly clear. After six years or more, it will be impossible

Hanes: There's no way to get the budget reduced - the '40 budget.

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- Viner: I mean the plan on the books. I think it's quite clear that it will have to be a new Administration.
- Hanes: This Congress is going to appropriate somewhere in the neighborhood of ten billion dollars.
- Gaston: It seems to me that the exact dimensions of the budget over the next four or five years don't necessarily have very much to do with your tax program. You've got some necessities which go beyond your limitations in the way of reasonable tax increases, and it seems to me you can work out a tax program that fits the situation in either case. If it's to be a tax speech rather than a budget speech, I think your program would be about the same in either event, whether you anticipate expenditures in the neighborhood of seven billions or whether you anticipate expenditures in the neighborhood of nine billions over the next three or four years.
- Viner: I don't see that. What's the line of reasoning? There's a two billion dollar difference, and to say that doesn't matter is
- Gaston: That isn't the reason. The line of reasoning is that our necessities outrun our limitations in the way of feasible tax increases, so that our limit of expenditures lies outside of what is feasible in the way of tax increases over the next five years.
- Viner: Well, I wouldn't like that approach, because it assumes that the expenditures are inevitable and that there are limitations on our tax program independent of whatever our expenditure program is; whereas, my own advice would be that you mustn't speak of the tax program except in constant reference to the expenditure program, and particularly to Congress - that they mustn't ever separate expenditures from the notion of the necessary taxes by which to defray the expenditures.
- Gaston: We can just be hopeful about the expenditure side.
- Viner: That isn't to me fiscal management at all; that's something else.

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- Shoup: Well, as a matter of fact, isn't one of the chief points of bringing up this whole fiscal policy question the point of reminding ourselves and Congress that there must be this tie between taxes and expenditures ultimately?
- H.M.Jr: There must be what?
- Shoup: This tie between taxes and expenditures ultimately. That is one of the main purposes of this statement, that it would be one of - the beginning of a series of constant reminders that that must be the case even if we are not very hopeful of in fact getting the balance at
- Gaston: That doesn't mean you have to fix your expenditure limits over the next four or five years, that you have to be definite about that.
- Viner: I'd say you ought to be definite within limits; you ought to relate definitely your tax program to whatever expenditure program you lay down.
- Gaston: You can't lay down the expenditure program, I should say, in this; I don't feel that that is the object of the speech, to lay down an expenditure program.
- Shoup: If we can't lay down an expenditure program, we can't lay down a budgetary or deficit-balancing program, by definition.
- Viner: All that's left, which is not important, would be some recommendations as to changes in the tax structure which would either maintain their yield or reduce it or increase it.
- H.M.Jr: Well, I don't agree with Gaston. I agree with Shoup.
- Hanes: Don't agree with what?
- H.M.Jr: I agree with Shoup, that if you're going to talk about fiscal management you've got to talk about both expenditures and taxes - I mean if the thing is going to make any sense.
- Hanes: I'd like to see you put down a statement there that will sound from every standpoint, because that's your

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job in this Government. You're the fiscal officer of the Government, and if we could get together a statement that was sound, no matter whose views it represents - it would represent your views no matter who else it represented - I'd like to see you make that statement and make a fight to make that statement as sound fiscal policy for this Government to pursue. Now, whether they pursue it or not - that's beyond your control.

H.M.Jr: And I think it's a fight not only worth making, but, as far as domestic things are concerned, that I'd rather make than anything else in the Treasury.

Hanes: Sure.

Duffield: May I suggest then ...

H.M.Jr: Excuse me, I want - Mr. Magill ought to be going if he's going to go; you can stay a bit, can't you, Shoup?

Shoup: Yes, I can stay a little later this afternoon if you like me to.

H.M.Jr: I would like you to.

Shoup: Very well. I have to leave this evening, but I can stay on now.

H.M.Jr: If you could stay on.

Magill: I can stay if you want.

H.M.Jr: Well, that's - I thought you said you had to get the four o'clock.

Magill: It would be better. I'd rather not go up on the night train. I've been two nights on the train.

H.M.Jr: Well, thank you very much.

Magill: Let me know if there's anything I can do up there.

H.M.Jr: You'll ask Kieley for a car, won't you?

Magill: Thank you very much. (Leaves)

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Duffield: May I ...

H.M.Jr: Please.

Duffield: I think if we're going to do that, this group has got to be supplemented with somebody who can give us some sort of an expenditure program, and I certainly don't feel equipped to sit down here and do it.

H.M.Jr: Well, Danny Bell's available. Bell's available. Tomorrow is his last day at the Budget; he says, "Thank God." I mean beginning with Monday we've got him full time. He knows more about it than anybody else in the United States.

Shoup: Would there be anything in the possibility of writing the thing in terms of alternatives; that is, assuming expenditures of X level, assuming at Y, assuming at Z level; and then to get before the people some general idea of the quantities involved, being not very definite at all, rather indefinite, but just indefinite enough to probe some of the possibilities.

If I got your chief objection, Mr. Gaston, it is because you don't want to tie the thing down to a specific figure.

Gaston: My sole point was this, that the question of what is to be the exact volume of expenditures over the next few years can't be the final determinant about what the tax program is to be. It is desirable to indicate that the expenditures ought to be within the limits of our tax resources; but I would say that we would have to advocate about the same tax program no matter what we fix as the probable tax - the probable expenditure program.

Shoup: I'm afraid I wouldn't agree.

Gaston: Because we have so many obligations coming on and because we have such a large volume of debt that ought to be reduced, that it runs beyond the limits of what we can feasibly do in any event; our necessities outrun our capacities as to taxation within the next few years.

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- H.M.Jr: I think, if you don't mind - I think if I took that attitude - I think it's that hopeless attitude....
- Gaston: Now, I'm not speaking about balancing the budget. I'm not saying that balancing the budget is hopeless. I'm saying that even if your program of taxation and your program of expenditures would be balanced, with a surplus, within two years, that you'd still need that strong a revenue structure because you need to reduce your debt and you need to anticipate the increase in Social Security expenditures.
- Viner: Well, our worry - the difference is, then, that our worry was that you shouldn't approve of a tax program - our worry was lest you approve of a tax program which would be only inadequate to match a scale of expenditures already in prospect; your worry is - yours is the same worry, isn't it? You want the tax structure to be heavy enough to take care of almost any reasonable expectations.
- Gaston: I think that our necessities outrun the limitations in the way of a tax program.
- Shoup: You conceive of there being a maximum up to which we must push the tax program, because even the maximum can't be too little; is that
- Gaston: Can't be too great.
- Viner: I thought you had in mind the other thing, that you were pressing down our tax program.
- Gaston: No.
- H.M.Jr: Just speaking to Gaston, I don't think there's any real difference between you and Shoup.
- Viner: He would modify the tax program if it were found that the expenditure program when laid down turned out to be lower than was actually realized ...
- Shoup: He would have more flexibility in the total amount of taxes.
- Viner: But the difference is not very great.

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Gaston: I consider our necessities greater than you seem to consider them.

Viner: Necessities for revenue. I couldn't tell whether you meant necessity for ...

Gaston: I saw I didn't make my point clear. I was just merely saying that I don't think it is possible to be very definite about expenditures, but I don't think it needs to make much difference in our tax program because that wants to be as strong as the traffic will bear.

H.M.Jr: I thought you were talking the other way.

Let's just - where are we now? What else can I do to clear up?

Viner: Well, you have certainly cleared up a couple things on which I certainly wasn't clear, as to what sort of a statement you were contemplating.

I think that I subscribe very much to what Magill said, that this is - the job of making a tentatively final draft of this is a job of at least a few days - I'd say it's a job of a week - and that it ought to be done by somebody here, not necessarily somebody here now, but somebody that could be kept here for a week, where he can consult you as questions come up and talk to you, and where he can get all the material that is available here and get the help of all the resources here.

H.M.Jr: I agree with you.

Viner: I think I hope very much that you will make a statement, that you will work out an outline of your policy. I think you ought to, the Administration and you owe it to yourselves to do it. So I say if you can possibly reach a statement that is satisfactory to yourself - an attempt to do it - that would be my advice.

H.M.Jr: Well, that's the way I feel, but it's this - it's this - I need the best help I can get; that's what I need. And I think if I don't make it, then the statement that you made is correct, that this

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Administration - then no one will make it in this Administration.

Now, I don't - so it gets down to, can I - not can I, but will I make it? And the will is there if I can get the help; that's what it amounts to. And I certainly don't expect the President to sit down and write such a statement.

Viner:

Well, there are now four or five or six drafts, and my own opinion is that in those four or five or six drafts there is already the material - 90 percent of the material for a good statement, but that picking out what things to say and how to say them, and the order in which to say them, the distribution of emphasis, and checking up with you as the questions arise - that that's a matter for at least several days, and it would be a mistake to try and rush it too much. After it's finished, it ought to lay cold for a day or two, and then the people go over it once more, because it can be a very important statement.

H.M.Jr:

Well now, what I'd like to do is this, if I could, and I think, if you don't mind, I'd like to talk to you about what this other thing is that I have in mind and then I'd like to have a few minutes with Shoup and find out just what his plans are for the future. But if I could see each of you for a couple minutes alone, see? Do you think that would be possible?

Viner:

We're at your service.

H.M.Jr:

You're here for tomorrow, aren't you? And you're (Shoup) going to go home ...

Shoup:

I can be here tomorrow or this evening as late as you

H.M.Jr:

If you can just give me ten minutes with Viner, then if I could have five or ten minutes with you, then I can tell better where I am at; and then if you people would take what we've got for the rest of the day and see if you can get something. I mean - well, after - I think since we've talked possibly it will clear the thing a little bit.

Copy of Memorandum given McReynolds by Secretary

Cabinet April 14, 1939.

President said - Bureau of Budget recommended that all

lending agencies be transferred to Commerce Department.

*SwB says no - and he would not agree.
Browder's Committee make the suggestion.*

Construction of Public Bldgs. transferred from Procure-

ment to Public Works. Can President create a new

department of Public Works - *no but he can*

~~Have Procurement contact Miss Perkins~~

*Create independent administration
with same jurisdiction as the
it was a dept*

*I have told Louis Brownlow
that the Dept of Commerce is
the best place in the world
to put lending agencies*

April 14, 1939

To: The Secretary

From: Mr. Hanes

The attached memorandum from Commissioner Helvering is in accordance with your suggestion that I ask him to examine this refund carefully to see that everything is in order. I also asked the Commissioner if he would submit this case to the Joint Committee of Congress. He tells me, however, that the Joint Committee will not take jurisdiction in any case involving less than \$75,000 refund.

Both Commissioner Helvering and Phil Wenchel seem to think the situation is perfectly clear, and if it is OK with you I will let it take its normal course.

J. W. H.



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE
ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT
WASHINGTON

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April 10, 1939.

Memorandum for the Secretary:

In re: Hon. John W. Hanes,
Washington, D. C.

I have a letter dated April 1, 1939, from the Under Secretary of the Treasury, requesting that an investigation be made of the claim filed by him for refund of income taxes for the year 1936, for the purpose of determining whether the overassessment of income tax in the amount of \$6,750.89, indicated as a result of a field examination, is entirely in order.

I have examined the file in the Under Secretary's case, and I find that the overassessment in the amount of \$6,750.89 for 1936 has been correctly determined in accordance with the law and regulations.

In the event this conclusion is satisfactory to the Under Secretary, it is suggested that he execute and return the agreement, form 873, previously mailed to him, to the internal revenue agent in charge, 90 Church Street, New York, New York, to whom the file will be returned in accordance with the usual procedure.

Lucy L. Helvering
Commissioner.

A. K. McArthur

April 14, 1939

To: The Secretary

From: Mr. Hanes

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Both Commissioner Helvering and Phil Wenschel seem to think the situation is perfectly clear, and if it is OK with you I will let it take its normal course.

JWH:jr

April 14, 1939

To: The Secretary

From: Mr. Hanes

My brother, R. M. Hanes, and I agreed some months ago to address the Indiana Bankers Convention. They have put us both on the same program at a luncheon meeting May 4th. I would like very much to fill this engagement provided you have no objection, and also provided that conditions here in the Treasury and abroad are such that I can be away.

JWH

OK.
lmh.

April 14, 1939

To: The Secretary

From: Mr. Hanes

My brother, R. M. Hanes, and I agreed some months ago to address the Indiana Bankers Convention. They have put us both on the same program at a luncheon meeting May 4th. I would like very much to fill this engagement provided you have no objection, and also provided that conditions here in the Treasury and abroad are such that I can be away.

JWH:jr

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

April 14, 1939

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

For your information

Larry Bernard reports that the legislation to continue the Stabilization Fund, etc., is on the House calendar for debate on Tuesday and Thursday of next week.

I shall continue to keep you informed.

E. H. F.

April 14, 1939

FOR THE SECRETARY:

Leo Crowley is much exercised over a resolution introduced yesterday by Senator Townsend, the ranking Republican member of the Banking and Currency Committee. The resolution, in effect, calls for the monetary and banking study advocated by the Federal Reserve Board. Mr. Crowley urges that you speak to Senator Wagner against this resolution. *He is going to speak to Senator Glass.*

ESD

April 14, 1939
9:20 a.m.

HMJr:
Earle
Baillie:

Hello.

Good morning, Henry.

HMJr:

How are you, Earle?

B:

I'm fine.

HMJr:

Good!

B:

Henry, subject to the physical limitations that you know I have.....

HMJr:

Yes.

B:

.....I'll put on a Sam Browne belt with you the day the European war starts.

HMJr:

Wonderful!

B:

And I think I'll be able to do a full job.

HMJr:

Wonderful!

B:

Now, Henry, let me ask you this question.

HMJr:

Yeah.

B:

On the first page of the "Times" this morning.....

HMJr:

Yes.

B:

.....there is an article about how interested the Treasury is in getting investment trusts to buy up all the foreign securities.

HMJr:

Yeah. No -- no that story is inaccurate.

B:

Well, of course it is, and here's -- I wanted -- I want to talk to you about it for just a second for this reason.

HMJr:

That's entirely inaccurate. I've got the statement here before me that the Dow Jones has, which is correct.

B: Well, let me -- let me tell you what I know about that story.

HMJr: Yes.

B: In the first place -- I don't know whether you know that fellow Wasserman or not.

HMJr: I once crossed on a steamer with him. That's as much as I know him.

B: Well, he's a, I think, rather second-rate fellow.

HMJr: Yeah.

B: I talked to Robert Lehman about him.

HMJr: Yeah.

B: And Robert Lehman said that in his early days he had been distinguished for not keeping his engagements.

HMJr: Uh-huh.

B: He said he thought maybe he had gotten over that later on but that he was the sort of a fellow that Robert Leaman wouldn't trust.

HMJr: Yeah.

B: He has been running around the "Street" pretending that he was talking for Jesse Jones and tried to get people to come to his office for personal advertisement yesterday afternoon, and all of the leading people in the industry refused to do so.

HMJr: Yeah.

B: I tried to get ahold of Jesse Jones on the phone but couldn't reach him, to ask him whether he was, by any chance, interested. But you know very well that the investment companies would have no proper voice in any handling of that foreign exchange problem.

HMJr: Well.....

B: They haven't got the resources.....

HMJr: Well no, but we have our.....

- 3 -

B: Huh?

HMJr: When you come down I'll tell you we have all of our arrangements made with the English.

B: I was sure you had.

HMJr: Yeah, they're all made.

B: Well, exactly. But I -- the -- the whole thing is another example of the lack of astuteness of the financial editor of the "Times".

HMJr: Well, I'm going to -- I'm going to -- I think I'll get ahold of Krock today.

B: Yes.

HMJr: To throw that story down.

B: Well, I'm going to -- I'm going to call up Arthur Sulzberger.....

HMJr: Yeah.

B:and tell him that he is again a false victim to a cheap effort for self-advertising on the part of Mr. Wasserman.

HMJr: Right.

B: Let -- let's both do it.

HMJr: I'll do it from this angle.

B: Because it's -- it's very harmful from the point of view of -- it isn't as terrible as incognizant

HMJr: Yeah.

B:to a series of what I'm sure are very seriously thought out plans.

HMJr: Well, if you could get hold of -- do you get the Wall Street Journal?

B: Well, I -- I don't get it out here in the country, no.

HMJr: Oh. Well.....

- 4 -

B: I can -- I can have it read to me.

HMJr: Well, have it read; it's entitled, "Open Markets if War Comes is Washington Plan".

B: Right!

HMJr: "The administration to confer on steps to keep industry on an even keel."

B: Yes, exactly.

HMJr: And -- and the statement is -- is accurate and as far as -- I've just got it before me -- I don't see any reference to this other thing which the "Times" has.

B: Well, exactly. I'm sure there's no connection between it.

HMJr: Right.

B: And the only -- the only possible connection there would be....

HMJr: Yeah.

B:would be. As you know Jesse is a politician at heart, and always likes to be friendly to everybody, whether he knows them or not.

HMJr: Well, I'll take care of him.

B: And somebody might have walked into Jesse's office with some big plan.....

HMJr: Well.....

B:and Jesse says, "That's quite interesting."

HMJr: Yeah.

B: And -- or something or that sort.

HMJr: Yeah.

B: But the investment companies would have their -- have their out out for them.

HMJr: Right.

- 5 -

B: (Laughter) Don't you know?

HMJr: Well, see.....

B:

HMJr: No, it -- it -- the arrangements will be -- in
The arrangements are all made.

B: You can see, Henry, how very smart the fellow in the
"Times" is who sells himself to a fellow like
Wasserman, to take advantage of a hint about those
plans from Washington and putting old Wasserman up
in front.

HMJr: Well.....

B: Well, I'll be seeing you -- I'll be seeing you
Thursday night probably then.

HMJr: And I'll be -- I'll tell you -- I'll tell you then
what -- how far we've gone.

B: O. K.

HMJr: And by that time I'll also have a tax statement of
fiscal -- it's really a fiscal apology tax statement,
more than a tax statement.

B: Right you are. Well, I've got -- I've got several
ideas.

HMJr: Well, I'm glad that your wife and your Dr. think that
Washington will be a builder up.

B: Washington, in the event of war, they think is a
perfect answer.

HMJr: I see.

B: I'm hoping that we'll never have to try the per-
scription.

HMJr: I hope so.

B: All right, old fellow.

HMJr: Delighted.

B: Well, I'll be seeing you Sunday.

HMLJr: Thank you.

B: Good bye.

Protection of
Security Markets.

April 14, 1939.

1. Agenda
2. Course of Action for Tripartite Members Proposed for Discussion.
3. Proposed draft of statement to be communicated to governments adhering to the Tripartite Accord.
4. Data relating to foreign holdings.
 - (a) Table - Estimated Holdings of Tripartite Countries in United States.
 - (b) Table - Estimated foreign holdings in the United States.
 - (c) Chart - Stock Prices and Foreign Trading in Domestic Stocks - From September 1938 on.
5. Experience of security and commodity markets.
 - (a) Chart and Tables - Index of the Price of Twenty Industrial Common Stocks, 1912-1919.
 - (b) The New York Stock Exchange in the three weeks preceding the outbreak of the European War.
 - (c) Behavior of security markets during the war.
 - (d) Table on Foreign Exchange Rates - Monthly 1914-1921.
 - (e) Table - United States Exports - 1911 to 1920
 - (f) Table on Foreign Trade
 - (g) Commodity Prices During the Great War
6. Proposed ways of protecting the security market.
 - (a) Keep the Security Markets Open
 - (b) Close the Stock Exchange
 - (c) Transactions on the Security Market Limited to a Pre-determined Range of Fluctuation of Security Prices for any one day's Activity
 - (d) Purchase of Securities by a Government Agency to Maintain Prices on the Stock Market
 - (e) Formation of a Government Agency to Extend Credit to Foreign Governments using as Collateral the Foreign Holdings of Their Nationals
 - (f) Proposal for controlling the market for government securities in the event that the stock exchange is closed.

1

Agenda

1. Consideration of draft of statement to be communicated to governments adhering to Tripartite Accord.
2. What action, if any, should be taken with respect to security markets?
 - (a) Keep the exchanges open and rely upon arrangements with Tripartite countries for orderly marketing of securities.
 - (b) Close the exchanges until the acute period passes.
 - (c) Limit the extent of declines permitted each day.
 - (d) No sales permitted at prices lower than those consummated on some previous day.
 - (e) The establishment of a government corporation to extend credit to foreign governments using as collateral the American securities held by the government.
 - (f) Creation of a private agency with government support or of a government corporation to purchase, hold and later sell securities under conditions designed to prevent security market from dropping below a pre-determined level.
3. What action, if any, should be taken with respect to commodity markets?
4. What action, if any, should be taken with respect to government bond market?

2

Course of Action for Tripartite Members Proposed for Discussion

1. All Tripartite members other than the United States will requisition all foreign balances, securities, assets and gold owned by their nationals.

2. The United States will revoke general foreign exchange license and will tighten foreign exchange control and restrict payments by banking institutions in the United States. Copies of the documents accomplishing this marked Exhibit "A".

3. The United States will also require complete reports to be filed with respect to all foreign-owned balances, securities and all assets located in the United States. Copies of such report forms are annexed.

4. Other members of the Tripartite will require similar complete reports to be filed with respect to all foreign owned balances, securities and all assets located in their respective countries. We will furnish the foreign countries with copies of our report forms as a suggestion with the end in view of having all countries requiring comparable information to be filed.

5. All the information thus obtained will be made reciprocally available to the members of the Tripartite Accord.

The foregoing will facilitate enormously the Tripartite members in acquiring assets in this country belonging to its nationals, since the foreign nationals will know that we will have information as to their assets in this country which we will turn over to their governments. The foreign exchange control will prevent the foreigner from pulling the assets out of the United States while this system is being set up. It would seem probable that in a comparatively short time, say two weeks, the Tripartite members will have acquired all of the assets in this country owned by their nationals so that it will be possible to loosen the foreign exchange control. This program would likewise have the advantage of facilitating the carrying out of the government foreign policy.

6. There will be set up a committee consisting of representatives of each of the Tripartite members. This committee will coordinate the utilization of the foreign exchange assets of each of the Tripartite members located in the United States and elsewhere; and will also coordinate the liquidation of foreign securities. This committee will have complete information as to the foreign exchange assets of each country, each country's need for foreign exchange, the conditions of the markets in the United States as well as elsewhere and will therefore be in a position to facilitate an orderly use of foreign-owned assets in this country. Fundamentally this committee will only be of an advisory capacity, yet the likelihood is that it will be able to exercise great influence in view of the desires of the other Tripartite members to gain our cooperation. In connection with the formation of

this committee and the taking of the action aforementioned, it will be desirable to make public a statement of the action to be taken and thereby instill confidence in the public and assure them that the governments involved have complete control of the situation and thus minimize the probabilities of panic conditions resulting.

7. A statement should be prepared to be presented to the various members of the Tripartite (except England, who should be informed of the measures taken), either by way of Cochran or by way of the financial representatives of the governments in Washington. Exhibit "C" is suggested draft of the statement to be given to the four foreign governments.

After having received the reaction of the various governments to the proposal we will be in a better position to decide the next move.

An alternative method of approach would be to first communicate with the French and indicate our belief that they should go along with the British proposal. Once having gained French approval, we would then consult with the French and British about the plan above mentioned. The approach to the junior members of the Tripartite would be made after an agreement is reached between the senior members thereby being able to bring stronger pressure to bear on the junior members if necessary.

8. Consultations with Canada for the purpose of obtaining similar arrangements with the Canadian Government to be undertaken.

3

Proposed draft of statement to be communicated to
governments adhering to the Tripartite Accord

The countries who are members of the Tripartite Accord and their nationals now hold in the United States over \$500 million of earmarked gold, over \$1 billion of bank deposits, over \$2 billion of American securities and over \$1 billion of direct investments. Doubtless each of the countries likewise has substantial holdings of assets in other countries.

It has been the policy of the United States freely to offer its banking, investment and gold facilities to the governments and nationals of foreign lands and thus to provide a haven for funds seeking investment and security, and it is our hopeful desire, as it is no doubt yours, that we shall be able to continue to do so.

We feel that the interests of the members of the Tripartite Accord now make it desirable that there be prompt consultation directed toward protecting the security, commodity and money markets in the event of war in Europe, and agreeing upon effective measures for that purpose; with particular regard to preventing panicky marketing and utilization of assets in the markets of the other countries.

Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite Accord should assure the success of such consultations.

We would appreciate a prompt expression of the attitude of your Government with respect to this proposal.

4

Estimated Holdings of Tripartite Countries in United States
(In millions of dollars)

	Stocks & Bonds	Short-Term Balances	Earmarked Gold	Other Investments	Total
United Kingdom	900	468	31	164	1,563
France	220	216	194	53	683
Netherlands	580	131	143	129	983
Switzerland	490	240	139	68	937

April 12, 1939

Estimated foreign holdings in the United States

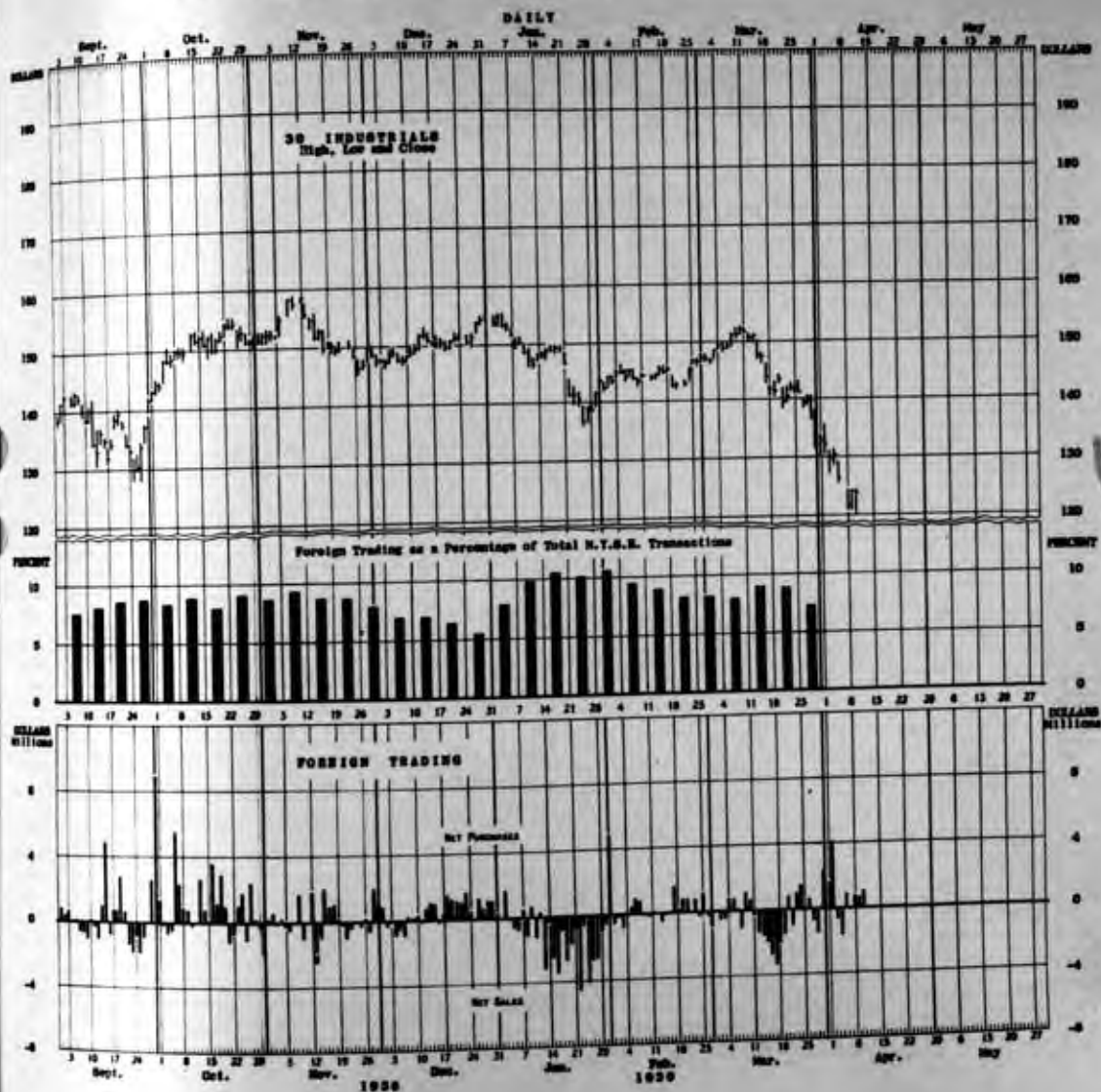
(In millions of dollars)

	Direct invest- ments (book value)	Common stocks (market value)	Preferred stocks (par value)	Bonds (par value)	Other invest- ments	Total	Net foreign purchase of sales (-) of domestic securities January 2, 1935 - March 15, 1939	Short-term banking funds as of March 15, 1939	Marked gold, as of April 5, 1939
United Kingdom	678	233	135	87	164	1,297	458	468	31
France	24	81	18	50	53	226	73	216	194
Netherlands	224	133	20	207	129	713	215	131	143
Switzerland	91	101	25	63	68	348	299	240	139
Germany							- 23	20	-
Italy	68	47	36	40	44	235	- 5	13	-
Other Europe							56	278	104 1/
Canada	367	333	89	49	169	1,007	22	222	-
Latin America	6	13	4	8	9	40	26	272	41
Far East							60	242	21
All other	60	261	24	32	114	491	9	38	-
Total (as of end of 1934) 2/	1,518	1,202	351	536	750	4,357	1,190	2,139	673
Total (as of end of 1937) 2/	1,675	1,850	430	565	750	5,270			

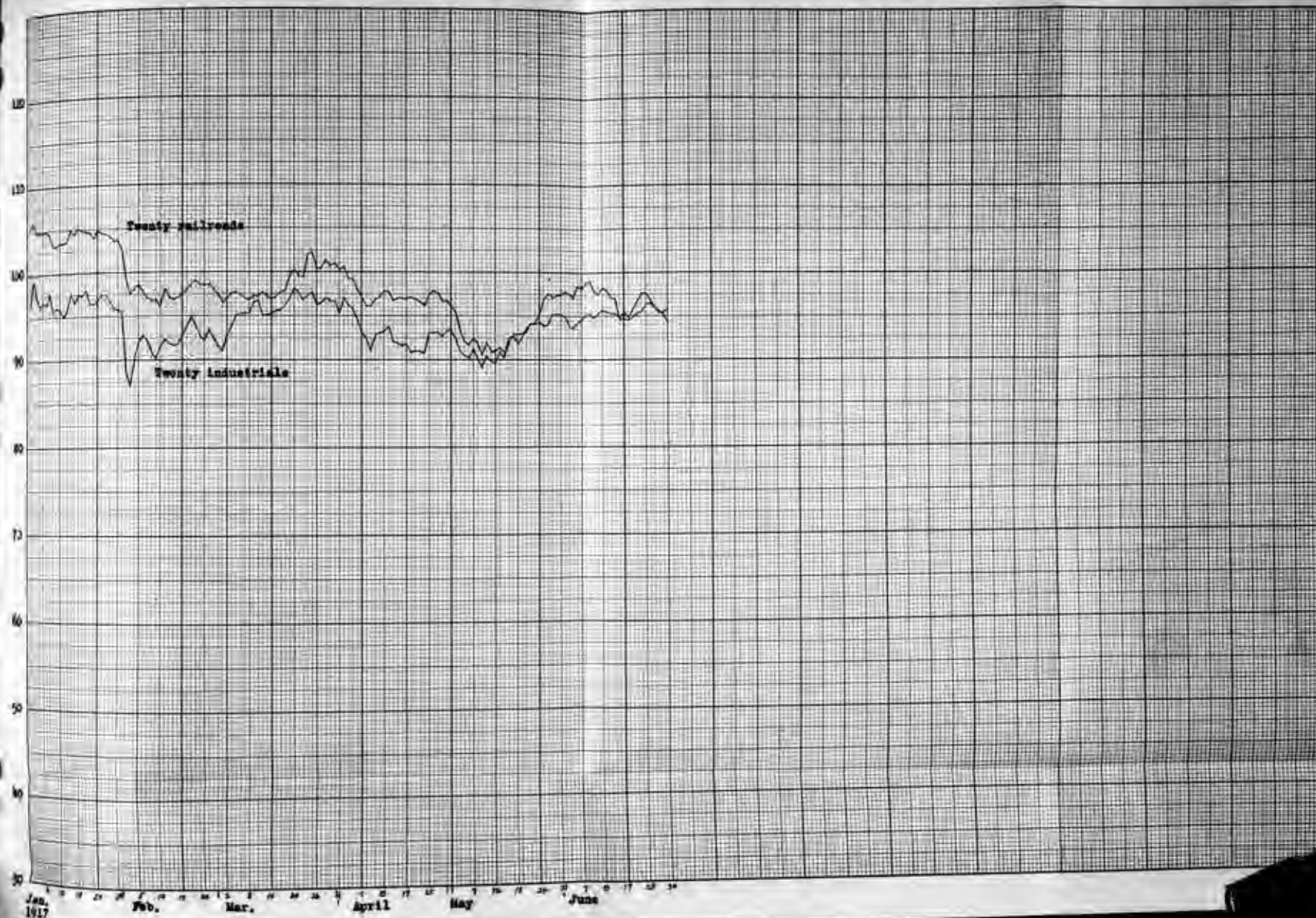
1/ Sweden held \$85 million of the total of \$104 million.

2/ Estimates of Bureau of Foreign and Domestic Commerce. Latest available breakdown by countries is for end of 1934.

STOCK PRICES AND FOREIGN TRADING IN DOMESTIC STOCKS



DOW-JONES AVERAGES OF STOCK PRICES — daily from January through June 1917



Average of Prices of Twenty Industrial Stocks

(Dow-Jones)

Date	1914							1915
	June 1/	July 1/	Aug.	Sept.	Oct.	Nov.	Dec.	January
1	58.82	58.35						2/ 54.63
2	58.48	58.58						*
3	58.71	59.04						55.44
4	58.96	2/						55.50
5	58.98	*						55.40
6	59.19	59.13	Exchange closed on account of War					56.08
7	*	59.27						56.55
8	59.30	59.41						56.54
9	59.43	59.28						*
10	59.45	59.06						57.37
11	59.28	59.02						57.44
12	59.39	*					54.72	57.35
13	59.25	58.74					56.76	57.51
14	*	58.92					55.60	57.90
15	59.17	58.36					55.35	57.19
16	59.04	58.42					55.36	*
17	58.86	58.41					55.09	58.12
18	59.02	58.53					55.20	58.11
19	59.08	*					*	58.42
20	59.22	58.41					54.46	58.51
21	*	58.66					54.42	58.21
22	59.26	58.72					53.46	58.52
23	58.98	58.49					53.17	*
24	58.28	57.90					2/ 53.34	58.06
25	57.60	57.87					*	58.24
26	58.16	*					54.55	57.07
27	58.19	57.44					54.58	57.25
28	*	55.41					54.55	56.54
29	58.11	55.73					54.58	57.16
30	58.59	51.88					56.76	*
31							53.17	58.52
High	59.45	59.41						54.63
Low	57.60	51.88						

1/ Adjusted.
2/ Holiday.
* Sunday.

**Average of Prices of Twenty Industrial Stocks
(Dow-Jones)**

1917						
Date	January	February	March	April	May	June
1	1/	88.52	91.10	*	93.42	97.89
2	96.15	87.01	92.82	97.06	92.48	97.59
3	99.18	89.97	93.63	96.34	90.98	*
4	97.15	*	*	95.83	90.45	97.00
5	96.16	92.03	95.04	94.61	90.20	1/
6	96.75	92.81	95.30	1/	*	98.43
7	*	92.19	95.30	93.10	91.20	98.16
8	96.40	90.94	95.28	*	90.22	98.58
9	97.64	90.20	96.46	92.41	89.08	99.08
10	95.70	91.56	96.78	91.20	90.41	*
11	96.02	*	*	92.82	89.77	97.86
12	95.75	1/	95.03	93.10	89.62	97.52
13	95.13	92.37	95.05	93.18	*	98.31
14	*	91.86	95.16	93.76	90.78	97.95
15	95.59	91.65	95.63	*	90.19	97.22
16	97.55	91.81	95.65	92.21	92.26	96.95
17	96.60	92.70	96.22	91.87	92.75	*
18	97.50	*	*	91.63	91.96	94.89
19	97.35	93.66	96.97	91.83	92.37	95.36
20	97.97	94.91	98.20	90.84	*	94.78
21	*	93.97	97.61	90.98	93.47	95.77
22	96.60	1/	96.78	*	94.09	96.63
23	96.26	92.56	97.27	90.96	94.26	97.60
24	96.66	92.22	97.73	90.66	95.20	*
25	97.41	*	*	92.98	96.76	97.57
26	97.36	93.35	96.32	93.06	97.58	96.81
27	96.71	92.68	96.46	93.10	*	95.98
28	*	91.56	97.01	92.65	97.20	95.41
29	95.78		96.75	*	97.41	95.38
30	95.83		96.72	93.23	1/	95.87
31	95.43		95.41		97.38	
High	99.18	94.91	98.20	97.06	97.58	99.08
Low	95.13	87.01	91.10	90.66	89.08	94.78

1/ Holiday.
* Sunday.

Average Of Prices Of Twenty Railroad Stocks

(Dow-Jones)

Date	1914							1915
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	January
1	102.53	102.05						1/ 88.46
2	101.80	102.24						*
3	102.12	102.68						89.63
4	102.37	1/						89.95
5	102.35	*						89.43
6	102.91	102.70						89.94
7	*	103.05						89.85
8	103.01	102.76						89.95
9	103.38	102.75						*
10	103.30	101.85						90.83
11	103.02	101.80						90.78
12	103.28	*					90.21	90.58
13	103.20	101.06					*	90.91
14	*	101.34					92.29	91.22
15	103.14	100.70					90.95	91.28
16	102.86	100.63					90.89	*
17	102.60	100.01					90.88	92.00
18	102.78	100.49					90.78	92.91
19	102.94	*					91.01	93.18
20	103.06	98.30					*	94.05
21	*	98.77					90.13	93.51
22	103.54	98.49					89.73	93.46
23	102.91	97.95					87.91	*
24	101.73	97.05					87.40	93.23
25	100.63	97.16					1/ 87.75	93.70
26	101.31	*					*	92.21
27	101.39	96.58					88.80	92.52
28	*	93.14					88.50	90.80
29	101.28	94.12					88.19	91.60
30	102.41	89.41					88.53	*
31		1/					92.29	94.05
High	103.54	103.05					87.40	88.46
Low	100.63	89.41						

Exchange closed on account of War

Holiday
Sunday

Index Numbers For the Prices of Twenty Industrial Common Stocks

(Geometric average for 1909-13 = 100)

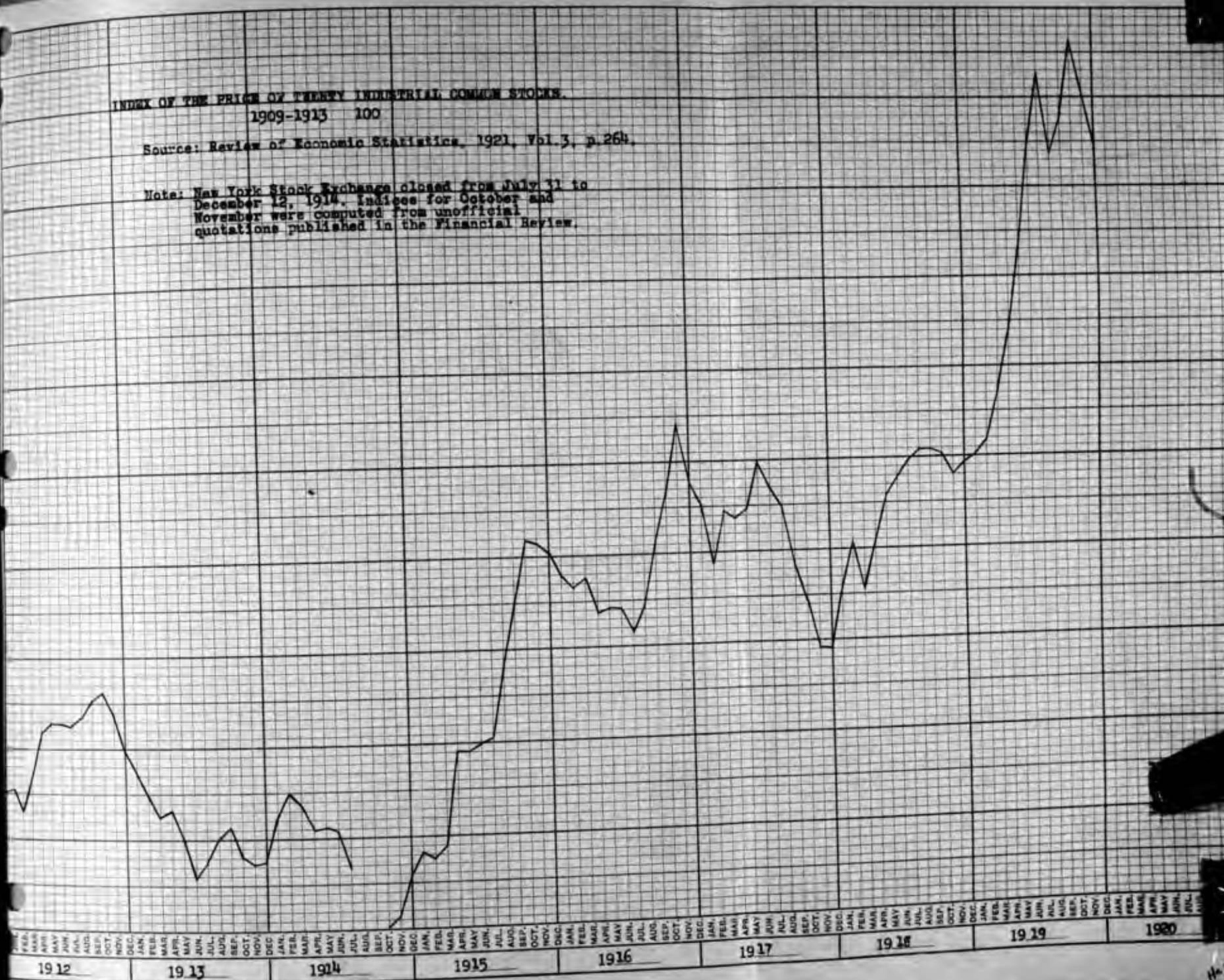
1912		1915		1918	
January	91.2	January	76.6	January	131.1
February	86.1	February	75.3	February	141.6
March	93.7	March	78.0	March	139.9
April	103.8	April	98.2	April	141.3
May	105.8	May	98.1	May	151.6
June	105.7	June	99.8	June	155.5
July	104.8	July	101.1	July	159.3
August	107.1	August	116.8	August	161.8
September	110.6	September	130.0	September	161.8
October	112.4	October	143.8	October	160.7
November	107.5	November	143.2	November	156.0
December	99.5	December	140.8	December	158.5
1913		1916		1919	
January	94.7	January	135.9	January	160.2
February	89.5	February	133.4	February	163.8
March	85.0	March	134.8	March	174.3
April	86.4	April	127.6	April	188.0
May	80.1	May	128.5	May	207.6
June	71.8	June	128.2	June	228.5
July	75.2	July	122.9	July	245.4
August	80.0	August	129.1	August	227.6
September	82.8	September	142.4	September	235.7
October	76.2	October	153.5	October	252.6
November	74.5	November	168.2	November	241.5
December	75.1	December	155.7	December	229.6
1914		1917			
January	84.6	January	150.7		
February	89.7	February	137.7		
March	87.3	March	149.1		
April	81.8	April	147.4		
May	82.2	May	149.4		
June	81.6	June	158.8		
July	73.8	July	153.8		
August*		August	148.8		
September*		September	136.3		
October*	60.2	October	129.0		
November*	63.1	November	118.2		
December	71.7	December	118.0		

* The New York Stock Exchange was closed from July 31 to December 12, 1914. No data were available for the month of August and September. Indices for October and November were computed from unofficial quotations published in the Financial Review.

INDEX OF THE PRICE OF TWENTY INDUSTRIAL COMMON STOCKS.
1909-1913 100

Source: Review of Economic Statistics, 1921, Vol. 3, p. 264.

Note: New York Stock Exchange closed from July 31 to December 12, 1914. Indices for October and November were computed from unofficial quotations published in the Financial Review.



COPY

January 6, 1937

Mr. White

Mr. Ostrander

Subject: The New York Stock Exchange in the three weeks
preceding the outbreak of the European War,
August 1, 1914

The history of the New York stock market in the last three weeks before the outbreak of the World War may be divided into 4 periods: (1) a period of complete indifference to the European situation and concentration on minor domestic problems; (2) a period of continued concentration on domestic problems, but with a recognition of heavy foreign sales; (3) a period in which the market was dominated by foreign sales with, however, heavy buying on domestic account; and (4) a short period in which the domestic buying market began to collapse, and overnight it was found impossible to reopen the Stock Exchange.

1. In the business week, July 13th to 18th, only domestic factors were mentioned as influences on market conditions. These factors included the rather poor state of trade, the unfavorable railroad position due to an expected unfavorable rate decision by the I.C.C., and the rather favorable crop situation. There was, however, mention of the fact that Amsterdam was selling throughout the week "on arbitrage account." The New York Times average of 50 stocks closed at 66.63 on Saturday, July 18th. The volume of sales throughout the week stood at between 200 and 300 thousand shares.

2. In the period, July 20th to July 23rd, domestic factors continued to hold the center of attention as influences upon market conditions; however, it was acknowledged that heavy sales were being made on foreign account. The slight weakness of the market (New York Times average, July 20th, 65.81, July 21st, 66.25, July 22nd, 66.20, July 23rd, 65.76) was ascribed to continued difficulties in rails, including the Government suit against the New Haven railroad, the failure of reorganization plans for the Rock Island railroad, and the continued influence of the I.C.C. rate decision. Large sales on foreign account were mentioned in the market reports each day. The sterling exchange rate rose throughout this period and on Wednesday, gold was sent to Canada, and

on Thursday \$2 $\frac{1}{2}$ million of gold was shipped to Paris. Market reports laid the exchange movement to the repatriation of funds, as a result of foreign sales of American securities, and to the influence of higher discount rates in European financial centers.

3. On Friday, July 24th, for the first time, the unsettled European situation and sales of securities on foreign account were mentioned as the predominant market influences. The domestic purchasing was strong, however, throughout this period which lasted through Wednesday, July 29th. The New York Times average showed two periods of weakness in each case, followed, however, by slight strengthening of the market (July 24th, 65.00, July 25th, 65.06, July 27th, 64.69, July 28th, 62.29, July 29th, 62.42). It was estimated that on Friday, July 24th, approximately 25 thousand shares were sold for foreign account, and over the week-end financial writers admitted that the current weakness of the market had much more to do with the European situation than they had formerly realized. During the first three days of the next week, the volume of sales increased tremendously and it was generally held that foreign selling amounted to about one-quarter of the total. (Volume of sales: July 24th, 290,000, July 27th, 475,000, July 28th, 1,020,000, July 29th, 800,000.) Throughout this period, although there was some domestic short-selling, domestic purchasing always far exceeded the volume of domestic sales. Odd-lot buying was heavy as was investment buying. In general, it may be said that through July 29th, the New York market did not conceive the possibility of the outbreak of a general European War. No reasons were advanced for the heavy selling of American stocks by foreigners other than the fact that after Monday, July 27th, the New York Stock Exchange was the only free market for liquidation of securities into cash, as from Monday on European bourses were closed or restrictions on trading were in effect. One feature of this period was the almost complete absence of any purchases for foreign account. However, through July 29th, American buying absorbed the huge volume of sales with only a relatively slight decline in average prices, in fact the market rallied on Wednesday, July 29th and the New York Times average rose .13.

Heavy gold shipments to Canada and Europe continued, amounting to nearly \$30 million on Monday, Tuesday, and Wednesday, July 27th to 29th. In spite of the shipment of gold, the demand for sterling and other European currencies continued to rise above the export point. The exchange situation became very chaotic, and the cost of insurance on gold shipments rose rapidly.

4. The pressure of foreign sales on Thursday, July 30th, in addition to heavy domestic sales, more than offset heavy domestic investment buying, and the market fell heavily with a total volume of sales of

Mr. White, 1/6/37 - 3

nearly 1,300,000 shares. On this day the New York market began to realize that a European War was inevitable; domestic buyers began to hesitate, and after the market closed, they withdrew entirely. The New York Times average of 50 stocks fell to 57.77. The New York Stock Exchange was the only exchange remaining open. An additional \$9 million of gold was engaged on this day, but the new level of insurance rates made even the withdrawal of gold almost an impossibility. The exchange market was paralyzed, and credit transfers abroad were impossible.

Although it had been decided that the New York Stock Exchange would open as usual on Friday, July 31st, the realization that European War was already a fact came to the New York market overnight, and by nine-thirty on Friday morning, it was realized that no domestic buying sentiment existed, and that to open the Exchange would be disastrous. After a hurried meeting of the Board of Governors, the Stock Exchange was ordered to remain closed, and it did not open again for 4 months. The New York Times financial headline read "Stock Exchange suspends trading as a measure of protection against foreign liquidation."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 11, 1939

TO Mr. White

FROM Mr. Gass

Subject: Behavior of security markets during the war.

1. European stock markets met the outbreak of the great war by closing their doors. Even the London Stock Exchange, which had never before suspended business even in the Napoleonic wars, shut down indefinitely on the morning of July 31, 1914. Half an hour before the time for opening business on July 31 the Board of Governors of the New York Stock Exchange said they would remain open but before the regular opening hour of 10 o'clock they changed their minds and closed the exchange until further notice. It was not reopened to unrestricted trading until April 1915. On July 30, the day before the exchange suspended business, many important securities had fallen to prices 20 to 30 percent below those of the few weeks before.

It is said that before the stock exchange governors decided to close on the morning of July 31, they had obtained definite information of a wholly unprecedented volume of selling orders cabled overnight from Europe to New York banking houses for execution at any price obtainable when the market should reopen. It was estimated that in July of 1914 foreigners held \$2,400 million worth of stocks and bonds of American companies. With European exchanges all closed, it was impossible for Americans to liquidate their foreign securities. It was believed to be impossible that the American market could buy back \$2,400 million worth of securities if Europe insisted on selling. Prices would have to fall to unprecedented lows.

2. The closing of the Stock Exchange during the four months after July 1914 had put an end to large scale buying or selling of stocks and bonds whether by domestic or by foreign investors. However, sales between individuals were resumed. After the first few weeks a group of unofficial brokers began to assemble every day on the Wall Street sidewalk to deal in stocks. The Stock Exchange denounced this practice and forbade its own members to take part in it.

This was called the "outlaw market". In October a few of the sidewalk brokers began to publish typewritten sheets of daily closing prices. The prices caused surprise because the shrinkage over the July 30, 1914 closing level was very slight. On December 11, the last day on which prices were quoted in the outlaw market, most of the standard investment shares were selling at practically the same prices as those of July 31.

Dealings in bonds alone with minimum prices prescribed so that panic breaks were impossible and with requirement that the origin of sales based on foreign orders should be declared by brokers executing them, had already been resumed on November 28. Bond prices after a momentary decline had gone above the final July quotations. When transactions in stocks were resumed on December 12, it was required by the Stock Exchange authorities that all sales should be made for cash. Advances occurred at once beyond the stipulated minimum prices and beyond the highest outlaw market quotations. On April 1, 1915 the Stock Exchange, now completely reassured, removed all restrictions. A very rapid advance occurred in all kinds of shares with unusually large transactions. This advance continued through 1915.

3. In 1915 and 1916 rumors of peace negotiations were constantly accompanied by declines on the Stock Market. On one day of March 1916, when unfounded peace rumors were spread, declines of 2 to 7 points occurred on the Stock Market.

In October 1916, somewhat better substantiated rumors of a German request for American mediation were followed by a break of 10 to 20 percent. Finally in December 1916, when Germany actually appealed to the neutral powers and when it became known that President Wilson had asked the belligerent governments to state their war aims so that common ground for peace negotiations might be established, something like a panic occurred on the Stock Exchange where the decline in prices was the most violent of the whole war period.

4. Stock market was not closed in April 1917. The Stock Market had previously undergone a sweeping decline in December 1916. In February 1917, on news of rupture of diplomatic relations with the German Government, industrial shares fell 10 to 20 points. In April, following the President's war message, they broke 5 to 10 points further, and a rapid decline in the autumn months brought prices of actively traded stocks 30 to 40 below the level where they had stood at the beginning of the year 1917. This wiped out the great speculative gains of 1915 and 1916. Fifty active railway and industrial shares stood in the last week of 1917 at almost exactly the average reached by them in the panic of July 30, 1914.

Foreign Exchange Rates - Monthly 1914 - 1921

	1914	1915	1916	1917	1918	1919	1920	1921
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Dollars per pounds

United Kingdom

January	4.863	4.842	4.759	4.758	4.753	4.766	3.678	3.742
February	4.858	4.820	4.761	4.755	4.753	4.765	3.381	3.876
March	4.862	4.800	4.763	4.750	4.753	4.715	3.726	3.911
April	4.870	4.794	4.765	4.757	4.755	4.662	3.931	3.929
May	4.882	4.790	4.758	4.755	4.755	4.668	3.848	3.975
June	4.884	4.774	4.758	4.754	4.753	4.621	3.950	3.782
July	4.901	4.765	4.758	4.755	4.753	4.429	3.865	3.632
August	5.055	4.693	4.758	4.756	4.756	4.272	3.622	3.654
September	4.986	4.677	4.757	4.755	4.755	4.179	3.510	3.724
October	4.945	4.674	4.757	4.752	4.755	4.184	3.475	3.873
November	4.890	4.668	4.757	4.752	4.757	4.098	3.437	3.970
December	4.869	4.720	4.755	4.752	4.758	3.812	3.492	4.156

Cents per franc

France

January	19.25	19.30	17.10	17.10	17.45	18.30	8.48	6.43
February	19.30	19.10	17.00	17.10	17.50	18.30	7.04	7.17
March	19.30	18.90	16.85	17.10	17.50	17.70	7.19	7.03
April	19.35	18.80	16.70	17.35	17.50	16.69	6.25	7.24
May	19.40	18.60	16.85	17.45	17.50	15.80	6.86	8.37
June	19.40	18.00	16.90	17.40	17.50	15.65	7.92	8.07
July	20.50	17.80	16.90	17.40	17.50	14.39	8.13	7.81
August	19.55	17.15	16.95	17.30	17.90	12.76	7.18	7.76
September	19.65	17.00	17.05	17.25	18.25	11.76	6.74	7.28
October	19.60	17.00	17.10	17.40	18.25	11.62	6.53	7.25
November	19.50	16.95	17.10	17.35	18.38	10.62	6.01	7.20
December	19.45	17.10	17.10	17.45	18.36	9.24	5.92	7.84

United States Foreign Trade - 1911 to 1920

(In millions of dollars)

Year	Total		Trade with		Trade with		Trade with	
			United Kingdom		France		Italy	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1911	2,093	1,532	539	250	128	122	61	46
1912	2,399	1,818	607	313	155	134	74	52
1913	2,484	1,793	591	272	154	139	79	55
1914	2,114	1,789	600	287	170	104	98	55
1915	3,555	1,779	1,198	258	501	78	270	52
1916	5,483	2,392	1,887	305	861	109	304	60
1917	6,234	2,952	2,009	280	941	99	419	36
1918	6,149	3,031	2,061	149	931	60	492	24
1919	7,920	3,904	2,279	309	893	124	443	59
1920	8,228	5,278	1,825	514	676	166	372	75

Treasury Department, Division of Monetary Research.

April 14, 1939

Foreign Trade - Three Countries, 1913-1938

(In millions of dollars)

Year	United States			United Kingdom			Italy		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1913	2,484	1,793	+ 691	3,089	3,741	- 652	485	704	- 219
1914	2,114	1,789	+ 165	2,581	3,417	- 836	426	563	- 137
1915	3,555	1,779	+ 1,776	2,300	4,048	- 1,748	400	743	- 343
1916	5,483	2,392	+ 3,091	2,874	4,514	- 1,640	472	1,283	- 811
1917	6,234	2,953	+ 3,281	2,837	5,059	- 2,222	440	1,862	- 1,422
1918	6,149	3,031	+ 3,118	2,531	6,258	- 3,727	438	2,103	- 1,665
1919	7,920	3,904	+ 4,016	4,264	7,197	- 2,933	690	1,890	- 1,200
1920	8,228	5,279	+ 2,949	5,706	7,082	- 1,376	585	1,333	- 748
1921	4,485	2,509	+ 1,976	3,118	4,178	- 1,060	355	726	- 371
1922	3,832	3,113	+ 719	3,646	4,443	- 797	443	750	- 307

Treasury Department, Division of Monetary Research.

April 12, 1939.

Year	France		
	Exports	Imports	Balance
1913	1,787	2,070	- 283
1914	1,270	1,541	- 271
1915	1,051	2,306	- 1,255
1916	1,576	4,043	- 2,467
1917	1,663	5,398	- 3,735
1918	1,392	4,517	- 3,125
1919	2,264	5,628	- 3,364
1920	2,564	4,242	- 1,678
1921	1,883	2,114	- 231
1922	2,232	2,492	- 260

United States - Index of all Commodity Prices and Prices of Specific Commodities
Monthly - 1914 - 1918

	Index	Cement	Coal	Copper	Cotton	Pig Iron	Lead	Petroleum	Rubber	Silk	Wheat	Wool
	all com.	Portland	anthracite		Middling			American	para. fine	Japan		
	July 1913	Dollar	Dollar	Dollar	Dollar	Dollar	Dollar	Dollar	Dollar	Dollar	Dollar	Dollar
		per bar	per ton	per pound	per pound	per ton	per pound	per gal.	per pound	per pound	per bushel	per pound
	June 1914	rel in N. Y.	rel in N. Y.	rel in N. Y.	rel in N. Y.	rel in N. Y.	rel in N. Y.	rel in N. Y.	rel in N. Y.	rel in N. Y.	rel in N. Y.	rel in N. Y.
	= 100	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2	N. Y. 1/2
1914												
Jan.	100	\$1.5800	\$5.2000	.1428	.1270	\$13.8500	.0411	.1200	.6050	\$4.0250	.9139	.5600
Feb.	100	1.5800	5.2000	.1448	.1280	13.8100	.0405	.1200	.6550	4.1750	.9431	.5600
Mar.	99	1.5800	5.1922	.1418	.1326	14.0000	.0397	.1200	.6950	4.3250	.9591	.5600
Apr.	98	1.5800	4.6988	.1418	.1318	13.8000	.0381	.1200	.6950	4.2625	.9555	.5700
May	97	1.5800	4.7843	.1400	.1345	13.7500	.0390	.1200	.7250	4.2625	.9898	.5700
June	97	1.5800	4.8596	.1365	.1345	13.3700	.0390	.1200	.6100	4.3750	.9483	.6000
July	97	1.5800	4.9911	.1335	.1313	13.3000	.0389	.1200	.5750	4.4750	.9331	.6000
Aug.	101	1.5800	5.0416	.1227	.1200	13.2500	.0388	.1200	.5800	4.4250	1.1300	.6100
Sept.	101	1.5800	5.1601	.1200	2/	13.2500	.0381	.1200	.6000	4.0750	1.1850	.6100
Oct.	99	1.5800	5.1869	.1130	3/	12.9000	.0358	.1200	.5250	3.6750	1.1278	.6300
Nov.	98	1.5800	5.2000	.1163	.0763	12.9000	.0358	.1200	.4950	3.2875	1.1597	.6500
Dec.	98	1.5800	5.1958	.1284	.0759	12.5000	.0380	.1200	.6300	3.3250	1.2190	.6500
1915												
Jan.	100	1.5800	5.1901	.1352	.0828	12.4000	.0373	.1200	.7100	3.3250	1.4060	.6700
Feb.	100	1.5800	5.2000	.1417	.0854	12.4000	.0383	.1200	.5900	3.4250	1.6066	.6700
Mar.	100	1.4400	5.1738	.1434	.0899	12.2700	.0405	.1200	.5350	3.3750	1.5485	.6800
Apr.	100	1.4000	4.6979	.1648	.1029	12.3400	.0422	.1200	.5350	3.4750	1.5903	.7400
May	100	1.4000	4.7496	.1741	.0984	12.4000	.0427	.1200	.5450	3.4750	1.5760	.7400
June	100	1.3375	4.8222	.1875	.0967	12.5000	.0593	.1200	.5450	3.4250	1.3575	.7700
July	102	1.3375	4.9265	.1777	.0920	12.7100	.0586	.1200	.5350	3.4250	1.4316	.7700
Aug.	102	1.3375	5.0590	.1646	.0938	13.7100	.0466	.1200	.5225	3.4250	1.2025	.8100
Sept.	102	1.4225	5.1569	.1675	.1098	14.1500	.0461	.1200	.5000	3.5250	1.0547	.7900
Oct.	104	1.4225	5.1947	.1732	.1250	14.7800	.0460	.1200	.5075	3.7125	1.0769	.7700
Nov.	107	1.4225	5.1964	.1841	.1189	16.1500	.0516	.1200	.5475	4.1250	1.0589	.7200
Dec.	111	1.7500	5.1836	.1973	.1236	17.1000	.0536	.1300	.6550	4.9250	1.2035	.7200
1916												
Jan.	115	1.6700	5.2726	.2307	.1240	17.9000	.0592	.1300	.8850	4.6500	1.2875	.7200
Feb.	118	1.6700	5.2770	.2603	.1174	17.9000	.0625	.1300	.6850	5.2500	1.2940	.7400
Mar.	121	1.6700	5.2780	.2590	.1194	17.9000	.0714	.1200	.7050	6.5500	1.1666	.7700
Apr.	123	1.6700	5.2949	.2716	.1206	17.9000	.0763	.1200	.6950	6.2500	1.2313	.8200
May	123	1.6700	5.0380	.2737	.1291	17.9000	.0746	.1200	.6600	5.1500	1.2005	.8200
June	122	1.6700	5.1082	.2510	.1294	17.3400	.0694	.1200	.5900	5.2000	1.1163	.8000
July	123	1.6700	5.2092	.2361	.1304	16.9000	.0635	.1200	.5900	4.9500	1.1878	.8000
Aug.	125	1.6700	5.3057	.2467	.1454	16.7000	.0624	.1200	.5850	5.3000	1.4514	.7700
Sept.	127	1.6700	5.3990	.2593	.1584	17.2800	.0681	.1200	.5825	5.3500	1.6322	.7900
Oct.	132	1.6700	5.4210	.2717	.1812	18.0300	.0700	.1200	.6650	5.2500	1.7576	.7500
Nov.	141	1.6700	5.4338	.3038	.2006	22.4000	.0704	.1200	.6700	5.7500	1.8667	.8300
Dec.	144	1.8950	5.4500	.3174	.1824	25.9000	.0751	.1200	.7200	5.7500	1.7470	.8300
1917												
Jan.	148	1.9200	5.4345	.2805	.1763	26.1000	.0763	.1200	.7000	5.5850	1.9215	.9000
Feb.	151	2.0200	5.4388	.3174	.1631	27.5250	.0864	.1200	.6800	5.4875	1.8410	.9800
Mar.	156	2.0200	5.4281	.3218	.1859	31.8000	.0920	.1200	.7500	5.3563	1.9873	1.0300
Apr.	170	2.1500	4.9226	.2924	.2033	37.4000	.0929	.1200	.7400	5.5875	2.3100	1.1000
May	178	2.1500	5.4242	.3011	.2076	41.9000	.1021	.1200	.7250	5.6450	2.5510	1.0000
June	183	2.1500	5.5334	.3036	.2545	45.1500	.1117	.1200	.7250	6.1250	2.7675	1.0300
July	189	2.1200	5.6350	.2799	.2612	49.9000	.1071	.1200	.7050	6.6438	2.5680	1.3300
Aug.	187	2.1200	5.7420	.2658	.2686	49.9000	.1099	.1200	.6125	7.3150	2.6175	1.4400
Sept.	186	2.1200	5.8970	.2537	.2271	49.9000	.0866	.1300	.5950	6.5138	2.2000	1.1900
Oct.	183	2.1200	5.8981	.2350	.2813	35.9000	.0671	.1300	.5675	5.9950	2.2000	1.8000
Nov.	183	2.1200	5.8959	.2350	.2991	35.9000	.0625	.1300	.5050	5.7750	2.2000	1.8300
Dec.	182	2.1200	6.2118	.2350	.3060	35.9000	.0638	.1400	.4675	5.7500	2.2000	1.7800
1918												
Jan.	185	2.1425	6.2500	.2390	.3236	35.9000	.0578	.1500	.5005	5.7500	2.2000	1.6500
Feb.	187	2.1500	6.2500	.2350	.3185	35.9000	.0697	.1500	.4788	5.7500	2.2000	1.5700
Mar.	188	2.1500	6.2181	.2350	.3386	35.9000	.0720	.1500	.4811	5.8500	2.2000	1.6900
Apr.	191	2.3500	6.0172	.2350	.3172	35.9000	.0677	.1575	.5150	6.5875	2.2000	1.7200
May	190	2.5600	6.0500	.2350	.2749	35.9000	.0682	.1700	.5663	6.9600	2.2000	1.6900
June	189	2.5925	6.0666	.2350	.3039	36.0750	.0761	.1700	.5900	7.3000	2.2000	1.6100
July	193	2.6000	6.3313	.2589	.3123	36.6000	.0803	.1710	.5900	7.7625	2.2600	1.6900
Aug.	196	2.6000	6.3500	.2600	.3446	36.6000	.0805	.1750	.5900	7.7500	2.2688	1.6800
Sept.	201	2.9000	6.6500	.2600	.3578	36.6000	.0805	.1750	.5900	7.6000	2.2656	1.6800
Oct.	201	3.2000	6.6500	.2600	.3249	37.5000	.0805	.1750	.5720	7.0375	2.2665	1.6500
Nov.	201	3.2000	7.5733	.2600	.2953	37.6000	.0805	.1750	.5700	7.6300	2.2706	1.6800
Dec.	203	3.2000	7.7000	.2529	.3042	37.6000	.0656	.1750	.5480	7.2833	2.2830	1.6800

1/ Barrel of 400 lbs. gross in 1913; 380 lbs. net in 1914 - 1918.

2/ No quotations

Regraded Unclassified

Commodity Prices During the Great War

General movements of commodity prices

The first half of 1914 was a period of mild depression. Prices dropped 4 percent from December 1913 to May 1914. When the war broke out at the end of July food prices, particularly the prices of sugar and grains, took a sharp leap upwards so that the index number of all commodities compiled by the War Industries Board advanced 4-1/10 percent in one month. However, by November the price index had sagged back to 98, only one point above the level in the previous May.

Thereafter the price index remained stationary at 100 for the first six months of 1915. No important rise of prices took place until late in the fall of 1915. From October 1915 to July 1917 the advance was exceedingly rapid, averaging over 2-1/2 percent a month. Already in August 1916 prices stood 25 percent above the pre-war level; by February 1917 they were over 50 percent above the pre-war level and by May of the same year over 75 percent. The greatest rises occurred in the months of April and May 1917 immediately after the entry of the United States into the war. The War Industries Board index of all commodities rose 9 percent in the single month April 1917. From February 1917 to July the price index rose over 25 percent.

After the entry of the United States into the war, measures were taken to curb the price rise. Prices receded from August through December but they resumed their rise in 1918. Though the rise in that year was much more gradual than in 1916 or 1917, still the price index for the period 1914-1918 was at its highest point at the end of the year 1918, being almost exactly twice as high as when the war broke out.

Prices of principal commodity groups

Chemicals had the most dramatic price history of any of the groups into which commodities were divided by the War Industries Board. The United States had been largely dependent upon Germany for chemicals before the war. Chemical prices consequently began to rise in September 1914, and had doubled by March 1916. Thereafter domestic chemical production was greatly stimulated and the index number of chemical prices fell from

201 in March 1916 to 157 in February 1917. Chemical prices rose again when the United States entered the war but they never quite attained the level of March 1916. Price rises were kept to relatively moderate levels after the entry of the United States into the war, largely as a result of the system of government price controls.

Metal prices fell on the outbreak of the war. The pre-war level of metal prices was not passed until May 1915. From that point forward, however, the rise was exceedingly rapid. From May 1915 to July 1917, the index number of metal prices rose from 101 to 333. The periods of most rapid advance were in the Autumn of 1916 and in the months immediately following the American declaration of war. Upon the entry of the United States into the war government control over metal prices was established and the index number consequently fell 125 points between July and December of 1917. Thereafter metal prices rose only 8 points, from 208 to 216 during the duration of the war.

Fuel prices were also unfavorably affected by the outbreak of war in 1914. Fuel prices had been falling slowly at the beginning of that year and they continued to fall until August of 1915. After that they rose, though remaining until April 1918 below the level of the index of all commodities.

The clothing group also declined on the outbreak of war and only began to move upward in January of 1915. Thence the index rose steadily throughout the war, every single month showing an advance over the preceding month. No especially great rise took place immediately after the entry of the United States into the war. However, during the latter part of 1917 and during 1918 the index for the clothing group gradually outstripped the index of all commodities. It ended the war at a higher level than any other group index.

Food prices reacted sharply to the outbreak of the war but the rise of the first two months was not maintained. In October of 1915 the index stood at only 99, compared with 104 for the preceding year. By April 1917, however, the index had risen to 157, still 23 points below the index of all commodities. However, the advance was maintained throughout the war. At the end of December 1918 the index of food prices was twice as high as it had been on the outbreak of war.

Building material prices did not rise as much during the war as other groups. Even in 1916 during the great construction boom, building prices remained more stable than other prices. At the end of 1916 the building material price index had risen to only 119 compared with 96 at the outbreak of war. In 1917, however, the rise was almost twice as rapid. The rise was maintained throughout 1918. Still the building materials group ended the war with an index number of only 185 compared with an index of all commodities of 203.

The rubber, paper, and fibers group advanced less than any other during the war. The advance was continuous but quite gradual. A comparatively sharp rise took place in the month of the outbreak of the war, the index number moving from 96 to 101 from July to August, 1914. However, this rate of rise was not maintained. Indeed, in September 1915 the index number stood 11 points below the level of the preceding year. No especially sharp rise took place when the United States entered the war. This index moved only from 146 in April 1917 to 163 when the war ended.

Prices of individual commodities

The prices of wheat and wheat products moved up very sharply on the outbreak of War in 1914. The index rose from 96 in July to 150 in March of the following year. After that it fell, largely as a result of the phenomenally good crop of 1915 which reached about 1 billion bushels. The 1916 crop was only about half as large as the 1915 crop. Prices of wheat and wheat products consequently rose from 120 in July 1916 to 189 in March of 1917. The entry of the United States into the War brought unprecedentedly great rises from an index number of 189 in March 1917 to 221 in April and 267 in May. The average price of wheat in Chicago during May 1917 was \$2.95 a bushel. It was therefore necessary to establish price controls over wheat products. The price of wheat for the 1917 crop was fixed at \$2.20 a bushel. The index of prices of wheat and wheat products gradually subsided from 267 in May 1917 to 202 in January of 1918. The rise from January 1918 to the end of the War was relatively slight -- only 9 points on the index.

The index of the prices of corn and corn products also rose sharply on the outbreak of War in July 1914. However, unlike the case of wheat and wheat products, this rise was not maintained. By the end of the year the index had fallen considerably below the level of July. During 1915 it remained relatively stationary. In December 1915 the index of the prices of corn and corn products stood at 99, the same level as in June of 1914. A rise of about 25 percent took place in 1916. With the entry of the United States into the War, however, much greater rises took place. The index moved from 150 in March 1917 to 188 in April, to 205 in May and reached a peak of 258 in October. In November 1917 corn sold on the Chicago exchange for \$2.25 a bushel. In the next month, however, the average price was only \$1.59 a bushel. These prices remained relatively stable showing slight fluctuations but no decided movement until August 1918. After that there were very considerable price falls.

American prices of livestock, meats and fats showed no important movement in one direction or the other for the first six months of the War. There was a slight decrease in this price index during 1915. By the end of 1915 the index of the price of livestock, meats and fats stood at 92 compared with 103 in July 1914. After this prices rose steadily showing an especially sharp rise when the United States entered the War in April 1917. The index moved from 138 to 150 between March and April 1917. A more gradual rise continued throughout 1917 and 1918. At the end of December 1918 this index stood at 193 compared with 103 in July 1914.

Cotton prices fell rapidly at the end of 1914. This was the result of an unprecedentedly large crop. The index of the prices of cotton and cotton products fell from 100 in July 1914 to 73 by the end of the year. Special relief measures for cotton farmers were provided by the national government. Cotton was selling at about 7 1/2 cents a pound in New York in December 1914. In 1915, however, cotton prices rose from an index number of 72 at the beginning of the year to 100 at the year's close. The rise was much more rapid during 1916 particularly at the end of the year. In December 1916 the index reached the level of 160. A sharp rise followed the entry of the United States into the War. Prices thereafter

rose continually during 1917 and 1918. In September 1918 the index reached a peak of 267. Cotton was selling during that month in New York at about 36 cents a pound. By the end of the year the price had fallen to 30 cents.

Copper prices fell on the outbreak of the European War. Only in January 1915 did the upward movement begin. The price of copper in New York moved from about 14 cents a pound in January 1915 to almost 20 cents at the end of the year. The rise was well maintained during 1916, the December price in New York at the end of that year being almost 32 cents a pound. The general trend during 1917 was falling prices. By the end of 1917 copper was selling in New York for about 23 1/2 cents a pound. No rise took place during the first half of 1918. During the last half of the year, however, the price moved up to 26 cents. Therefore when the War ended copper in New York was selling at nearly twice the price which had prevailed when the War broke out.

Even the prices of iron and steel products did not react favorably to the outbreak of War in Europe in 1914. The index of the prices of iron, steel and their products which stood at 92 in June 1914 was only up 1 point in June 1915. A great rise began in the last half of 1915 and continued through 1916 and the first half of 1917. During the year 1916 the index rose from 138 in January to 221 in December. The entry of the United States into the War was marked by exceptionally rapid rises in this index. It moved from 254 in March to 370 in July. Thereafter government price control succeeded in bringing about a great decline. By the end of the year 1917 this index had been reduced 153 points to 217. It remained at substantially the same level until the end of the War.

Keep the Security Markets Open

Advantages

1. This policy would reassure investors by suggesting that "business as usual" was to be the order of the day. Investors would be relieved of the fear that they would be unable to obtain cash at such a time.
2. The security markets may not be subject to the pressure now anticipated and therefore intervention may be unnecessary. The public and business will be saved the shock incident to the closing of the market.
3. Trading over the counter without publicly quoted prices with its accompanying danger of loss to the unsophisticated seller or purchaser of stocks would be avoided.
4. Freedom of the exchanges would assist the process of adjustment in the American economy that will be necessary as the greater part of the world goes on a war basis.

Disadvantages

1. It could not stop a liquidation.
2. It might prevent some selling, but it could scarcely induce those with cash to purchase. Therefore, prices would drop and speculation would enhance these price drops. When drastic news appears people really want to change their commitments, to get liquid and to wait and see what will happen. "Official confidence" cannot overcome this if the news itself requires individuals to make revised decisions and new plans, as has always been the case on the outbreak of major wars.
3. Repercussions upon investment and employment of a panic stock market are bound to be bad and therefore the stock market will have more adverse news to feed upon.
4. A falling stock market generates pessimism, irrespective of the real economic prospects.

Close the Stock Exchange

Advantages

1. Prevent a sharp break in the market, a break which would be solely the result of panic and which will, by itself, further intensify panic and demoralization throughout the country.
2. It is a step which proved successful at the outbreak of the last war, and the public generally expects that the same action will be taken again.
3. Provide a breathing space in which arrangements can be made, if necessary, for orderly liquidation of large blocks of stocks, particularly foreign held stocks.
4. If the United States is the only world stock market open, the selling pressure will be particularly severe as it will provide the only avenue left to the world for large scale liquidation of investments.
5. It would be easy to open after a few days, during which time new limitations on trading could be prepared in the light of the current developments.

Disadvantages

1. Inconvenience to domestic interests who may need to liquidate.
2. "Illegal" markets will spring up throughout the country which will quote prices and partially offset the advantages which may derive from closing the exchanges.
3. If quotations on over the counter transactions are published, the psychological effect of a weak market is not avoided; if quotations are not published, the ordinary buyer or seller can be easily cheated.

Transactions on the Security Market Limited to a Pre-determined Range of Fluctuation of Security Prices for any one day's Activity

Advantages

1. It has all the advantages of an open market with the added advantage that price declines during the first one or two weeks of alarmed opinion would be limited to a definite percentage each day. If necessary the range of fluctuation could be narrowed as time went on. The acute period could thus be met with limitations upon the extent of decline. The knowledge of such protection should reduce the amount of shares thrown on the market for sale.
2. The initiation and administration of such measures could be undertaken without government assistance.

Disadvantages

1. The news that on several successive days prices have dropped by the full amount allowed will create uncertainty as to how far down the bottom will be found and may therefore increase speculative selling. If pressure continued, the exchanges might still have to be closed and the combination of price pegging followed by exchange closing might well be worse for business confidence than an initial shut-down.
2. The measure allows the brokers a great deal of power in selecting the individuals whose shares they will sell at the start of the day.
3. If only a part of the day's offers and demands could be completed within the range prescribed, over the counter trading would disrupt the range of limitations.

Purchase of Securities by a Government Agency to Maintain Prices on the Stock Market

Advantages

1. The knowledge that such a step is to be taken would of itself calm the fears of security holders and substantially reduce the amount of stock that would be offered on the market both now and in the event of an outbreak of war.

Disadvantages

1. There would be great pressure on the part of security holders to prevent the government corporation from unloading securities and lowering stock market prices after the crisis is passed. The fact of the Government holding large stocks of securities would always be a bearish factor overhanging the stock market.

The magnitude of the sums involved in government purchases might serve to shock business confidence as to have the opposite effect from that intended. If it were thought the Government would not keep up such a purchasing program, there would be a greater rush to sell.

2. In the course of this program the Government may be faced with a large loss on securities purchased at prices which cannot be maintained.

3. This government agency would be able to set the price for any security on the market and in so doing would be subject to a great deal of pressure to set the prices higher than any figure they may decide upon.

4. It would involve a large expenditure of government funds at a time when the Treasury may be faced with difficulties in selling new issues of securities to the public.

5. It would be very difficult for a government agency to operate on the stock market under emergency conditions and on a scale so large as is contemplated to prevent leaks of information to the profit of certain individuals unassociated with the Government.

Formation of a Government Agency to Extend Credit to Foreign Governments using as Collateral the Foreign Holdings of Their Nationals

The Johnson Act does not prohibit the Government or its agency from making loans to governments which have defaulted. Section 2 of that Act excludes from the provisions of the Act any public corporation created by special authorization of Congress or any corporation which the Government of the United States has or exercises the controlling interest.

Inasmuch as the proceeds of the borrowing would doubtless be used for purchases in the United States, the Export-Import Bank might be the appropriate agency for which the credit could be extended except for the fact that they now have the new limitation of \$100 million. The RFC could, however, extend credit to the foreign governments up to say 60 percent of the market value of the securities.

Advantages

1. The knowledge that such credit would be forthcoming would make it unnecessary for the foreign governments to liquidate their holdings nearly so soon as would be the case could they not obtain such credits.

2. The Johnson Act does expressly prohibit any person from making any loan to England or France. Therefore, unless the Johnson Act were altered the credits would have to be by a government agency (or corporation in which the Government has exercised the controlling interest.

3. The Government could, by making loans, set conditions upon its use with respect to the type and price of commodity purchased.

Disadvantages

1. It might be regarded as a violation of the spirit of the Johnson Act.

2. It would be in conflict with our Neutrality Act.

Proposal for controlling the market for government securities
in the event that the stock exchange is closed

It would probably be desirable to maintain prices of government securities and to provide means whereby holders of government securities could liquidate them during a crisis period. The following are suggestions which may be developed into satisfactory procedures for this purpose.

1. The Open Market committee of the Federal Reserve System to agree to expand its holdings of governments by as much as \$5 billion in order to support the government market at a level somewhat below the present level.

2. If the Open Market Committee is not agreeable to such a suggestion it may be desirable to invoke the Thomas Amendment which would direct the Open Market Committee to buy \$3 billions of government securities and if this were not enough, to authorize the Treasury to issue \$3 billion in greenbacks to purchase government securities.

3. The Treasury to announce that it would purchase all government securities offered to it at par, the funds to buy these securities to be raised through a combination of the following procedures:

- (a) The sale of 90 to 270 day Treasury bills to banks.

- (b) The issuance of a billion dollars in silver certificates.

- (c) The use of a part of the Stabilization Fund assets.

- (d) The use of cash assets of government corporations.

- (e) The use of the free gold now in the General Fund of the Treasury (\$700 million).

RE PLANS FOR STABILIZING GOVERNMENT
BOND MARKET IN EVENT OF WAR IN EUROPE

April 14, 1939.
4:00 P. M.

Present: Mr. Hanes
Mr. Bell
Mr. White
Mr. Loochhead
Mr. Viner
Mr. Eccles
Mr. Harrison

H.M.Jr: All right, gentlemen.

Eccles: George, I'll report on one aspect and you talk about the market, the way you think it ought to be operated.

Harrison: All right, sir.

Eccles: If you will do that.

We have been in touch with the members of the Committee outside on the phone and we have a unanimous authority to increase the portfolio up to five hundred million. They are coming in next week on another matter and at that time we can ratify the action and get any additional authority that may be necessary. ✓

In discussing the matter this morning with the Executive Committee - what we would like to suggest to the Treasury is that we operate on joint account with them up to the hundred million, to the extent that you use up these funds, and then we would undertake from then on, feeling that it is our primary responsibility, to operate until such time as - if we felt at any time we wanted help, we'd get in touch with you on the matter. And we'd expect of course to be in touch with the Treasury anyway, and if the operation at any time was unsatisfactory to the Treasury, we'd expect them of course to say so.

H.M.Jr: Well.....

Eccles: And then if such a situation developed - then of course we would try to make it satisfactory, make every effort we could; if we couldn't,

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why, then we'd have to withdraw and let them operate it. But we wouldn't anticipate any such development.

We feel that the two hundred million that we would operate on joint account, that it may not be necessary to go beyond that; and if it is, why, I believe that we can operate it in a manner that will be satisfactory.

Now, we have been discussing that question as to what would be satisfactory to the Committee members themselves, which is something to iron out, and I suggest that George give to you his views and the discussion we had on the matter of the practical operation and see what you people think about it.

Bell: What is the amount, five hundred million?

Eccles: Yes.

Bell: Is that additional to.....

Eccles: We have authority to purchase up to five hundred million.

Bell: Now, or do you have to get that?

Eccles: We have it now. Then you have the hundred million; that would be six hundred million together with what the Treasury has.

Bell: Haven't you exhausted some of that authority since you last got it?

Eccles: No, none of it. That's what we got today.

H.M.Jr: They went out and got some new authority.

Eccles: We got this just now.

H.M.Jr: That's what they've been doing. They bought themselves some new authority.

Harrison: On the handling of the market, it is very hard to say in advance of a situation that hasn't yet developed what we should do. If it were

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necessary for a committee or the Treasury to decide today what should be done, I think that the most practical thing to do perhaps would be to say, "Here, George Harrison, is six hundred million. Do the best you can." However, I wouldn't want any such loose authority as that, and for that reason asked the Board today to talk with me in broad outline about possible methods of handling an emergency. My own thought has been that if, for instance, war is declared tomorrow morning and we are faced with a panicky situation, and you might have the opening bids off 25/32nds or a whole point - well, let's assume it's a point - I would suggest that we meet the opening bids by putting in bids ourselves, whatever they are. Maybe they're down a point or a point and a half. We might try to bid them up at the outset, to meet the market at the opening bid after the bad news is out. And then during the period of the day keep bids in to keep it as orderly as we can, but not to hold our necks out so we invite all holders of bonds to come in and say, "Here, Federal Reserve, you bail us out and let us keep our book profit," but to keep the market orderly without at the same time guaranteeing profits to holders of bonds at high prices.

Bell: In other words, you're still providing a cushion and not support, isn't that right?

H.M.Jr: Well.....

Harrison: What's that?

Bell: Are you bidding under the market?

Harrison: It will depend a lot on how it happens. Let me finish; then I think it will be a little easier. Then you can ask the questions you want.

I would think that if war were declared and there were a very panicky situation, the wise thing for us to do would be to start, as I say, the bids - use our judgment as the day goes on as to how fast we pay the money out, as to whether we're meeting the market right on a bid or under it.

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The chances are you couldn't tell where you were a good part of the day.

But we'd have an agreement with the market, which would be entered into at the outset after the declaration of difficulties, that we would put a minimum price on trading for that day, have a drop of one point from the opening prices, with the understanding that the market would stop trading after bond prices had gone down a point beyond the opening, somewhat as the Stock Exchange people are contemplating doing, only in their case it's a ten percent drop which they discussed. They plan, as you know, to do that not only for stocks but for corporate bonds as well.

Now, there is some question as to whether that is the best procedure. You might say that you should keep going all day, feeding money out regardless of where the bonds go. I think, and my associates in New York feel, that the most strategic and successful way of handling the market would be to put that minimum price on trading. Now, whether it's to be a point or point and a half would be something to be discussed in the light of circumstances. But we'd let the market know and the country know that so far as we were able we would stop trading in any issue that had gone down more than X, whether it's a point or point and a half that we agree on.

H.M.Jr:

May I interrupt you there? That doesn't carry out what I think we had in mind. We were going to put up a sign: "Business as Usual." Now, please talk - I haven't had a chance to consult with everybody here. You fellows have been thinking about this all day. But that doesn't carry out what I had in mind.

Viner:

May I ask a question? Do you mean by the market - you don't mean merely the Stock Exchange, but you mean the over-the-counter market.

Harrison:

The over-the-counter market.

Hanes:

George, when you say "stop trading," you mean by that that you would say no trade below that level.

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Harrison: That's right.

Hanes: You wouldn't stop trading.

Harrison: No, trade below that level.

H.M.Jr: What does that mean?

Bell: That means pegged for that day, at least, as a minimum.

Harrison: The market for that day would probably be almost entirely in the Federal Reserve Bank.

Hanes: Well now, would you stop buying there or would you maintain your price there?

Harrison: We'd maintain our price there and continue to buy.

Hanes: And continue to buy.

H.M.Jr: I thought you meant that if the bonds were 102 and went to 101, went below 101, you'd say, "We won't deal any more in that particular issue."

Bell: That day.

Hanes: That's what I thought he meant, too.

Viner: That means there might be a blank market at five points under, and that next morning you might have the opening bids two points under, if that's the lowest you permit, and everybody trying to get rid of their portion at that, and you put a quota on it.

White: It's not clear. There are two different points of view.

H.M.Jr: Do you mind - talk in terms - take any bond and talk in terms of dollars and quotations. Give us an example.

Harrison: All right. Let's take your 2½s '50-'52 and let's assume they're selling at 104 today - or 104½ they are - and war is declared tonight. Tomorrow

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morning the opening bids for any trade, we'll say, are 103, off a point and a half. We'd begin trading at that point; we'd do the best we could. We wouldn't peg it there, but if the flood of offerings in that issue got to a point where even on reasonable support - and let's not argue the amount of that for the moment - the price goes down to 102, we would still continue buying and we'd have bids in at 102, but if there were no takers at that - no offerers at that, trading would cease, because there wouldn't be any other bidders, presumably.

H.M.Jr: But why wouldn't they continue to offer, as long as you stood there?

Harrison: What's that?

H.M.Jr: They'd continue to offer as long as you keep the peg at 102.

Bell: They would if they couldn't get more. I mean if the market continued to go down they'd sell at 102.

White: They'll take all that's offered at 102. Would you - had you reached that stage?

Viner: No guaranty.

Harrison: Oh no, because let's suppose - let's take the case of the First National over here in Baltimore. They're pretty smart traders, and they have a hundred forty million of bonds, we'll say, and they know that this thing is apt to go down a point a day, we'll say, and they figure we're going to stand out there and continue to buy at 102. They'd dump the whole portfolio on us. Well, we wouldn't do that. What I mean is that we'll be in there with a reasonable amount of bids at that price, and if it gets to that price and we are then offered huge volumes and we don't want to go below, we'll just say, "No more trading."

H.M.Jr: You mean no more trading on the part of the Federal Reserve System.

Harrison: On the part of the Federal Reserve System.

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White: You mean you won't buy any more.

Harrison: That's right.

White: But that doesn't mean no more trading.

Harrison: If you'll let me finish. We would also try to get every dealer and every banker that's dealing and try to get them to agree to do just as they do in the Stock Exchange and the Chicago Pit: that when a particular issue drops down a certain amount, trading would stop rather than to allow people to keep dumping, dumping, dumping all through the rest of the day.

Now, you can do it the other way if you want; I think you could say, "All right, we won't have a minimum price," but I believe that if you do that you run the risk of a drop of 3, 4, 5 points in a day instead of a one-point drop.

I am sure we could get dealers and I am sure we could get banks and all others to agree that the wise thing to do - or if we agreed, determined that the wise thing to do would be to stop trading after a drop of one point in one day in any one issue.

White: Won't they anticipate if that happens and you find the flood of offerings so large that you cease trading, and under the terms of the voluntary agreement trading ceases when you cease?

Harrison: Yes.

White: Would it not be reasonable to suppose that the following day the same thing will begin over again and that that will occur on successive days? Let's assume that it does occur on successive days. Do you have in mind now where you would give increasing support as it went down?

Harrison: Yes, I have that, but that's the difficulty, you haven't let me get beyond even the first day or the second day.

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My thought would be - it's not worked out on paper in any great detail - that in this particular issue if it dropped from 103 to 102 on the first day, we'd put in bids at 102 on the opening next morning, and we would stop trading, we'll say, again if the offerings drive the price down to 101. My thought was that we'd continue that but that our degree of activity would increase as we approached par, with a view - trying not to peg it there, but insure if we can, with reasonable support of this kind that the thing will level out before it gets below par; and rather than to stick our necks out and do our heaviest bidding at the outset, let the owners now who have Government bonds at the highest prices take some of the loss, and for us to be more active the lower the bond market gets, rather than at the outset.

White: Do you have any idea now as to any quantitative indications of what you regard as reasonable on the way down?

Harrison: I don't think you can tell that, Dr. White, frankly, because you couldn't tell what would be the volume of offerings. Sometimes you have a great deal of activity on really very small offerings, or you merely have a rapid change of price on relatively an inactive market. In that case we could afford to do more. But if, for instance, after we were going for half an hour we found we were being flooded with offers from all over the country even within that first spread of one point, there is no point in our using up our five hundred million, we'll say, right then, even though we planned to go another five hundred million beyond, because all we would be doing would be protecting the profits of fellows the first day at the high point rather than to make them take some of the loss and get out at lower points in succeeding days.

Viner: This first day is the first day of what - declaration of war?

Harrison: First day of any panic, and I don't care what causes it.

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- Viner: Of course, you'll have a creeping depression of the bond market for possibly a week or two weeks before, and the bonds will already possibly - unless the thing breaks suddenly, bonds may already be down three or four or five points from their peak before the actual declaration of war occurs.
- Eccles: That hasn't been true for the last week. Your bonds have been holding pretty even. Now, if there is a declaration of war, actual hostilities, they could.....
- White: You're assuming that it would become more acute.
- Viner: I say it too strongly, but it may work that way. And I wonder whether you contemplated, you see, that your action - my only point is that your action on the first day of what you call the panic stage ought to be governed in some way or other by what had happened in the preceding two weeks, if the market had already been off, wobbly. I'm not saying how you ought to act, I haven't thought it out, but I don't think you ought to work out in advance the plans for the first day independently of what had preceded.
- Eccles: Well, in our discussion, the impression I got was that it was on the assumption of the present high market. In other words, we were thinking of this here as being ready for something happening over the week-end. That's what we've been working on here. Now, next week it may be an entirely different picture. But from what the picture was today, if hostilities started tomorrow and by Monday morning we had to be prepared, this would be the type of program, and it would be based upon this present very high market.
- Viner: In other words, your program is subject to amendment week by week.
- Eccles: If the market should gradually work down in an orderly way without any necessary support and you had a market down at four or five points below where it is now, so that the profit so far as the banks were concerned was pretty well wiped out, then it would seem to me to be a very different matter. I think under those conditions

it would be my opinion that far more vigorous action should be taken to hold that market.

Hanes: That's not quite like the idea of stopping at the point - after all, what you're doing is holding an umbrella up on the profits that are now in the bond account.

Eccles: We'd let it drop more than a point.

Hanes: I hate the idea of ever trying to peg anything; that's an invitation in all the markets that I've ever seen for everybody to dump on you. Isn't it, George?

Harrison: Well, I've expressed myself fully. If you thought I meant that - I did make one statement that was misleading when you asked what happens when you get to 101. I meant that at that - I was being very, very literal - at that point we would buy somewhat and if that didn't stop it or didn't turn it about, we would stop trading in it at that point. And that would not be with a view to pegging it at all, but rather to conserving resources and avoiding a lot of fellows dumping everything on us at 101. We would stop buying completely and hope to close the market so that you wouldn't have quotations below that anywhere for the rest of that day and I think you could pretty effectively do it except for a lot of bootleg transactions which would be insignificant anyway. If Tom Smith wants to sell to Bill Jones at 50, he'd be a damn fool but I have no objection to his being a damn fool if he wants to; that is a side trade all by itself and has nothing to do at all with the market operations.

But I feel this, that as a part of any program I would like to think that the New York banks, as I think I mentioned here yesterday, would agree - not promise, but agree as a principle - that they are not going to try to get liquidity through the sale of bonds, they're not going to try to protect paper profit by the sale of bonds, they're going to sit tight, not out of any favor to us but because it would be damned foolish for them all to try to unload at one time and protect themselves.

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- Viner: If you could show them a rediscount rate on Government bonds.....
- Harrison: We would announce that we were going to lend at our discount rate at par, so they could get all the liquidity they want - not only for member banks, but non-member banks as well. As to corporations and individuals, we would just announce we had the right to make loans but we would expect them to go their banks for accommodation in usual course.
- Viner: I would do one more thing there. I would assure them in advance - not necessarily as a legal matter - assure them it is your intention that no matter what happens to your rediscount rate, you'll rediscount bonds at a rate not higher than the rate yielded by the bonds.
- Harrison: Well, don't you think that would scare the life out of them?
- Viner: It's so much higher than the rediscount rate is apt to be.
- Bell: Wouldn't want to make that announcement right now, would you?
- Viner: No, let the rumor go out that they intend.....
- White: That possibility that Johnny Hanes' remark suggests - I imagine you've considered it, and I wonder how much you would weigh it against yours, and that is the thought that in the event of war bond prices are going to go down, if it lasts any length of time, in any case, because of the repercussion here, increased business activity, and so forth, and that it may be desirable to take advantage of the critical panicky period and take the rap all at once and decide ahead of time on some approximate level to which you will let it go and then support it indubitably for a long time at that level, rather than cushion it very softly on the way down and have a series of bad days or bad weeks; in other words, let the market take the rap right away,

which won't have much of an effect on business conditions if it is very short and if the knowledge is there that beyond that point the Government or the Federal Reserve System intend definitely to support the market very strongly, so that you get it over and done with and you are at a level which is more easily supportable and more in accord with the basic economic conditions that are likely to prevail should the war continue for several months or more.

Bell: That would induce everybody to try to unload before it reaches that level. You'd have a panic.

White: You decide to peg it and keep it at a particular rate. Let it be known. You might say you'll buy them at par.

Harrison: I think there are two disadvantages to that. The British did it by saying in September that they wouldn't allow the War Loan, at three and a half percent, to go below 92; it had been up around 104. The week prior to Munich, it got down to 97. They announced 92 as a minimum below which they would not permit trading. That meant there would be no official quotations below 92. In the case of the British, with a closely-knit market, well-organized market, that was not construed as an appraisal of the value of the bonds, and the bonds in fact did not go below, I think, 94. If, however, we should make an announcement that we were going to peg bonds, these same 2's, we'll say, at 94, I think that nine out of ten bankers in this country would construe that as our appraisal of what they were worth, and every one of them would try to unload at once.

Then, even if you did that, you would have the second problem of bailing everybody out and agreeing to redeem bonds, in effect, at 94 so long as the war lasts, which might or might not be wise. We know of times when three percent bonds have gone well below 94. And I would think myself - discussing that - I would think myself that that would not be the best technique

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for this country, with the variety of holders you've got, the broad area, and the difficulty of making them understand that that was not our appraisal of their worth.

H.M.Jr: Now, could I interrupt? I want a period of absorption. I mean I want to sleep on this thing, see?

What I'd like to do at this time is to call up Jerome Frank and find out when - I called him this morning - SEO is going to be ready to talk. Eccles said, "Let's close this thing up tomorrow," and I think he's right. I think by the time we go to bed tomorrow night we ought to know approximately where we are, see?

As to the idea of going each a hundred million first and then you people doing the next four hundred million, why,.....

Eccles: Well, we'd do it indefinitely then. I mean if we thought we wanted some help, we'd come to you or if you thought we weren't handling it right you'd say so.

H.M.Jr: The way I feel is, I'd like to start that way, huh?

Hanes: Yes.

H.M.Jr: And I think there has got to be an understanding in the first place. In times like this, nobody can pick a fight with me. I mean we'll have to all do the best we can to come to an agreement and there's not going to be - hell, we've been through these things before with the Fed and we've had differences, but there's never - on the way you've handled the market - but I don't think I've raised my voice in five and a half years as to any differences when times were bad. Is that right?

Harrison: I think that's right.

H.M.Jr: It isn't as though I had just arrived here and we didn't know.

Now, I think that I want - I haven't had a chance to talk this over with my associates; I want to talk this thing over and see where we are at. But as to the general idea, as of tonight, I mean, it sounds pretty good. What do you fellows think?

Hanes:

I think it sounds fine. The only - and this I say out of ignorance and not with any thought of giving you advice about the Government bond market, because I'm not familiar with it - but I am familiar with the other markets and I have seen other markets work where you were trying to protect markets and what you're trying to do is to create an absence of selling as well as a presence of buying, which gives you a stable market on the way down. And as I visualize this thing, you're not going to have very much difficulty supporting the market at par; it's above par, where they're trying to protect that profit, that you're going to have difficulty, and you want to cushion that shock as much as you can without using all your purchasing power at one fell swoop.

Well, I should think the reaction on me, as a holder of the bonds, would be far better if I knew that market was wide open all the time; even though it's at a somewhat lower market, I know the market is there for me and if I need the money I can get it. I'd feel a great deal more comfortable in holding the bonds than if I know the market is going to be withdrawn and trading suspended.

Harrison:

Only for the balance of that day.

Hanes:

Well, that again isn't in accordance with our thought of business as usual, which is a free and open market as long as - even at decreasing prices. And after all, it isn't as though your bond was going below par. Below par I would feel far differently about it, but above par that's a premium you're talking about.

Eccles:

I was going to say, Johnny, that par doesn't necessarily mean anything, because some of these bonds yield two and a half - two percent, some two and a half, some four; and par on one

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bond would be high and on another it would be very low. So I mean the par doesn't.....

Hanes: But none are selling below par at the moment.

Eccles: The thing of it is that some are selling at a very high premium, and certainly if your $4\frac{1}{2}$ s got down to par, your $2\frac{1}{2}$ s ought to be 90 in proportion. So I don't think you ought to talk about par on some issue.....

Hanes: Well, we'll talk yields then; say if the average yield is so much, let it go down with that market wide open all the time, and back away from it all the time and take it on a scale in moderate amounts; let it go down, in other words, seeking its own level rather than the artificial level. ✓

Harrison: Well, that's the way we've attempted to do in the past. It would be an easy way for us to do it now. And I'm not attempting to be dogmatic about it. This suggestion is just for consideration.

Hanes: Mind you, I'm just saying how the thing reacts on me as an outsider, because I am an outsider; I don't understand it, don't know much about this.

Viner: But there are two different techniques. One is giving it support when it is on the down grade, but giving no pegs or guarantees or closing the market. The other one is.....

Harrison: Well, the difficulty, as I see it, with that theory is that you are facing perhaps a condition that we have never faced before, and you may find that in that first day you will have a ten-point drop and the next day they are back four points or five points, and you wipe out a lot of people, you have a lot of bad feelings, and you may have done a great deal more damage than if you try this other plan of.....

Eccles: Control.

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Harrison:of a minimum price per day. That's the reason I favored what the Stock Exchange proposed. I think it is a very wise thing.

Eccles: This is in line with what the commodity markets do. They put a limitation.

H.M.Jr: As I say, I've got to have a period of absorption and I'd like to sleep on this thing, see? And at least if war is declared tomorrow morning, you know what to do; I mean you could go to work.

Eccles: Oh yes, we're already to go to work; it's just a question of the technique.

H.M.Jr: Well, if war came tomorrow, George could start in buying tomorrow morning and use his judgment and buy ten, fifteen - or buy - I mean buy - I mean he can get hold of us and we're here. But I mean the thing that I was afraid of was that war might be declared and Harrison wouldn't have any purchasing power. And the principal thing that I am impressed with in what we have accomplished the last two or three days as concerns the bond market - we have provided buying power. That's the big thing, isn't it?

Eccles: Well, we're prepared to do something.

Hanes: On some basis. Sure. I think you'll find you might change your tactics as the thing goes on.

Harrison: That's what I say; frankly, it's such a new field for us.

Viner: You ought to feel your way.

Harrison: And we can't define today any definite plan of action for one day, two days, three days, any amount; we may have to change in the middle of the first day. But I was just trying to expound a little bit on what my philosophy might be as to the best way of causing the least damage if you have a real panic.

Now, there is one more factor you've got to remember.

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H.M.Jr: Do you mind if while you're talking I call up Frank?

Harrison: Not a bit. And that is that the publicity we'll get to banks that they can borrow from us at par will be a great reassurance - at our discount rates - including non-member banks, all banks, savings banks and the rest. That will be tremendous. Now, there are very, very few banks in this country - and they are the nervous holders - who are pressed for reserves at the moment. Most of them have plenty of liquidity. I can't conceive of any bank really wanting to sell except for the purpose of protecting a profit.

Eccles: That's all.

Harrison: And I think it would be a great mistake for the Treasury and for the Federal Reserve to step in there and protect those profits to any great extent. I would think therefore that on our way down we wouldn't be too vigorous but we'd do enough to keep the market open until you reach a minimum price or, if you adopt your (Hanes) theory, until the day is over. I think with your theory, which I understand is just a suggestion for consideration too, you'd run the risk on the first day after a declaration of war, which we can't anticipate the effect of, of a much broader swing than you would like to see with a bound back maybe two days later that would have caused a great deal of damage to some and a great deal of profit to others. And that's the thing that I'm trying to avoid; if we can do it by way of some such mechanism as this, that will be a fair measure of control.

Now, I think it would be much better understood if the Stock Exchange is going to do what they indicated yesterday they would do. It is probably about what the British will do in one form or another. The theory of minimum prices isn't new in this country. We did it after the Stock Exchange reopened in 1914. It didn't work for long because the bond market - rather the stock market started to go up again.

April 14, 1939
4:40 p.m.

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HMJr: Hello.

Operator: Mr. Frank. Go ahead.
Jerome
Frank: Hello.

HMJr: Henry Morgenthau.

F: Yes, sir.

HMJr: I wondered if you knew now if you'd be ready tomorrow to -- to sort of -- so we can close up the weekend knowing about where we were at.

F: Yes, I think so.

HMJr: Well now, in case of trouble -- what I was thinking of I mean, I was thinking of -- possibly tomorrow have another meeting.

F: Very good, any time you say.

HMJr: Well now, just a minute, I've got Eccles and some others here. Let me see if it would be convenient.

(Pause)

Just a moment, please.

F: Yes, sir.

(Pause)

HMJr: Well, Eccles has got to cancel an appointment, but he says he will if -- if you people will be ready to talk turkey at three tomorrow.

F: Three. Very good.

HMJr: What?

F: Yes. Be at your office?

HMJr: Would you?

F: Yes, indeed.

HMJr: And I'll get word to -- to Wallace.

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F: Very good.
HMJr: All right. Thank you.
F: Thank you.

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H.M.Jr:

Excuse me.

(On phone) Hello. (Conversation with Frank follows:)

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Lochhead: Mr. Harrison, one thing I wanted to ask you about your idea. After all, a lot of us don't really know what's going to happen to the bond market in the event of war. We all know that everybody is going to watch the bond market and people are going to try to take the lead from us rather than the general market. Now, the general ideas you have, I think, are all right and I agree with you that in the beginning of a market you can't say you're going to use up all your money that one day. But I do think that if on the first day you keep an orderly market but, say, let the market drop a point on a million dollars worth of purchases, you are giving the lead to the market that the market is going to go down. I don't say you should spend five hundred million, but I'd like to have some idea that you wouldn't let the market go down a point, that you'd be willing to spend twenty-five or fifty million dollars the first day. That gives a lead to the market. If it just seems we're going to step aside and let this thing go down - we found that in various cases when we really went in and bought bonds, it dried up, but if we just keep under the market and go down with it.....

Eccles: Archie, it depends on where the market is. It depends on where the market is when you start. I would agree with you fully if you had a market three points, four points below the present market. But at the present market it seems to me that, with every market in the world going down - stock markets, commodity markets, all markets - to make the bond market look entirely abnormal - it seems to me that these prices would be a mistake. I don't say that you should only buy a million.

Lochhead: I'll say this, that if you were spending a couple hundred million to keep your thing pegged, that's one thing; but if it were a question of just simply putting in two hundred fifty thousand dollars every quarter of a point, that's nothing. In other words, let the market

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decide at that high point, but don't give it a downward lead. I think we ought to be willing to spend a little bit of our money on the first point.

Eccles:

I think what you'll find is that - I personally am somewhat in favor of trying at least this proposal that George has made; we discussed it in the Committee over there for about an hour this morning, the pros and cons of the thing, and the thing that appealed to me, and I think the others, was that if you don't do something of this sort there is the possibility of having to put in an awful lot of money in order to prevent a very wide break and protect the profits of the banks. Otherwise, if a market should break five points or four points and they read in the paper that night that the Government bond market went down five points or four points, the psychology of that thing is terrific. Now, if you freeze the thing at the one point for the day and the next day, say, a point and the next day - I mean the shock of a point a day for several days, increasing gradually the support on the thing as you get down to around your.....

White:

Providing you don't close the market. When you close the market.....

H.M.Jr:

Gentlemen, would you be a little charitable with me, and I'd like to close my desk and I'd like to think about this. You'll (Harrison) stay and be here at 3:00 tomorrow, won't you?

Harrison:

Sure.

H.M.Jr:

And I'll see you. We'll try to get our ourselves ready. And we're not going to have any trouble. I feel very much pleased over what we have been able to do so far, and I'm not worrying.

Harrison:

I don't think we're going to have war anyway. Don't put that in the record, though.

H.M.Jr:

That's all right. We'll find out.

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Could my own people stay a minute please?

Eccles: Is that definite for 3:00?

H.M.Jr: That's right.

Eccles: That's O.K. with Frank, is it?

H.M.Jr: Yes, he said so. The reason we're slow - we haven't got our opinion yet from the Attorney General.

Eccles: Haven't you got that yet?

Harrison: I'll give you one.

Eccles: Maybe you need a war to get the Attorney General in action.

Harrison: All right, sir.

H.M.Jr: O.K., good night. Thank you.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

L. W. Knoke

DATE April 14, 1939.SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

Mr. Tong first and then Mr. Bolton called at 11:14 a.m. There was very little change. Things were quiet. The demand for dollars continued. They were selling at the rate of \$1,500,000 per hour, so far today \$11,000,000 in the market alone. To the best of their knowledge there was no speculation, the business going on being the transfer from London of foreign capital and anticipation by commercial houses of their dollar requirements for the whole year.

Samuel Montagu had just inquired of them whether we were ready to receive gold shipped by them consigned to us for account of the National Bank of Yugoslavia and I explained that if the bill of lading showed us as consignee and Samuel Montagu as agent acting on behalf of the National Bank of Yugoslavia, we would be ready to receive such gold for account of the latter.

I expressed my surprise at the high figure at which gold had been fixed in London today, too high, I explained, bearing in mind the over-night jump in insurance rates. Bolton replied that he was sending me a cable tonight explaining in some detail that a bill was being formulated by the Government for the latter to assume all risks on shipments to and from the United Kingdom. Under this bill the insurance rate on bullion would remain unchanged at 1s 3d and the gold point between New York and London should accordingly continue as heretofore at about 34.76 1/4. Shipments from Continental ports to New York would not be affected by this arrangement and the

FEDERAL RESERVE BANK
OF NEW YORK

LISC, 12 80M 10 38

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

L. W. Knoke

DATE April 14, 1929.SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

2

new insurance rate quoted in the market at between three and four times the old would cause the gold point for, for instance, the belga to be considerably lower than heretofore.

LWK:KW

RECEIVED

APR 17 1929

TREASURY DEPARTMENT
Office of the Secretary
Technical Section of the Treasury

RFP

PLAIN

London

Dated April 14, 1939

Rec'd 2:28 p.m.

Secretary of State

Washington

484, April 14, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The nervous atmosphere continued to affect the various financial markets today. The stock exchange was weak with most prices lower, war loan closing 5/8 down at 93 $\frac{3}{4}$.

The average rate for today's Treasury bills tender was stlg 1 lls. 2d. as compared with stlg 1 6s. 3d. Last week, in spite of slightly easier credit conditions following official purchases of Treasury bills in the past few days and a broadening of the credit base by stlg 7.8 million indicated in the Bank of England return.

The dollar remained steady at 468 1/16 but the takeoff was heavy, the British fund giving dollars steadily and operating also in the forward market offering one months dollars at 15/16 and three months at 2 7/8.

Another indication of nervousness was the heavy dishoarding of gold. Of the 276 bars dealt in at fixing 206 were married and the remainder was all market gold.

After

RFP -2- #484, April 14, 7 p.m. from London

After fixing there were moderate dealings but the British fund furnished none. The price was fixed at stlg 1 48s. 6d. and was not affected as expected by yesterday's announcement of increased war risk insurance rates owing to the British Government's announcement of a scheme for reinsurance which in effect will make the rate ls. 6d.

The franc was weak early in the day but small sales of sterling by the Bank of France brought a turn in the market which closed unchanged on the day at 176.75 with the Bank of France buying sterling.

A flurry in the belga followed rumors of an assassination in the German district of Belgium and the rate went to 27.84½ but a denial of the rumors brought it back to .82.

KENNEDY

WWC

RECEIVED

APR 14 1940

THE ARMY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Geneva

DATE: April 14, 6 p.m.

NO.: 77

On April 15 the Credit Suisse Bank, Geneva, will ship gold ingots valued at 1,230,158 Swiss francs to the Bankers Trust Company, New York, via the steamship Queen Mary from Cherbourg. Also, on April 6, Credit Suisse shipped gold ingots valued at five hundred thousand Swiss francs to the Chase National Bank, New York, via the steamship Washington from Le Havre.

BUCKNELL

RECEIVED

APR 15 1936

RECEIVED
 APR 15 1936
 DEPARTMENT OF THE ARMY
 OFFICE OF THE SECRETARY
 WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO: 744 (Section 1)

DATE: April 15, 1939, 1 p.m.

FROM COCHRAN

Weakness of the belga is a feature of this morning's unofficial exchange trading. There is gossip to the effect that the belga will be devalued this weekend, while technicians are attributing the slip in the peg rate to the effect on the gold points of the increase in rates for war risk insurance on gold shipments. I am sure that the rumor regarding devaluation of the belga this weekend is wrong. There was little trading this morning in French, Dutch and Swiss currencies, but I am told by my banking friends from Switzerland that there has been exceptionally heavy pressure there this week on exchange and also on securities. They inform me that nervousness continues. (END SECTION ONE).

BULLITT

RECEIVED

APR 15 1939

THREATENING VIOLENCE
 TO LIFE OF PRESIDENT
 OF THE UNITED STATES
 APR 15 1939

EA:EB

MJB

GRAY

Paris

Dated April 15, 1939

Rec'd 3 p. m.

Secretary of State,
Washington.

744, April 15, 1 p. m. (SECTION TWO)

AGENCE ECONOMIQUE carried evidently inspired story denying report that French Government has made return of Bank of Spain gold conditional upon removal of Italian troops from Spain.

Financial press particularly British refers to French debt statement published yesterday and commends Reynaud upon his success in repatriating capital which has gone into short term treasury paper and enabled the Government so far to meet its heavy expenditures without appealing to the long term capital market.

Norwegian Government is to ask Parliament for exceptional appropriation of 20,000,000 crowns for defense purposes to be covered by a special tax 1939-40.

Press gives considerable attention to Egyptian embargo upon

MJB - 2 - No. 744, April 15, 1 p. m. (SECTION TWO) from
Paris.

upon gold exports, and to reported Wassermann plan in the
United States. (END MESSAGE)

BULLITT

HTM:CSB

RECEIVED

APR 15 1938

THE ADJUTANT GENERAL
OFFICE OF THE SECRETARY
DEPARTMENT OF THE ARMY

RE PLANS FOR STABILIZING MARKETS
IN EVENT OF WAR IN EUROPE

April 15, 1939.
3:00 P. M.

Present: Mr. Hanes
Mr. Gaston
Mr. White
Mr. Bell
Mr. Lochhead
Mr. Bernstein
Mr. Jesse Jones *RFC*
Mr. Eccles *FEB-4-17*
Mr. Harrison *see*
Mr. Frank
Mr. Purcell
Mr. Wallace *Argue*
Mr. Robbins
Mr. Fels *5-17-39*

H.M.Jr: Well, supposing, gentlemen, we start. Mr. Purcell, would you rather wait for Mr. Frank for me to ask what you people have decided on the New York Stock Exchange?

Purcell: I think perhaps that would be better, if you don't mind, Mr. Secretary.

H.M.Jr: Well, let's start, if it's agreeable to the Federal Reserve - Marriner, do either you or George want to sketch what we are prepared to do in the Government bond market?

Eccles: Well, yes, I can report what I reported yesterday afternoon. You're not interested in the way we conduct the market.

H.M.Jr: Just what we - and I want to say once more for everybody here that this must be kept confidential, and I'm sure it will be. I mean we're talking here - we just can't have any leaks, and I'm sure there won't be any. I'm sorry to interrupt you; now, go ahead.

Eccles: The Reserve System is prepared to give support to the Government bond market, that is, without any idea of pegging it but of providing a market, keeping a market open for Government bonds, and attempting to maintain an orderly market.

The Open Market Committee have been communicated with either in person or on the telephone, every-one of them, and there was a unanimous response;

- 2 -

and the Executive Committee of the Open Market Committee - there's five members out of a total committee of eleven making up the Executive Committee - have been given the authority to increase the portfolio up to five hundred million of securities. The Secretary the other day stated that they had, I think, a hundred million of trust funds, so that that would make available six hundred million at the present time.

Next week it is expected that members of the Committee will meet and review the situation so that we will be prepared to take further action if the situation should warrant it.

(Wallace, Robbins, and Feis come in)

H.M.Jr: If you fellows can quit fighting about cotton for a minute and let Mr. Jones settle it.....

All right. Do you mind going over the ground once more?

Eccles: The Secretary was just asking us to report with reference to what the Reserve System would be prepared to do with reference to protecting the Government bond market, and I was just reporting that the members of the Open Market Committee, the committee that has responsibility for the operations in the Government bond market, have been contacted either by telephone or in person; as a matter of fact, all but three were here; the Board and Mr. Harrison and Mr. Leach were all here, and the other three members were contacted. And I reported to them these conferences and the purposes, and we got unanimous agreement - that is, the Executive Committee, which consists of five members of the full Committee and have direct charge of the policy in the interim between the meetings of the full Committee, were authorized to purchase, that is, increase the portfolio, up to an amount of five hundred million. That, together with the hundred million which the Treasury have of Trust Funds, would make available that amount for the purpose of maintaining an orderly market.

- 3 -

The idea would certainly be not to attempt in any way to peg the market or to protect the very substantial profits that the investors and banks already have as a result of their Government bond holdings. There would be no need for any selling of bonds in so far as pressure was concerned, because all of the banks, with practically no exception, have substantial excess reserves. In other words, what they lack is a place to put their funds, either investments or loans. So that any selling would not be a result of credit pressure but would merely be from a desire on their part to cash in on appreciations which they now have, with the thought of course, likely, that they would be able to buy in cheaper. And any market operation would have to take that into account, of course. And the Committee had the thought in mind that in attempting to operate in the market it would certainly not be with the idea of guaranteeing or letting them cash in on all the profits that they have.

At the same time, it would be necessary to avoid a complete panic in the market or to prevent the absence of a market. And I think that Mr. Harrison, the New York Bank being the agent for the Open Market Committee and carrying out operations under his direction, would be better able if anything needs to be said further with reference to that.

H.M.Jr: My thought was just to go around the room and see if we are ready so that if the President.....

Eccles: Well, we are ready to that extent.

H.M.Jr: Then what you're saying - I've got nothing to add to it as far as the Treasury goes. I don't know whether you (Harrison) have anything to add.

Harrison: I have nothing to add, other than what I said yesterday.

H.M.Jr: All right. Does anybody want to ask Mr. Eccles any question about the Government bond market?

Wonderful! Sold!

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Mr. Frank, could you tell us how far you have progressed in connection with exchanges?

Frank: I think it may be well for me to read this memorandum, since it has been approved by the Commission and will not express merely my own view.

H.M.Jr: Could you talk a little louder, please?

Frank: This memorandum which I am about to read expresses the views of the Commission and not merely my own views. I think I had better read it so as to avoid any possible misunderstanding.

"We are of the opinion that it would be desirable, both from the point of view of public psychology and of the end that our investors may be provided with a continuous market for the purchase and sale of securities, that our markets should remain open at all times. However, conditions over which there may be no control may so demoralize those markets as seriously to jeopardize the interests of our investors and unduly affect the public psychology. It is therefore our view that all possible measures should be taken in advance of an outbreak of war to control those detrimental influences and that a close watch should be kept for the appearance of uncontrollable factors indicating the advisability of taking measures toward the closing of the market in order to ward off the effect of panic conditions.

"We understand that negotiations have been instituted in an effort to obtain assurances from the member governments of the Tripartite that American securities as well as other interests and properties in America owned by nationals of those governments, will be taken over and held and will not be sold on our markets without prior consultation with our Government. If obtained, these measures should go far toward preventing undue selling pressure in our markets.

"We respectfully suggest, however....." -
I'll make a suggestion which needs further discussion - ".....that the terms of the

- 5 -

agreement sought should be widened to the extent of obtaining guaranties that in the event of the outbreak of war these countries will place upon their nationals a prohibition against selling of American securities in American markets in the absence of an express permission issued after consultation with our Government. This suggestion is advanced in an attempt to prevent a speculative raid upon our markets through the employment of the device of short selling, the use of which would not be forestalled by the assurances presently held or which have been discussed with the British Government and are being sought from the other members of the Tripartite.

"We propose to make arrangements between this Commission and the governing officials of our national security exchanges, particularly the New York exchanges, establishing a complete system of minute-to-minute observation of factors entering the market and of current interchange of information in hand. Thus it will be possible to detect the point of danger at which selling orders in nature and extent so predominate over buying orders as to presage a demoralization of the price structure and resultant panic conditions.

"Should this point arrive, it is our considered opinion, as expressed in the memorandum of April 12, 1939....." - a copy of which was delivered to the Secretary of the Treasury after being summarized before this meeting on the afternoon of that date - ".....that steps should be taken to close our national securities exchanges and to obtain cooperative measures from organizations of brokers and dealers in the over-the-counter market. Thereafter every effort should be made to reopen those markets at the earliest possible time and under such restrictions and supervision as may seem necessary or desirable.

"The suggestion has been made that even if matters reach a serious panic stage, rather than to take the immediate course of closing the markets they should be permitted to remain open, even in the face of such panic conditions, under some type of restrictive limitations. With this view we

- 6 -

cannot agree, and in this connection reference is again made to the memorandum of April 12, 1939. As already pointed out, our Commission is fully prepared, once the approval of the President is obtained, to issue orders closing our exchanges within a space of a few minutes, if that becomes necessary."

I might add that the papers that we have prepared have been examined by the Attorney General and he approves of their form.

"We reiterate, however, that every endeavor should be made to keep our markets open and available if that can possibly be done consistently with the best interests of the holders of the securities of our American enterprises, as well as potential investors in those enterprises."

H.M.Jr: Anybody want to ask Mr. Frank any questions or argue with him or criticize their.....

Frank: I might say that the one novel idea suggested here was developed in our discussion since our last conference here, and that was that even if the securities held by nationals of foreign countries were fully taken over by those respective countries, there would be the possibility of short selling, which might be very serious; and we suggest that the possibility of precluding that kind of eventuality should be considered.

Hanes: Would the changed rule make any difference on that, on the short selling?

Frank: It might. I would not think that we could completely meet the situation by the Exchange rules or our own rules.

Purcell: No, because there is no indication when a selling order, as you know, Mr. Hanes, comes from abroad that it actually is short selling.

Hanes: You have changed it now so you can sell all you want at the last sale? Is that correct?

- 7 -

- Purcell: So long as that last sale is higher than the one previous.
- Hanes: It isn't the way it was before, when it had to be an eighth higher, which precluded the short selling.
- White: Mr. Frank, suppose you don't get an agreement among all these nations. Would that alter your proposal or suggestion in any way?
- Frank: No, because it will simply mean that if we did not get it the possibility of matters reaching the panic stage would be the greater; but our endeavor would be not to close the exchanges until that condition appeared to exist.
- H.M.Jr: I take it that that memorandum you're going to leave with me.
- Frank: Yes. I want to make a typographical change, then I'll leave it here.
- Jones: Can you limit short selling?
- Frank: Yes sir.
- H.M.Jr: Definitely.
- Hanes: You can abolish it.
- Frank: What?
- Hanes: He said, "Can you limit it?" You can abolish it, if you want to.
- Purcell: Specific authority under the Exchange Act.
- Frank: We can play on it like a piano.!!!
- Lochhead: It would seem to me that you'd probably have to control - I can't envisage any action by all the Tripartite members and the other ones going that far within the length of time that you need it. I think if you were counting on that form of cooperation too strongly, it wouldn't be a good idea.

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Frank: Of course, the fact is we really can't control foreign selling at all - short selling. We can't control it. So that means we'd just have to see what the consequences are.

Now, what we had in mind is this. The underlying postulate of the arrangements that are being made with these foreign countries is that they would take all the American securities owned by their nationals; if they did, then any sales from abroad would necessarily be short sales, and if that is so it seems to us that they might be willing to do something to bar the sales, since they could not be legitimate long sales.

Hanes: But they couldn't borrow ~~the~~ stock in their own markets. They'd have to come to this market to borrow ~~the~~ the stocks to make the delivery. So you'd catch them on the delivery in this country.

Frank: You would unless there had been some kind of violation of their own prohibition, or unless, John, they were able to borrow from some other country that wasn't subject to the.....

Hanes: That's right.

Frank: I might add that short selling would obviously be to the disadvantage of the several countries, since they as owners of the securities would not want to see the market driven down.

But you (Lochhead) think it would be unlikely that we get that?

Lochhead: As you know from the conversations, the British are working along these lines. These other ones - it's a question of negotiating with them. But I don't think their interests are quite identical with England's. I don't think we could count.....

White: I wouldn't say it's unlikely.

Frank: But not certain.

White: Not certain.

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- H.M.Jr.: I want to say that in our talks with these countries, particularly countries like Switzerland, Holland, and Belgium, they're just scared to death to think that it may get out, because they want to take a position publicly that they are neutral, and any leaks that they are talking about doing something in case of war - they're just so fearful that that might be the last straw, and they plead with us to use the utmost secrecy, not to let it be known that they are even talking to us.
- Harrison: May I ask a question?
- H.M.Jr.: Sure.
- Harrison: Mr. Frank, even assuming that the foreign governments requisition the holdings of their nationals in American securities, can you fairly assume that any other sales would necessarily be short sales?
- Frank: Well, perhaps I overstated it.
- Harrison: It would probably be easier for them to requisition the American securities held in this country, in fact, than it would be to requisition those that may be in lock boxes in England, for instance.
- Frank: Well, if - perhaps my assumptions weren't correct, but if you assume that those countries by fiat in their own country become the owners of all American securities in those countries, then there could be no American securities owned by the nationals of those countries. In that event, no sale could be anything but a short sale, because they wouldn't - as I understand it, it would not mean merely a physical transfer of the securities but a transfer of title to the respective governments. And it would seem to me, therefore, that if that were true any sales from any of those countries which had so undertaken by law to bring that about, would have to be a short sale.
- Eccles: Short selling in this country would give you no trouble because of your ability to control it.

Frank: Yes.

Feis: Mr. Secretary, I don't know whether your scheme is to go around and have each member report on each aspect of the subject that is within their various provinces; but so as to get complete discussion of each point.....

H.M.Jr: Yes, right now.

Feis: That's your idea rather than to get the complete discussion now?

H.M.Jr: No, I'll ask each of these people on their particular problems, their particular responsibility, to report how far they are as of 3:00 o'clock this afternoon.

Feis: The reason is I feel that particularly this last memorandum read again raises questions of dimensions far greater than there are any signs of the authors of this memorandum recognizing, and that I would like to talk for a few minutes on the whole general problem when you think it is in order, either now or after you have gone around the room.

H.M.Jr: Well, if you can - I think it would be in order after we have gone around the room. I mean it is in order at any time, but.....

Feis: You mean it would facilitate things.....

H.M.Jr: I want everybody to stay calm until we have been around the room. I almost called the meeting off after I read the President's message, I was so excited about it; but then I thought.....

Wallace: Is a draft of the message out?

H.M.Jr: Oh yes. And I thought that we might better go ahead, and after all no one knows what Mr. Hitler or Mussolini would do. And if after this message they should throw him down, then we might have to be ready quicker than ever. So after talking it over we decided we would have this meeting this afternoon. But it's a great message.

- 11 -

Harrison: I think it's important because certainly the message will shorten the period of uncertainty one way or the other.

H.M.Jr: Yes, we've got to cut bait or fish, one or the other.

Now, let's see, Mr. Wallace, do you want to talk about commodities?

Wallace: The action we would take would be very simple, doesn't amount to much. It consists of a letter which the President would send to me and a telegram which I would send to the commodity exchanges. The letter and the telegram are short. Shall I read the two?

H.M.Jr: Sure.

Wallace: "Dear Mr. Secretary:

"In view of the outbreak of hostilities in Europe, it is desirable that measures be taken to insure the continued functioning of our established commodity markets without the violent price fluctuations that sometimes arise from the impact of war news. Consequently, I ask you to request all commodity futures exchanges in the United States to take appropriate action, effective immediately, to prohibit trading in any commodity futures during any day at prices varying more than five percent from the closing prices of the previous day."

H.M.Jr: Five?

Wallace: Five percent.

"This smaller range of permissible price fluctuation would, of course, be desirable wherever practical.

"I believe the various commodity exchanges will be glad to cooperate in this manner. Requests should be directed to all commodity future exchanges regardless of whether they are operated

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as contract markets under the Commodity Exchange Act."

The telegram would state merely: "I urge that you take....." - This would be addressed to the exchanges - ".....that you take immediate action to effectuate a request of the President which has been transmitted to me as follows." And then quote.

I may say, in the first place, that I do not share the views which are here so prevalent that Europe is on the imminent verge of war. I think war is coming inevitably but not at this time. I agree fully with those here present that we should be prepared in case it does come at this time, but I do not share your views that it is so certain to come right now, although I think it is inevitable, say, some months away.

I'd like to say, furthermore, that the need of supervising the commodity exchanges in event of war is perhaps not as great as in the case of the stock exchanges. This would be the action that we would recommend.

H.M.Jr: Anybody want to ask any questions of Mr. Wallace?

Hanes: Is that fluctuation up as well as down, Mr. Secretary?

Wallace: Yes.

Hanes: Both ways?

Wallace: Both ways.

H.M.Jr: You (Harrison) want to ask him something?

Harrison: I was just wondering whether the action that might be contemplated in those letters about the commodity exchanges would be inconsistent in any way with the implications in the Commission's memorandum about minimum prices or daily maximum fluctuations on the Stock Exchange. Did I misunderstand that

- 13 -

memorandum, Mr. Frank? I was wondering - didn't that in effect say that you do not agree with the suggestion that has been made that they might fix maximum fluctuations in individual stock for each day?

Frank: We were inclined to think that it would be in-efficacious and might do perhaps more harm than good. Have you got our prior memorandum at the earlier conference, at which I think you were not present; we read a memorandum on that subject, and perhaps it might bear repetition on that point now.

Harrison: Well, I am particularly interested because in studying the problem of how to handle the Government bond market the suggestion has been made, though not formally adopted and no one sufficiently interested to be convinced that it is right, that we might fix minimum fluctuations in Government bonds for any one day as a means of avoiding a very drastic drop, for instance, on the first day after war is declared and then a sudden upswing the next day or two following. And I don't know whether it is really practicable to work that with the Government bond market, but if the commodity exchanges adopt some such rule and if the Commission were to approve of the stock exchanges doing the same thing, then I think there might be merit in our considering it for Government bonds as well.

Frank: Well, let me say that so far as the exchanges are concerned, we have neither the power to compel nor the power to disapprove of the exchanges adopting such a device.

Harrison: But they wouldn't do it unless you did approve, would they?

Frank: Probably wouldn't if we said we didn't think it desirable; probably would not, but they could.

Would you mind - I'll ask Mr. Purcell to read.....
Pardon me.

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Wallace: Pardon me, go right ahead. This is not - this is another - you can go right ahead with this now.

Purcell: "Another alternative which had been considered is to keep the markets open but set a limit for the decline on any one day. This alternative, no doubt, was discussed on prior occasions when the market was closed, and probably abandoned for the following reasons: Under such instructions the market immediately seeks the lower limits. Offerings are put in at those prices. No transactions, therefore, can be effected and the market is in reality closed. Banks and brokers' houses, however, try to liquidate customers' losses at the lower limits, which they do not do when markets are officially closed. Potential buyers are discouraged by seeing prices seek the lower limits and bids are withdrawn."

Harrison: That was not a fact, was it, after the markets were reopened in 1914?

Purcell: Not after the markets were reopened, no, sir.

Harrison: But they had minimum prices then.

Frank: Well, the point of view of this earlier memorandum was to this effect, that in the event of panic conditions it would be desirable to close the markets for a short period and then open them under restrictions; that that process of stopping them completely and then opening them would permit you gradually to meet the emergence of an upward market, but that to try to meet the panic condition by such devices as this without closing the markets, we feel, would not be effective. That's assuming a terrific volume of selling.

Harrison: Yes.

H.M.Jr: Anybody else want to ask Mr. Wallace anything?

To report on our own part of the thing, which has to do with talking with these countries, we have made as good progress as we could in this short time. I might say that so far we have gotten the best cooperation from England. I think we will

- 15 -

get complete cooperation from England. Some of the other countries are a little bit slower in answering.

There is one thing that England has asked us and we haven't had a chance to ask Mr. Jones, because I only got the memorandum from Mr. Foley at five minutes of 3:00. They have asked us this question. They put it this way, that if they decided to take over all the securities in England and that they should set up what they call a straw man - that's the way they put it - could they borrow money in this country against these American securities? You see? And I'm only asking this today. I would like to get off an answer late tomorrow afternoon and I'd like to answer that particular question, if you would think about it, so that they'd have it Monday morning, you see?

Jones: Give it to you tomorrow.

H.M.Jr: Could you? I mean if they want to - that particular question would be the British Government wanting to borrow against.....

Jones: American-owned securities.

H.M.Jr:American-owned securities.

Bernstein: Against British-owned American securities.

H.M.Jr: British-owned American securities.

Foley: Yes.

Jones: I think, of course, without going through it with my attorneys - my guess is they'd have to organize an American corporation, which they could do and own stock of, just like the Amtorg is owned here by Russia.

H.M.Jr: And Universal by the Chinese, huh?

Jones: That would be my theory about it, but we will of course investigate it.

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H.M.Jr: Is it pressing too hard to have an answer.....

Jones: No, no.

H.M.Jr:oh, sometime.....

Bell: Would the Johnson Act come into the picture, Foley?

Foley: No.

H.M.Jr: Foley has given an opinion there.

Foley: Neither the Johnson Act nor the Neutrality Act apply to that situation. ✓

Jones: Would the Johnson Act.....

Foley: Doesn't apply to the Government, you see.

Jones: Is there any inhibition against banks lending money?

Foley: Yes, private persons cannot lend the money.

Jones: You mean a bank couldn't lend money to the British Government on these securities.

Foley: We think it is extremely doubtful.

Jones: Could they lend through a British-owned corporation on these securities?

Foley: Don't think so.

Bernstein: By British-owned do you mean owned by the British Government or by a private Britisher?

Jones: Either way.

Wallace: Therefore, this would be a political problem.

Jones: What?

Wallace: Nevertheless, the political issue would be raised if the news got out that there was perhaps a legal way of getting what they intended to prevent.

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- H.M.Jr: Is that it - let's say we, the Administration, loan a corporation owning American securities - loan them money.
- Wallace: I was just making an observation as to what might politically happen, not as to the legality.
- H.M.Jr: But, I say, what do you think would happen politically?
- Bell: Doing something indirectly you couldn't do directly.
- Eccles: Evading the intent.
- Foley: It would be a means of getting around the intent of the Johnson Act, I think the Secretary has in mind, which would be politically unwise.
- Wallace: I'm not saying it is politically unwise, necessarily, but I'm just stating the political implications.
- White: Ed, was the intent to prohibit the Government from extending credit? It certainly isn't indicated in any of the discussion of the law.
- Foley: The Johnson Act expressly says that any corporation in which the Government of the United States has or exercises a controlling interest through stock ownership or otherwise is excluded.
- White: That's right.
- Bell: Put in particularly for that, wasn't it?
- Foley: That's right.
- H.M.Jr: If it's excluded, I don't think you're going around
- Wallace: You wouldn't have any excuse for political action then.
- H.M.Jr: What, Henry?
- Wallace: Judging from that statement there, Senator Johnson wouldn't have any excuse for political action.

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- Foley: Not as to Mr. Jones making - the law would apply to a corporation created in this country by British interests.
- Frank: It was expressly taken out of the statute.
- Foley: Sure, but I gather the question Secretary Wallace raised was a different question, that of a loan by private interests in this country to a corporation created abroad, which would be privately controlled. I gather that the question was that.
- H.M.Jr: Well, I don't - the British don't make this condition, but they have asked the question and it would be nice if we could answer them.
- Jones: We can answer it tomorrow.
- White: Does Mr. Jones want to answer the question with respect to the RFC or some other Government agency? They asked two questions.
- H.M.Jr: Well, this memorandum which Mr. Jones - as I say, he hasn't had any advance notice and he's got to have 24 hours, at least, to think about it. And it points out that either RFC or Export-Import or the Stabilization Fund..... Well, the Stabilization Fund shouldn't do it.
- What other question are they asking?
- White: Well, they asked whether a Government agency or whether a straw man - two separate questions.
- H.M.Jr: Well, the thing - Archie, if you will furnish Mr. Jones with that particular part of the cable where the British ask that question, so that he knows just what they are asking - so that he can answer it - will you?
- But all I can report is that we are making progress, and I'm not - and, again, all of this is confidential. And the Canadian Government sent down a representative; he got down today and we're getting along very nicely with him. So all these countries are on notice and they all said they'd like to discuss it. And, being on notice, I think that's half

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anyway, don't you? I mean they know how we feel and they are quite excited about it: - I mean as to just what we mean and how far we're going to go.

Well now, Herbert Feis.

Wallace: Just one moment. I did ask for.....

H.M.Jr: Oh, I'm sorry.

Wallace: If the President did write a letter like this to me and I did send out the telegram, not because the content of either the letter or the telegram would in itself be in any way particularly alarming, because it would not except as part of a whole dramatic action, I think it might be advisable if I issued at that time a kind of a statement of reassurance to the farmer - "Boys, there isn't any particular change to make in the Triple A program, and just go ahead the way you have been planning to do anyway and leave your crops....." Just something - I worked out a mild reassuring statement of that sort which I think really ought to go along with it. I don't think there is any need particularly of reading it at this time, but I just think that ought to be a part, and I had indicated it.

H.M.Jr: Didn't you say the other day you did not have the power to close it?

Wallace: That's right.

H.M.Jr: Well then, you're going to have to do it as a matter of appeal.

Wallace: That's right. That's the way this letter reads.

H.M.Jr: But you don't have the authority.

Wallace: And we are not suggesting they be closed, not in the first instance, at any rate. See, the tendency in most of the exchanges, except for cotton, would be for the prices to go up. It's a different problem altogether from the Stock Exchange.

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H.M.Jr:

Well, just before Herbert Feis philosophizes and defends the democracies, I wanted to say we ought to get this thing down as a sort of a brief; then I thought I'd ask the President again to see us the way he did the other day, and we could report to him where we stood and then ask him whether he approved of the program. And I thought I'd ask him whether he'd see us on Monday, you see, and by that time we'd know pretty well where we are at, and then he can tell us what he thinks of it, the way he always does.

Eccles:

There was one other thing that I neglected to report and that was that we are taking up with each of the Reserve Banks the idea of getting them to agree to make loans to all member banks as well as non-member banks on Government bonds at par, and make such an announcement. That matter is under way.

H.M.Jr:

I thought they all did that, except two, now.

Eccles:

Well, they do it as a matter of practice but there is no public announcement and it is a day-to-day operation. They do it as a matter of practice, but in this particular instance, the real benefit would come to the general market by an announcement on the part of all of the banks to that effect. As a matter of fact, the New York Bank, because of their rate being the lowest rate - discount rate - would likely get - if there was such borrowing, they would possibly get practically all of it. But it should be announced by all of the banks in order to get the psychological benefit.

H.M.Jr:

O. K.

Harrison:

There is one other difference in the plan. We are prepared to lend to our member banks at the present time at our discount rate. We are not prepared to lend to non-member banks at our discount rate, believing that that is business that should be arranged between a non-member bank and a member bank. However, in the event of this emergency, we could announce we would lend to non-members as well as members at our discount rate.

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Jones: What is your discount rate, George?

Harrison: One percent.

H.M.Jr: And it would be good advertising for the Federal Reserve System.

Eccles: Well, it wouldn't hurt it any, wouldn't hurt it any.

Jones: Do you think they need some good advertising?

H.M.Jr: Don't you?

Eccles: I think we could all do with a little, Jesse.

H.M.Jr: After you (Jones) have been telling them once a month they should lend some money?

Harrison: As to individuals and corporations other than non-member banks, we have the right to make loans on Government securities and we would be prepared to say that we have that authority, but we would not lend to them at our discount rate, believing they should first go to their member banks or to their bankers. Our present rate to the United States Steel Corporation, for instance, on Government securities would be three and one-half percent, and I don't think we would change that except by perhaps one half of one percent - bring it down to three.

Eccles: Now, they could go to their bank and get what they wanted, possibly one percent, so it really doesn't mean anything.

Lochhead: Secretary Wallace would probably be interested in what the Canadians mentioned about their commodity market. They stated that the only commodity market they had that they thought would be important would be the wheat market, and they say as long as wheat is practically a Government agency up there, they didn't think there would be any trouble in regard to that.

Wallace: I presume we would, as a part of our activities - might perhaps be calling on the State Department to make inquiries with regard to these exchanges in other lands.

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Feis: Yes.

Wallace: But I don't think that would be necessary in the first instance, during the first few weeks. I doubt if it would be.

Robbins: No.

Jones: I doubt if it would be.

Robbins: No.

Jones: I move that Dr. Feis be recognized.

H.M.Jr: Just as long as we coordinate our things, Henry - as you know, the inquiry - at your suggestion I included the words "commodity market" - that I sent out to these six countries.....

Wallace: Yes.

H.M.Jr: I included the word "commodity."

Wallace: Well, that's fine. That will take care of it.

H.M.Jr: Remember, you asked me.

Wallace: Yes, that's right. That will take care of it.

H.M.Jr: That was included in it.

Well, Mr. Jones wants to hear from Mr. Feis.

Feis: Mr. Secretary, when these remarks are published, since I see that devilish little machine operating, the title I suggest is "The Irresponsible Parentheses," which I'll explain later.

Jones: The irresponsible what?

(Hearty laughter)

Feis: I'll explain that later.

What I've got to say here doesn't touch on any suggestions that are made in regard to the Government bond market or the similarly calm suggestions in regard to the commodity market. But the

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discussion as regards the treatment of securities - and I mention for the first time the irresponsible parentheses, because it is in parentheses - "as well as the other interests and properties in America" - that's the parentheses I have in mind.

Frank:

Before you resume with that discussion, let me say that that was put in simply to complete the thought, that having been said at the previous conference; the Securities and Exchange Commission is not interested in the parentheses. So if you will address your remarks, Mr. Feis, to that parentheses, they should not be leveled at the authors of the memorandum.

Feis:

What you tell me about it just proves that it is irresponsible, which is what I thought.

And the word "calm" was mentioned. I may not show all the calm of manner that might be desired, but on the other hand I don't share the excitement of attitude which I have found expressed so often in these discussions and which I think is somewhat mistaken.

Apart from these two matters that have been so simply disposed of, your Government bond market and your commodity market, there's still as far as I can understand - the only danger that is disturbing us is what might happen in certain stock markets. Now, in all the discussions that have taken place about stock markets in the course of the last six years, I have never seen the question of security fluctuations elevated to an importance in world affairs that they would attain if dealt with in accordance with some of the suggestions that have been put forward. After all, foreigners only own a small fraction of our securities. After all, we have had very substantial security movements primarily due to domestic conditions. My own guess would be that even if war should come the resultant stock movement would not be likely to exceed very greatly the stock movement that you have had in the last few weeks.

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I am still not suggesting inertness, but I am suggesting that some of the proposals put forward are completely incommensurate with the importance of the problem that you've got in mind, and in addition would have consequences immediate and ultimate that far outweigh anything that could happen to the stock market under any circumstances.

Let me explain. We have engaged now in preliminary interchange with six other governments. The Secretary has already brought out the fact that in their replies to us practically one and all have said, "You are raising questions of the most vital interest to us and if any news of this should appear in the press our whole situation, economic and political, would be disturbed," and they would be and they will be.

Now, to speak on that a little bit further. Of the six countries we have talked to, three certainly want to bend all their efforts to be neutral. The position of Canada is not as clear, is not finally established either. In the case of those countries, any clear suggestion in advance of knowledge of exactly what is under discussion, of intimate discussions with Great Britain and the United States, might very well become a factor in the decision of Germany and Italy - and it is for these reasons that I hate to have that damned machine going - deciding whether to move east or move west or not move at all. And I am sure that we have already set the Federal Council of Switzerland and the Cabinet of Belgium quivering. Holland is more stolid.

The neutrals in their position, furthermore, when they come into discussions, are going to visualize their position more or less as ours; and we may anticipate, and let's regard our suggestions very carefully, that they will suggest that we do this on a reciprocal basis, and if we, without thought, begin to ask them to impose this control and that control and the other control, their reply will be, "Will you do it, will you take over all the securities of Americans? We don't want our markets to break by Americans selling." And the

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American ownership of certain of the securities of these small countries may be larger fractionally than our ownership of their securities, and you will be led into.....

Wallace: You meant the reverse of what you said, didn't you?

Feis: The American ownership of the securities listed on their exchanges may be greater proportionally than the Dutch or Swiss or Belgian ownership of the securities listed on the American exchange.

So much for the neutrals' position.

When you get to France and England, there seemed a moment to me when we were getting on even more dangerous ground, and here I introduce again the irresponsible parentheses that Mr. Frank tells me the Commission put in just because it was too lazy to have a stenographer take it out.

Frank: Oh no, that wasn't the suggestion. The suggestion was that for the purposes of discussion that that memorandum was directed to, namely, what the SEC proposed to do if certain events occurred - that the comment in that parentheses was totally superfluous and was put in there merely by way of naming the character of the discussion at the last conference, which went beyond the interests of the SEC. So that if you are directing your discussion to the security market, you may ignore that parentheses. If the parentheses is irresponsible in the sense that it is factually inaccurate, just ignore it and don't excite yourself.

Wallace: Is it a part of the executive order?

Frank: I don't know, Mr. Wallace, and I am not concerned, and if it is an inaccurate statement of what the Treasury has proposed, then Mr. Feis's remarks are superfluous. If it is an accurate statement of what the Treasury has proposed, then I suggest he address himself to the Treasury and not SEC.

Feis: I am earnest and not irritated. Please believe me.

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Frank: We are not concerned with what is in the parentheses.

Feis: Even if it is not in the parentheses, there is still a mention of the original things in the inquiry.

H.M.Jr: Let's keep this discussion both good-humored and courteous, please.

Feis: I think it has been both.

Frank: I think so, Mr. Feis.

Feis: Merely emphatic and earnest. And I, as far as I could be, Mr. Secretary, would like to be both emphatic and earnest.

Of course, these words likewise figure in the inquiry that we have presented to several governments. Those words "other assets, gold, bank accounts" - that's the life blood of certain belligerent countries if war breaks out. It certainly has been one of the reasons for their interest in the Tripartite Agreement. It is one of the reasons behind the movement of this capital and gold. You can have very little doubt - there is very little doubt in my mind - that had not this thought been in the minds of the Governments of France and Great Britain, they would have long ago imposed controls on the movement of that gold and capital to this country that were not imposed. Now, the minute you bring that up to them, and that is evident in the document coming back to us from London, you then strike, as Mr. Frank has said, into a field far beyond the security field and one of such immense importance, relating quite directly to such things as the President's messages of yesterday, that I'd explain by that fact what may have appeared to some of you as overexcitement.

H.M.Jr: Do you imply that what the Treasury - the conversations that we are conducting with these countries are not in sympathy with the President's message of yesterday?

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- Feis: No sir. I am suggesting that in the original inquiries and in some of the preliminary conversations we have introduced a matter of the utmost moment and utmost possibilities that goes way beyond anything connected with the regulation of the securities exchanges.
- H.M.Jr: Well now, Mr. Feis, if you don't mind - after all, you said most of this the other day. Since then the President of the United States read the inquiry and I have personally read it over the phone to Mr. Hull. Neither the President of the United States nor the Secretary of State nor the Secretary of the Treasury felt that there was any reason why it shouldn't go, and the President of the United States and I felt it should go. Now, if you've got something new to suggest as to why the State Department - Mr. Hull feels that I shouldn't continue these conversations, why, I'd be very glad to hear from you, but as to what we're doing or saying - that it isn't carefully thought out - I'm sorry.....
- Wallace: What bearing does the President's message have on these conversations?
- H.M.Jr: I don't know that it has any.
- Feis: Mr. Secretary, I don't think that I'm making what I have in mind.....
- H.M.Jr: I don't think you're making it clear, and if you don't mind my saying it, I think I know what you have in mind and I wish you'd say it, but on the other hand Mr. Hull has had this thing - I take it he sees these cables - and the President does know it. I have had the four ablest economists in America in this morning going over this whole question. Nobody that I can find agrees with you. And as I say, unless Mr. Hull wants to let me know that he feels he'd like to talk to me and that I should discontinue these conversations - then I'd be very glad to see the President with Mr. Hull. In the meantime, every step we are taking is being very carefully checked. This isn't going to hurt your trade treaties. And if you don't mind my saying, unless you've

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got something new or Mr. Hull wants to take some action or communicate with me, why, I think I'll just go ahead as we are.

Feist

Mr. Secretary, the decision is certainly in your hands and the only thing I am trying to do is to try to contribute to the correct decision. I felt that it was part of my job to call as clear attention as I could to some of the possible meanings of some of the suggestions that have been brought forward in the discussions, and when I find it coming in again in a memorandum read as representing the opinion of the Securities and Exchange Commission, and presumably therefore offered as part of a report to the President, I think I would simply be failing in my duty if I did not try to explain how, from the point of view of the State Department, this thing seems to carry possible consequences; and that's what I tried to do.

H.M.Jr:

Well now, you have - as far as I am concerned, you have again served notice on me that you feel that these conversations are very dangerous. I don't agree with you. I feel that the situation is dangerous, that I would be neglectful of my duty if I didn't explore every possibility as to what might happen if there was a war in Europe. The inference that what we are doing might bring about a war, I think, is just preposterous. And as I say, I have moved very carefully, I have pointed out everything that you said to the President, and these other gentlemen that were here - I mean everything that I said while you were here I repeated to the President, making it just as black as possible, so that he is entirely aware - there were seven or eight people that heard me do it. I then read the thing over the phone to Mr. Hull.

Now, I can say if Mr. Hull wants to call me up and would like me to come over and talk to him, I'd be very glad to do it, but lacking such a message I frankly am..... After taking consultation with what I consider four of the outstanding economists in America, none of them - and you recognize them as such - and none of them

seemed to be at all worried; in fact, they encouraged me to continue what we are doing. So, as far as your obligation to warn me, you've done it.

Feis:

May I just add, Mr. Secretary, that most of the considerations which I have pointed out do not fall in the realm of the economists, and therefore I feel that someone connected with the State Department might be aware of special considerations. Secondly, I think I ought to say, since the matter has taken this turn, that I was with the Secretary of State when you talked with him on the telephone and certainly in no conscious way am I trying to develop an individual position, and I can only do my best while I am here, since the Secretary can't be here, to try to bring forward those things that would naturally occur to members of the Department. And I think your final statement defined exactly what I have been trying to attempt to do: to try to bring out, as far as I could see it, what is implicit in this matter that we have in hand, and that's just what I've been trying to do.

Wallace:

Secretary Morgenthau, I guess I'm a little slow in understanding.....

H.M.Jr:

I'm sure you're not.

Wallace:

.....but I am still a little bit at a loss to know whether Mr. Feis's concern is primarily in the international political field or in the possible eventual developments in the domestic economic field. I am putting together his presentation of today with his presentation of a couple days ago.

Feis:

Mr. Secretary, my presentation of a couple days ago was concerned with the second: developments in the domestic field. When I saw the actual results of our previous discussions, I found myself in complete agreement with the general tenor of the statement, and therefore did not discuss those again today.

Today my preoccupations have been with the international and solely and wholly with the international aspects of the question, those having been somewhat

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sharpened and completed since by virtue of the correspondence that has taken place.

Wallace: Then your fears are at rest with regards to the domestic field.

Feis: As far as any suggestion that I have heard put forward, certainly yes.

H.M.Jr: They are with the domestic or they are not?

Wallace: His fears have been put to rest with regard.....

Feis:in the domestic field. I mean there may be small differences of judgment between individuals. But the remarks of a few days ago are passed and I was moving into a new - I was going through an unpleasant performance for the second time, because it is unpleasant.

Frank: Mr. Secretary, just to clear the record and without attempting to be facetious, I am proposing before I hand this memorandum to you - the memorandum which I formally read - to strike out the parentheses, so that as between Mr. Feis and the Securities and Exchange Commission there need be no disagreement, since he is in accord on the fundamentals of the handling of the domestic situation.

H.M.Jr: Mr. Eccles or Mr. Harrison - I mean do you want to say anything to Mr. Feis or anything?

Eccles: Well, it seems to me - it's somewhat aside from our particular responsibility - that as I see the issue as presented by Mr. Feis, the matter relates entirely to the international situation and the question as to the advisability of the procedure of the Treasury in connection with the communications abroad. So far as my particular responsibility is concerned, it is somewhat outside of that and.....

Feis: Mr. Eccles, all my preoccupation, really serious preoccupation, either on the domestic aspects or on the foreign aspects, practically goes with the taking out of that parentheses; I would say that if we are just talking about how to handle the securities markets, I don't think the State Department has any great interest as to whether you

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leave them open or you close them or you regulate the selling of foreign securities. The international consequences are secondary. It was the suggestion of last time, again reappearing, that we are going into the field of other assets, bank accounts, gold, other properties - those are the things that created my anxieties of last time and kept them alive in a different way this time. Do I - I'm trying to make myself as clear as I know how.

H.M.Jr: Well, I don't - I frankly - I just don't understand.

Fels: I don't think I'm making myself clear.

H.M.Jr: Not to me. I'm completely bewildered as to what you mean. I am perfectly clear as to what my own objective is, but as to what your objective is I am completely bewildered.

But just let me understand: by removing the parentheses, you withdraw your objections?

Fels: Three-quarters. I was expressing apprehension rather than objection, and three-quarters of my apprehension goes with the removal of that parentheses, which creates a far vaster field than any other that we are discussing.

H.M.Jr: Then I thank Mr. Frank for removing the parentheses.

Foley: But that doesn't apply to the Treasury. That applies only to the SEC.

H.M.Jr: What we're going to do is, I hope to have a draft of a cable ready sometime between 5:00 and 6:00 tomorrow in answer to Butterworth, and I'm going to ask Mr. Fels to come to the house at that time and go over the draft and then he'll have a chance of getting down to specific things, if there is anything. But we'll do it sometime between 5:00 and 6:00 tomorrow.

White: Mr. Secretary, I wonder if it is clear that there has been only one communication that has left the Treasury - one orally to Canada, and the other

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written ones to the other governments - and that was cleared. I am afraid I get the impression that some think apparently a good deal more than that has happened.

H.M. Jr:

There was one memorandum, which the President saw. I read it over the phone to Mr. Feis - rather, Mr. Feis came over here after that and read it and said that was entirely satisfactory to him. That's the only communication we have had with any other government. There has been no other. We've got lots of answers. We're going to try to draft an answer. I want to look over it late tomorrow afternoon, and if we can come to an agreement, I expect to show it to the President. There's been no other than that one memorandum which all of you saw. There's been no other communication.

And as I say, I consulted with our own people and some very able other people who are recognized both in this country and the rest of the world as outstanding people, and they seem to think that we should get prepared to meet any emergency and that the Treasury is on the right track.

Now, has anybody else got anything? Thank you all very much.

April 15, 1939

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3:00 P.M.

Those present were: The Secretary, Hanes, Gaston, White, Bell, Lockhead, Bernstein, Eccles, Harrison, Jones, Frank, Purcell, Wallace, Robbins, and Feis.

The Secretary explained that he wanted to get all of the various points summarized and then he thought the group should again report to the President, perhaps on the following Monday.

Mr. Eccles was the first to report, as follows:

"The Reserve System is prepared to give support to the Government bond market, that is, without any idea of pegging it, but of providing a market, keeping a market open for Government bonds, and attempting to maintain an orderly market." He noted that with a \$500,000,000 authorization in the hands of the Executive Committee and with \$100,000,000 available in Government trust funds, a total of \$600,000,000 was ready to be used in supporting the market. In addition, he said, the Board was taking up with each Reserve Bank the suggestion that they agree to make loans to all member and non-member banks on Government bonds at par, and that such an announcement be made if the necessity arose.

Mr. Frank read a memorandum from the SEC expressing the following views: (1) The stock markets should, if possible, remain open at all times. (2) Arrangements should be made between the SEC and the exchanges, establishing a complete system of minute-to-minute observation of factors entering the market so that it will be possible to detect the point of danger which might indicate a demoralization of the price structure. (3) Should this point arrive, the stock exchanges should be closed and cooperative measures should be arranged in the over-the-counter market. Papers closing the exchanges are prepared and their form has been reviewed by the Attorney General. (4) The Commission can not agree with the suggestion for price limitations. (5) Any action by foreign governments to restrain selling of American securities by their national would reduce the possibility of disturbance on American exchanges. (6) The Commission reiterated that every endeavor should be made to keep our markets open.

Mr. Lockhead cautioned against relying too heavily on the possibility that foreign governments would agree to cooperate by restricting the activities of their nationals.

Mr. Wallace reported that he had drafted a letter for the President to send to him and a telegram for him to send to the commodity exchanges if the need should arise. The letter from the President to the Secretary asked him to request all commodity futures exchanges in the United States to prohibit trading in any commodity futures during any day at prices

varying more than 5 percent from the closing prices of the previous day. The telegram from the Secretary to the exchanges would quote the President's letter and request that immediate action be taken in accordance with his wishes. Mr. Wallace added: "I'd like to say, furthermore, that the need of supervising the commodity exchanges in event of war is perhaps not as great as in the case of the stock exchanges." He pointed out that the probable effect would be for all commodities except cotton to react favorably. Mr. Wallace also suggested that he might find it advisable to issue a reassuring statement to farmers, urging them to go ahead with their crops in a normal way.

There was a brief discussion between Messrs. Jones, Foley, Wallace, and Morgenthau on the application of the Johnson and Neutrality Acts to Government corporations.

At the conclusion of the meeting, Mr. Feis expressed a feeling that although the plans for the commodity and Government bond markets were quite appropriate, the discussions about the stock market had, in his opinion, spread out into fields much larger than the stock market problem itself warranted. He mentioned the communication to the five Tripartite countries, and particularly the implication that this Government might do something about such basic matters as gold, security, and foreign exchange resources which other nations have in this country. These matters, he pointed out, were the life blood of two potential belligerents, Great Britain and France. Secondly, he referred to the delicate position in which Holland, Belgium, and Switzerland -- all desiring to be neutral -- would find themselves if they entered into discussion with Great Britain and the United States. Thirdly, he felt that the United States might be asked to take reciprocal action to supervise the activity of American citizens in foreign stock markets. Mr. Feis said that these reservations all had to do with the international aspects of the situation, and that he now found himself in agreement with the domestic aspects of the various suggestions; therefore, his remarks the other day on the domestic aspects were a thing of the past. Secretary Morgenthau replied that as to the international aspects he had now been warned twice by Mr. Feis, and that he disagreed with Mr. Feis's opinion that the inquiries being made abroad were dangerous. Furthermore, he pointed out that Secretary Hull had cleared the inquiry which had been addressed to the Tripartite countries.

(The Secretary, Secretary Wallace, Jesse Jones, Jerome Frank, Marriner Eccles, and Mr. Hanes went to the White House on April 18, where Mr. Frank, Mr. Eccles, and Mr. Wallace made practically the same report as had been outlined herein.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

April 15, 1939.

C
O
P
Y

TO

Secretary Morgenthau

FROM

E. H. Foley, Jr.

The attached memorandum regarding a proposal to lend against or purchase American securities "nationalized" by a foreign country may be summarized as follows:

I Loans

- (a) By private persons - extremely doubtful because of the Johnson and Neutrality Acts.
- (b) Loans by Federal Government or agencies thereof - not prohibited by Johnson or Neutrality Acts, not inconsistent with the international law of neutrality. Such loans could be made by RFC, Export-Import Bank or Stabilization Fund. There are limitations as to the use of and the amounts to be loaned by such instrumentalities which are discussed in greater detail in the attached memorandum.

II Purchases

- (a) By private persons. RFC could finance private persons and could also finance a newly created corporation which would buy such securities.
- (b) The Export-Import Bank could buy American bonds up to a limited amount but could not buy stocks.
- (c) Stabilization Fund could make the purchases.

The attached memorandum deals solely with existing powers and Government agencies.

(Initialed) E.H.F. Jr.

EHF:akm

Original given to Jessie Jones by Secy 4/15/39
Sec'y has 1 copy which he took to White House 4/16/39

April 15, 1939.

C
O
P
Y
Secretary Morgenthau

Mr. Foley, Acting General Counsel

Re: Proposal to Lend against or Purchase
American securities "nationalized"
by a foreign country.

I. LOANS

A. Private Persons.

It would seem that such advances by individuals to governments in default in the payment of their obligations to the Government of the United States, whether such advances were made directly or to "straw men" "acting for or on behalf of" such foreign governments would be prohibited by the Johnson Act, which prohibits loans to such foreign governments or any organization acting for or on behalf of such governments. It would also seem that such loans by individuals to belligerent governments or any person acting for or on behalf of such governments would be prohibited by Section 3 of the Neutrality Act. However since it could be argued that the Johnson and Neutrality Acts were not intended to apply to loans collateralized by American securities having a greater value than the amount of the loan, it might be desirable to get an opinion from the Attorney General on the question.

B. Government Loans.

Neither the Johnson Act nor Section 3 of the Neutrality Act prohibits advances to foreign governments by the Government of the United States or its agencies against American securities requisitioned by foreign governments from their nationals. Neither Act mentions the Government of the United States and it is a well-settled principle of statutory construction that the sovereign is not bound by statutes that may tend to diminish any of its rights and interests unless the sovereign is named in the statute by specific and particular words. The Johnson Act excludes from its prohibitions "a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercises a controlling interest through stock ownership or otherwise". During the course of the debate on the Johnson Act, Mr. McKeynolds of the House Committee on Foreign Affairs, in response to inquiry, indicated that Section 2 would permit the Government or its agencies to loan money to any foreign government (1934) 78 Cong. Rec. 6049. The Neutrality Act defines "person" to include "a partnership, company, association, or corporation, as well as a natural person" but does not indicate an intention to include a government or an agency thereof within the definition of the term "person". A question may possibly be raised as to the propriety of our government or an agency thereof making loans which the Neutrality Act prohibits a private person to make. This is a policy question.

While the Johnson and Neutrality Acts do not apply to the Government or agencies thereof, it is to be observed that voluntary loans or extensions of credit by a neutral government to a belligerent government constitute a breach of neutrality in international law as distinguished from the domestic law of the United States. 1 Phillimore, Commentaries upon International Law (1879) p. 247; 2 Oppenheim, International Law (5th Ed., 1935) p. 604; Lawrence, The Principles of International Law, (7th Ed.) p. 630; Taylor, International Public Law (1901) p. 673; See also, Hall International Law, (8th Ed.) p. 710; 2 Hyde, International Law, p. 755; 7 Moore, International Law Digest pp. 978-979. However, it is not clear from the authorities that the rule of international law applies to loans or extensions of credit where the collateral is at least equal to the amount of the loan and probably far exceeds in value the amount of the loan.

In any event, a valid argument may be made that the proposed loan under consideration does not violate the international law of neutrality. This Government, even though neutral, has the right to protect its economic, financial, and monetary structure from the shock of war between foreign countries. The loans would be made not for the purpose of aiding a belligerent, but for the purpose of preventing the throwing on to the American market, at a time when the American market would not be able adequately to absorb them, large blocks of foreign-owned American securities. It is obvious that if a belligerent government were to liquidate its enormous holdings of American securities or threaten to do so panicky conditions might very likely occur in our stock markets and seriously affect our whole economic and monetary structure. The belligerent government could obtain its dollar funds by thus liquidating its securities. By our making the advance to the belligerent government collateralized by securities having a far greater value than the amount of the advance we do not provide the belligerent government with any dollar funds that it could not obtain by liquidating its American securities. What we do accomplish by making these advances is avoid disturbance to our economy which this Government, acting as a neutral, must be permitted to do under the rules of international law. The loans here contemplated would even more clearly be with the view of protecting American interests than was true in the case of the Chinese-American foreign exchange agreement which was under consideration in 1937 when a comparable question was raised and discussed with the State Department. It was agreed that even if war were found to exist between China and Japan the agreement with China would not constitute a violation of the international law of neutrality. I believe that the present proposal does not violate the international law of neutrality since the protection given American interests by the proposed advance is far greater than was true in the Chinese situation.

(1) Loans by R.F.C. and Export-Import Bank. Section 5 of the Reconstruction Finance Corporation Act, as amended, authorizes the Corporation to make loans to certain banks and other financial institutions "to aid in financing agriculture, commerce, and industry, including facilitating the exportation of agricultural and other products". Such loans must be fully and adequately secured, and may not be made for a period extending beyond five years from the date such loan was made originally (including extensions of time of payment). Such loans may not be made "upon foreign securities or foreign acceptances as collateral or for the purpose of assisting in the carrying or liquidation of such foreign securities and foreign acceptances". The aggregate amount of advances which can be made under this section to any one corporation, its subsidiaries, and affiliates, at any one time can not exceed $2 \frac{5}{8}$ per centum of (1) the authorized capital stock of the Reconstruction Finance Corporation plus (2) the aggregate amount of bonds of the corporation authorized to be outstanding when the capital stock is fully subscribed. Accordingly, if the foreign government were to create in this country some corporation to act on its behalf the RFC could lend to such corporation approximately \$105,000,000 collateralized by the nationalized American securities, particularly if the money thus loaned were to be used for making purchases in the United States.

The Export-Import Bank is authorized to make loans "to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States and other nations". Accordingly, the Export-Import Bank could make the loans either directly to the foreign government or to some corporation set up in this country to act on behalf of the foreign government. However, the Export-Import Bank may not have outstanding at any one time loans or other obligations to it in excess of \$100,000,000.

(11) Stabilization Fund. Under the provisions of Section 10 of the Gold Reserve Act setting up the Stabilization Fund "for the purpose of stabilizing the exchange value of the dollar" and authorizing the dealing in "gold and foreign exchange and such other instruments of credit and securities" as may be deemed necessary to carry out the purpose of the section, I believe that there is legal authority for the Stabilization Fund to make loans to a foreign government collateralized by foreign-owned American securities where the effect of such loan would be to prevent a disruption of our entire economy and thus stabilize the internal as well as foreign exchange value of the dollar. Of course, there would be an important policy question in thus using the Stabilization Fund, and as you indicated in your testimony to the congressional committee, you might wish to consult such committees before thus using the Stabilization Fund.

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II Purchases

An inter-governmental committee could be set up to coordinate the liquidation of the American securities which the foreign government nationalized. Such securities could be liquidated in a number of ways:

- (a) By sale to Americans and American institutions. The RFC might lend money to American institutions which would enable them to purchase such securities. Another device would be to create a corporation which would purchase all foreign owned American securities as the foreign government needed dollars. This corporation would then liquidate the securities as the market could absorb them. A corporation thus created would be financed by the RFC. A set of papers creating such a corporation was fully prepared at the time of the September crisis and is in our files ready for use if desired.
- (b) The Export-Import Bank would have authority to purchase bonds and other instruments of indebtedness which the foreign government would acquire, but the Export-Import Bank would not be authorized to use any of its funds to purchase American stocks which the foreign government might nationalize.
- (c) For the reasons indicated above, the Stabilization Fund would have legal authority to purchase the foreign securities nationalized by a foreign government.

(Initialed) E.H.F. Jr.

April 15, 1939

2:30 p. m.

Present:

Dr. Viner
Dr. Riefler
Dr. Hansen
Mr. Walter Stewart

Mr. Stewart: It turned out, in discussion among us -- I thought we could make a general statement to you that would give you, I think, what you want.

In the event of war, or sufficient threat of war, all four of us come at your call on full time. Viner and Hansen, however, will need to make arrangements for leave from their universities and their situation is somewhat different from us. In these circumstances, we are prepared to stay in Washington as long as experience and methods of developments, of consultation, indicate it may be desirable. What we mean by methods of consultation is that after the initial period, the three of us, Riefler, Viner and myself feel we could work most effectively through Viner to you, giving him what was on our minds, but always leaving you with the option to see all of us on any occasion you thought it was desirable.

HM, Jr: Let's say there is war. Then I understand that you people, subject to the confirmation of your Universities, will come down at once, all four of you. Then, do I understand, you are saying that after you get the thing going, you are going to leave Viner here?

Mr. Stewart: No. After we get the thing going, and no one can predict what form it will take, but our belief now would be that in the kind of problems we would be confronted with it might be more useful to have one of us to whom you could turn

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to, but perhaps we would be most effective working through Viner to you rather than through all of us.

Dr. Viner: It's not my proposal.

Mr. Stewart: But if anything came up that you said you wanted to see all of us, we would ...

HM,Jr: I don't have to cross that bridge now.

Mr. Stewart: Prior to a call from Washington, White has volunteered to keep us informed.

HM,Jr: I have already told him that every night he is to send you a summary of what has happened -- a digest of cables.

Mr. Stewart: And then, for our part, we desire a minimum of publicity and none if the situation requires it.

HM,Jr: There is no reason why there should be any publicity until you actually came.

Is that the whole story?

Mr. Stewart: Yes.

HM,Jr: I would say it is very good news for me.

Dr. Riefler: I think there are two points about this suggestion of working through Viner that are cloudy. Part of our discussion was you might find it easier to work with us, all of us being here full time, by keeping very close to Viner and he keeping close to us.

Dr. Viner: None of this is mine. It's a question of how to work it.

HM,Jr: I might like cornflakes and might like a little puffed rice for a change and Viner might say, "Do I have to go in and meet that disagreeable, cranky person every morning? Can't someone else take it?"

What I would do is -- those things have to be worked out mutually advantageously and whichever way

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it looked all right, but the main thing I want to know is if this thing comes, have I got people who have the training and the experience to advise me as to how to meet this situation. In you four people I have what I think are the best people and all I have been trying to do all week was to equip the Treasury so we could meet this situation, which is entirely new and we can't say we did it this way or did it that way. You just don't know. And the United States has never been the center. Here every country is using us as a springboard and I just don't know, but knowing that I have you people to call on, why

Mr. Stewart: We agreed that we would come on your call.

HM, Jr: How we work -- through one or through all -- that's something we can tell after a couple of days, but I think the main thing is to advise you people and keep you posted as these things come along and I think the best thing to do is to have White prepare a summary every night and send it air mail and you will get it in the morning.

This fellow, Towers, is a smart fellow. It didn't take him three minutes. When we got through he said, "I don't know whether we can impound the stock of our Nationals -- securities. But he got the thing very fast. And I said, Well, one of the things we are bothered about is the possibility of using Canada as a back door and we don't want that to happen.

So, contrary to our cables, they have not been sounded out by the British Treasury. Definitely not. This is the first communication they have had and they have not had it up in their Cabinet. But I did not have to draw any diagrams to explain it to Towers. He got the thing very fast. But he's interested and he said, particularly in the case of copper, for instance, there are only eight or ten men who control the output and in all their basic metals there are very few people you have to talk to. The thing there is very much simpler.

I think for one week we have covered a lot of

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ground. His idea was minimum prices on the stock exchange up there rather than closing the doors. Maybe close for the first day.

This is most pleasing to me. Is there something you have picked up during the morning you think I ought to have or do you think we are going off the deep end?

Mr. Stewart. White reported to us some of the problems belonging to the Government bond market and some questions of Securities Exchange, but I did not have anything I wanted to bring up.

Mr. Hansen: I thought it might be useful to have a very brief discussion about the bond market. We did have some fairly vigorous discussion about that.

HM, Jr: What's your idea on that?

Mr. Hansen: My idea is I should not like to see such a weak action on the part of the Federal Reserve System as we did in 1937. I should like to see vigorous action.

HM, Jr: I agree. All these things get down to personalities. It all depends upon who takes charge over there. When Ronald Ransome was running it, he was very vigorous and gave it a lot of attention. If I have Randolph Burgess down here, I don't think I will have to worry.

Mr. Hansen: He wasn't very vigorous before. He was inclined to let the thing take its course. I have heard him talk about it and I am strongly of that impression.

HM, Jr: I see.

Mr. Hansen: I feel, personally, a little worried just from that angle.

HM, Jr: You mean about Burgess?

Mr. Hansen: Yes. Speaking quite frankly, I do.

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HM, Jr.: Of course, the bond market, right now, is pretty high and if it went off two or three points it would not be any great tragedy. And then, after the first sluff off, then we get the shift back. When I was looking after it here, we bought \$30,000,000 to \$40,000,000 worth of bonds in a day. We did it when the President made his famous Green Bay speech. And I don't think, Hansen, you can draw up any rules or regulations on that. I think it's a question of watching it and then my getting disagreeable about it.

Mr. Hansen: I agree as to that.

HM, Jr.: You think Burgess might be a little hesitant on this?

Hansen: Yes.

HM, Jr.: Possibly. I wonder if he would be different now that he is out.

Dr. Viner: He might.

Dr. Riefler: It will be different here from up there.

HM, Jr.: I get what you are saying. I don't have to be hit over the head more than once.

What else are you worried about?

Mr. Hansen: That's the only thing I have to say.

Dr. Viner: You will have to write, in the case of Hansen.

Mr. Hansen: I wonder if I had not better take it up with them personally and I can write to the Secretary and maybe I will have to ask the Secretary to write to them.

Dr. Viner: In my case, the reason I wanted it that way, because they can't say no to the Secretary but they can to me.

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HM, Jr: I will call President Hutchins on Monday on the phone.

Dr. Viner: Make it clear that it is a contingent call; that you want me to have permission to drop my work there and come in case war breaks out and I don't want a request for leave of absence now.

Mr. Hansen: In my case, I think I would prefer to see them first and I will then let you know.

Dr. Riefler: I have a contingency I forgot to mention. I am going over to Geneva to attend a meeting -- Sir Frederick Phillips will be there -- and I can't imagine the two conflicting.

HM, Jr: I think your tip-off will be if the King and Queen sail, you can sail.

What is the date?

Dr. Riefler: June 15th to July 10th.

HM, Jr: Lots of things can be settled before then.

The Italians have 100,000 troops in Albania today. For what? This thing that the President has done, I am tickled to death. It's either "fish or cut bait".

I appreciate your spirit and I hope I may never have to call on you.

oOo-oOo

April 15, 1939

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SECURITIES AND EXCHANGE COMMISSION

MEMORANDUM

The views of this Commission have been sought concerning the advisability and desirability of closing the securities markets of this country in the event of an outbreak of hostilities in Europe.

We are of the opinion that it would be most desirable both from the point of view of public psychology and to the end that our investors may be provided with a continuous market for the purchase and sale of securities that our markets should remain open at all times. However, conditions over which there may be no control may so demoralize those markets as seriously to jeopardize the interests of our investors and unduly affect the public psychology. It is therefore our view that all possible measures should be taken in advance of an outbreak of war to control those detrimental influences, and that a close watch should be kept for the appearance of uncontrollable factors indicating the advisability of taking measures toward the closing of the markets in order to ward off the effects of panic conditions.

We understand that negotiations have been instituted in an effort to obtain assurances from the member governments of the Tripartite that American securities ~~as well as the~~ ~~securities of these~~ owned by nationals of these governments, will be taken over and held and will not be sold on our markets without prior consultation with our government. If obtained, these measures should go far toward preventing undue selling pressure in our markets.

We respectfully suggest, however, that the terms of the agreements sought should be widened to the extent of obtaining guarantees that in the event of the outbreak of war, these countries will impose upon their nationals a prohibition against selling of American securities in American markets in the absence of an express permission issued after consultation with our government. This suggestion is advanced in an attempt to prevent a speculative raid upon our markets through the employment of the device of short selling, the use of which would not be forestalled by the assurances presently held from the British government and being sought from the other members of the Tripartite.

We propose to make arrangements between this Commission and the governing officials of our national securities exchanges -- particularly the New York exchanges --

establishing a complete system of minute-to-minute observation of factors entering the market and of current interchange of information in hand. Thus it will be possible to detect the point of danger at which selling orders in nature and extent so predominate over buying orders as to pressage a demoralization of the price structure and resulting panic conditions. Should this point arrive it is our considered opinion, as expressed in the memorandum of April 12, 1939 (a copy of which was submitted to the Secretary of the Treasury after being summarized before the conference on the afternoon of that date) that steps should be taken to close our national securities exchanges and to obtain cooperative measures from organizations and of brokers and dealers in the over-the-counter markets. Thereafter, every effort should be made to reopen these markets at the earliest possible time, and under such restrictions and governmental supervision as may seem necessary or desirable.

The suggestion has been made that even if matters reach a serious panic stage, then, rather than take the immediate course of closing the markets, they should be permitted to remain open, even in the fact of such panic conditions, under some type of restrictive limitations. With this view we cannot agree, and in this connection reference is again made to the memorandum of April 12, 1939, referred to above.

As already pointed out, this Commission is fully prepared, once the approval of the President is obtained, to issue orders closing our exchanges within a space of a few minutes. We reiterate, however, that every endeavor should be made to keep our markets open and available if that can possibly be done consistently with the best interests of the holders of the securities of our American enterprises, as well as potential investors in those enterprises.

April 12, 1939

MEMORANDUM

To: The Commission
From: The Trading and Exchange Division
Re: Action with Respect to Securities Markets in
Event of the Outbreak of War in Europe.

In the event of a declaration of war, the following may be anticipated:

- (a) Foreign holders of American securities will dump;
- (b) Domestic security holders will liquidate;
- (c) Potential buyers of securities will withdraw.

(a) As to the first contingency, it is estimated that there are somewhat less than \$2,000 millions of holdings of common stock, \$300 millions of preferred stock, and \$500 millions of bonds. It would probably be impossible to dump on our exchange markets any substantial part of these preferred stocks and bonds, in which the market would probably disappear. On this assumption the small amount held would probably not present much of a problem.

On the other hand, there may be some market for common stocks. A concerted effort to sell them, however, would shortly destroy whatever market there was. Thus, without other provisions, it may be safely predicted that the closing of the exchanges would be imperative. However, if foreign governments managed to expropriate and withhold, say, one-half of these securities, some relief may be expected, but should the remaining half be dumped, the same demoralizing results may be anticipated. Experts do not anticipate that foreign governments would succeed in expropriating more than one-half of such holdings. Therefore, it is unlikely that foreign agreements to expropriate and withhold from dumping would prevent panic conditions in our domestic security markets.

(b) When it is realized that so small a percentage of holdings could demoralize our security markets, such as those of foreigners, to wit, \$2600 millions out of a total estimated at \$260,000 millions value, it will be realized what an unpredictable effect the outbreak of hostilities would have on our domestic holders. It is not at all unlikely that the markets would be asked to absorb \$500 millions to \$1000 millions worth of stocks upon the announcement of an outbreak of hostilities. The market's ability to absorb such quantities with any semblance of reason would depend partly on the technical position in which the market was at the time. At this writing there has been a substantial mark-down in the price of securities. Loans to brokers, however, have not declined very sub-

stantially, although they are relatively low, amounting to \$721 millions. Loans by banks on securities amount to \$539 millions at present (April 5, 1939).

It is difficult to determine the margin condition of these loans but they probably are not good because they never are after an extended decline in the market. In fact, the only available index indicates that restricted accounts for brokers had increased in the last report period covered.

If the declaration of war or the outbreak of hostilities would cause disorderly liquidation by domestic holders, it is unlikely that expropriation and withholding of foreign holdings would deter any substantial amount of domestic selling. Domestic sellers would be influenced by the uncertainties of war and its outcome. The withholding by foreign governments for eventual resale would not deter them because they would realize that this stock would be sold eventually and that they would thus be assured of a supply when they were ready to repurchase their own securities.

Reverting again to the technical position of the market, the averages are, in spite of the recent decline, substantially above the low points of 1938. Indices of domestic business are discouraging. Had the same war scare been extant in 1938, it is likely that the averages would have been lower then. There are strong probabilities that the outbreak of hostilities in Europe would be the occasion for selling by domestic holders of stocks to such an extent as to create panic conditions irrespective of steps that might be taken by foreign governments to withhold dumping by their citizens.

(c) What the potential buyer of stocks will do in a crisis is equally important as what the seller will do. The potential buyer would not be attracted to come into the market by foreign withholding, realizing that this supply of stock would subsequently be available to him. There is no influence which so strongly deters a potential buyer as the influence of a panic market. If it may be anticipated that selling by domestic holders of panic proportions would result from the outbreak of hostilities, it may be taken as axiomatic that buyers and buy orders would be withdrawn.

If the above reasoning is sound, only two courses would seem to be offered:

1. To keep the markets open, supervised and managed by government authorities and perhaps even with prices pegged by the government or an agent thereof; or
2. Temporary closing of all exchanges and regulatory prohibition of trading by registered brokers and dealers.

It would seem the wisest course to consider the employment of both of these alternatives, first closing the market temporarily to mitigate the effect, and thereafter, and as briefly as conditions indicate, to reopen it on a restricted basis and

and under careful supervision. The security markets have been closed heretofore on several occasions and each time the decision has appeared to have been wisely taken. In fact, there has been no criticism or even hindsight suggestion that an alternative method might have been employed. There is a strategic advantage in the fact that our exchanges open after the European exchanges have closed and when it is on in the afternoon in Europe. If preparations are made in advance, our exchanges can be closed upon ten minutes' notice. Psychologically, it is probable that investors anticipate the closing of our exchanges in the event of war. There have been several near crises during which the closing of the exchanges was rumored, and such closing must not be considered a shock to the public mind. It would, no doubt, be a fine showing to be able to keep the exchanges open in a crisis, but the risk of having to close them ingloriously should a panic ensue is not worth the glory. When markets are closed for a while, and fear and passion cool off, the experience of the past indicates that sell orders are withdrawn, reduced or limited and the buyers begin to take stock, to nibble, and to enter real orders. It should not be long until a market can be reopened on a carefully regulated basis.

The objections to closing a market are (a) that boot-leg markets spring up, and (b) the difficulties of reopening. As to (a), it is doubtful that there was much volume of curb dealings in the early months in which the market was closed in 1914, and, in addition, there is at present the Commission with authority to require disclosure of information concerning over-the-counter dealings, which in itself would be an inhibiting force. As to reopening, there is again the great moral force of the Commission which could arrange to have its representatives in important financial centers, inspecting transactions to make sure that they were bona fide, that there were no short sales, and that speculation was cut to the minimum.

The suggestion that the government provide a peg for securities may also be considered an advantageous proposal. If the government stands prepared to buy securities, it is uncertain how many would be offered for sale. However, the fact that the government stands ready to purchase would, no doubt, retard a great many sellers and encourage potential buyers. The suggestion is risky, however, the public psychology being as uncertain as it is, and if the device fails, the government would be in the unfortunate position of accumulating a large amount of securities which it must eventually dispose of. The failure of the device would entail cumulative effects and may result in a greater panic. Such results have followed before from pegged market situations. On the other hand, if the market should have declined to a very low level, this device might be given consideration.

Incidentally, with respect to the closing of the market, it is assumed that other foreign markets would likewise be effectively closed. This would not be a necessary condition, however.

Another alternative which has been considered is to keep the markets open but to set a limit for the decline on any one day. This alternative, no doubt, was discussed on prior occasions when the market was closed and was probably abandoned for the following reasons: Under such instructions, the markets immediately seek the lower limits; offerings are put in at those prices; no transactions, therefore, can be effected; and the market is, in reality, closed. Banks and brokers, however, try to liquidate customers' loans at the lower limits which they do not do when markets are officially closed. Potential buyers are discouraged by seeing prices seek the lower limit, and bids are withdrawn. This alternative, therefore, while preserving a semblance of an open market, is most unsatisfactory.

There has been some consideration given to the current situation and a suggestion that a hint or trial balloon be offered to the public indicating that the government is in negotiation with foreign governments for the withholding of foreign securities. Such a hint would probably stimulate buying, temporarily, at least, prevent further declines in the market, and even cause a sharp and sustained advance. In the event that it would have this result, it would leave the stock market in a worse technical condition and thus more vulnerable to selling should a crisis materialize and would not, under such circumstances, in any event, prevent panic psychology. In fact, having shot the bolt and assured the public in advance of the withholding of foreign securities, there would be nothing left to reassure them if and when the crisis arrived. It would be preferable that the market should continue its present course, anticipating and discounting a crisis, and the persons who are fearful should liquidate under present conditions. This would permit the rapid reopening of markets, which is the important thing to provide for, and make the closing merely a temporary affair. On the other hand, a hint of government negotiation for withholding of foreign securities might react as an alarm to the public mind and suggest that the government was aware of more dangers than the public realized. In this event, a near panic might result without actual cause.

CONFIDENTIAL

Federal Reserve

April 14, 1939
Third draft

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If there should be war in Europe --

Trading on the New York Stock Exchange should be brought under drastic control, by being put under the supervision of an Emergency Committee that would forbid all trades at prices below specified minimum limits. These minimum limits should be at the outset the closing prices of the last day before the control goes into effect, and they should subsequently be adjusted from time to time by the Committee. Eventually, as the market steadies, one group of securities after another should be released from the control.

This is the mechanism that was invented during the time that the Exchange was closed in 1914 and successfully employed when the Exchange was reopened late in that year. All the rulings of the Exchange Committee that voted at that time are available in print and many of them could be used again with very little change.

It should be arranged if possible to have this action taken by the Exchange itself, since they have the patterns, the experience, and the facilities for eliciting cooperation from the trade. As a matter of law, however, the SEC has authority, with the approval of the President, to take this action as well as the authority to close the Exchange altogether. The smaller exchanges would cooperate fully in any event. On the voluntary basis, at least, enough cooperation to serve the purpose could be obtained now, as it was in 1914, from dealers who operate "over the counter".

This action would prevent demoralization by preventing sales at panic prices. It would shock the country and the world far less than closing the Exchange altogether. It could be so operated as to keep the bulk of the trading throughout the war, in stocks at least, on the exchanges, where it can be subjected to control. Instead of driving it altogether off the exchanges where much of it could probably escape control.

The emergency control should be established whether the London Stock Exchange is closed or not. It must be remembered that their mechanism is so different from ours that for practical purposes trading in individual securities can be suspended, and often is suspended, without actual closing of the Exchange.

If any special circumstances should make it necessary, at the outset, for the Government to order the Exchange to close altogether, it would be desirable for this action to be accompanied by some statement of intention to set up as soon as possible a mechanism similar to that of 1914 for trading in securities at or above minimum prices.

Federal Reserve

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April 12, 1939

In view of the outbreak of hostilities in Europe, and in anticipation of any possible demands for cash or credit arising out of the disturbed international financial conditions, the Board of Governors of the Federal Reserve System wishes to call attention to the strength of the financial structure of the United States today and to the powers possessed by the Federal Reserve System to assure that all legitimate demands upon it are promptly met.

The United States at the present time has a stock of gold amounting to \$15,000,000,000, of which \$12,500,000,000 is held as security against gold certificates in the hands of the Federal Reserve banks. These banks have \$7,400,000,000 of reserves in excess of the amounts required to be held against their deposit and note liabilities. Consequently the Federal Reserve banks are in a position to engage in open-market operations and to make discounts and advances in amounts that are sufficient to meet all conceivable demands upon them.

It will be the policy of the Federal Reserve System for the Federal Reserve banks to stand ready to make advances on Government securities at par to member banks, nonmember banks and other individuals, partnerships, and corporations.

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In view of the large volume of reserves in excess of legal requirements held by the member banks and the ample supply of funds in the hands of the public to meet business requirements, the Board does not expect that a large demand for credit at the Federal Reserve banks will arise. It makes this announcement, however, for the purpose of informing the public that the System has ample powers and resources to meet any conceivable demands that may be made upon it.

The Federal Reserve banks in the twelve Federal Reserve districts are issuing statements of the plans that have been made for carrying out this policy of the Federal Reserve System.

The most certain
way of closing commodity
exchanges ^{promptly} would be for the
President to issue a statement
requesting the exchanges
to close —

I shall be prepared

April 15, 1939
9:10 a.m.

HMJr: Hello.

Operator: Mr. Bell. Go ahead.

Dan

Bell: Good morning.

HMJr: Good morning, Dan. Dan, there's a piece in the Wall Street Journal saying that during the World War the Treasury ran a war risk bureau - insurance bureau.

B: Yeah.

HMJr: Would you look into it and talk to me about it -- whether we should do something like that.

B: Yes, I'll attend to it. It probably ought to be operated maybe by the Veterans Administration.

HMJr: Veterans?

B: You see the Veterans Administration really grew out of the old war risk insurance. We established a war risk insurance and then it went right on with not only insuring vessels and cargos, but insuring soldiers.

HMJr: For heavens sake!

B: And then the war risk insurance bureau was changed to the Veterans Administration.

HMJr: Well.....

B: And I expect they have all the files, but there's quite a report of it in the annual reports.

HMJr: Well, get me up a record of what you think we ought to do.

B: All right.

HMJr: Will you?

B: Right.

April 15, 1939
9:12 a.m.

Preston
Delano:

Hello.

HMJr:

Good morning.

D:

I'm seeing Giannini late in the morning.

HMJr:

Yeah.

D:

And I thought I'd ask you if there was any indication...

HMJr:

Yes, I've been waiting to hear from Hanes. I got word from the White House last night at eight-thirty -- the President said it was all right to make the letter read of the Comptroller of the Currency and nobody else.

D:

Well, if I just make that change, then, and present it to him this morning.....

HMJr:

Pardon me?

D:

I say, if I just make that change.....

HMJr:

Just make it read the Comptroller of the Currency.

D:

Right. And -- and no other change.

HMJr:

And no other change.

D:

And I'll go ahead and see him then this morning.

HMJr:

No, I got word at eight-thirty last night.....

D:

Right.

HMJr:

.....that it was -- that it was entirely agreeable to the President.

D:

Fine, Mr. Secretary. Well, I'll proceed accordingly.

HMJr:

Righto.

D:

Right.

HMJr:

Keep me informed.

D:

Yes, sir.

HMJr:

Thank you.

April 15, 1939
9:13 a.m.

Operator: Go ahead.

HMJr: Hello, Johnny.

John Hanes: Good morning, sir. How are you?

HMJr: Pretty well. I wanted to tell you -- in the meantime Delano called in and I got word from the President last night at eight-thirty.

H: Yes.

HMJr: It was all right to get the letter read only the Comptroller.

H: Yes.

HMJr: And I've just hung up -- I've just told that to the Comptroller.

H: O. K. Fine. And he's going to see Giannini this morning, I guess.

HMJr: That's what he said, and I said to keep us posted.

H: Righto.

HMJr: But that -- that was what I wanted to get to you last night.

H: I saw Mrs. Morgenthau at the -- at the party. I was sorry that you didn't call me. I left word here where they could find me; I didn't know I was going out last night, so.....

HMJr: I mean, if it's -- I never bother you evenings unless it's -- I mean, I thought that this was -- was good news.

H: Yes. Yes.

HMJr: If you were home I'd get you.

H: Yes.

HMJr: They told me where you were and I didn't think it was worth bothering.

H: Yes.

HMJr: But I called up Miss LeHand at eighty-thirty, and I said, "What about it?" She said, "Oh," she said, "My, I had forgotten," she said, "I had the answer for you and I forgot it."

H: Yes.

HMJr: So.....

H: Well, I'm glad it got -- there -- there was plenty of time as long as we got it by this morning anyway.

HMJr: Well, I just hung up. Now, there's something else, Johnny -- oh, I asked Jesse Jones to come to the meeting at three o'clock this afternoon.

H: Yeah.

HMJr: But if we're going to have to let -- let him lend money, I thought -- a fellow feels much better if he's sitting in on it.

H: Yeah.

HMJr: Now, if during the morning -- if Foley finds out -- you know I had him look up whether it would be legal for the R.F.C. to lend to what the English called -- they set up a straw man, you know, under the.....

H: Yes.

HMJr: It wasn't contrary to the Johnson Act -- you -- you know what I mean.

H: Yes.

HMJr: Then I thought if you got that and -- and, if it was all right -- if you could inform Jesse before three o'clock -- you see?

H: Yes.

HMJr: So that he'd know what it was about and wouldn't come in cold.

H: Right.

HMJr: Now, will you carry that for me?

H: I will. Indeed I will.

- 3 -

HMJr: And then -- then if it.....

H: Foley is looking it up now.

HMJr: Foley is looking it up.

H: And I'll tell him to give it to me when he gets an opinion.

HMJr: Give it to you, and then when you get it bring Jesse up-to-date -- in fact, tell him everything that we've done the last couple of days.

H: I will.

HMJr: And -- so that he knows and he won't come in.....

H: This is all to do just with the -- with the securities business and exchange and so forth.

HMJr: That's the idea.

H: All right. Fine.

HMJr: And I thought that -- there's nobody better to do -- to do it better than you can.

H: O. K. I'll get -- I'll get Ed and then I'll tell Jesse.

HMJr: Righto.

H: Thank you.

April 15, 1939
11:30 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Governor Stark: Mr. Secretary?

HMJr: Talking.

S: This is Governor Stark from Missouri.

HMJr: How do you do?

S: I'm very glad to call you up and to thank you for the splendid work your department is doing out there.

HMJr: Uh-huh. Well.....

S: Are you going to be at your office long?

HMJr: Well, I'm here all day.

S: Oh, you are here all day?

HMJr: Yes.

S: You mean this afternoon too?

HMJr: Well, I'm tied up this afternoon, Governor.

S: I see.

HMJr: I'm staying here for a special purpose.

S: Well, I just wanted to drop by and personally thank you for everything you've done and everything your department has done in helping us clean up the Missouri situation.

HMJr: Well.....

S: You are going to be at the Gridiron tonight, I guess, won't you?

HMJr: Yes.

- 2 -

S: Well, I'll try to see you there then.

HMJr: Either that or.....

S: Beg pardon?

HMJr: Well, you see, I -- I've got an important conference on all afternoon. I don't know where you are now.

S: I'm down at the Mayflower.

HMJr: Oh! If you could get here at twelve I could see you.

S: At twelve?

HMJr: Yes.

S: But I would have to run away pretty briefly after -- pretty quickly after that. I'm sure that would be satisfactory to you. I -- I have a luncheon engagement down at the Press Club at about twelve-fifteen.

HMJr: Well.....

S: If you don't mind I'll run over there about five minutes to twelve. Would that be too early?

HMJr: No, five minutes to twelve would be all right.

S: That's fine. Well, I'll run right over there then.

HMJr: O. K.

S: Thank you, sir.

CONFIDENTIAL

301

April 15, 1939.

Subject: The European Situation.

Following is a resume of information received from official sources:

General. Momentarily there is a period of confused guesswork in Europe while all governments are taking inventory of the results of Italy's seizure of Albania and the partially successful counter-move of the democracies in consolidating measures for security among the Balkan States. The atmosphere continues to be full of rumors, but little information exists as to notable changes in the military or political situation.

Military. The only official reports from Spain are unconfirmed and fragmentary, and no clear picture can be obtained of any decisive military developments. The appearance of Spanish troops at La Lanza, opposite Gibraltar, now can be explained as a normal contingent of Spanish troops returning to stations. Nevertheless the British are reported to be taking all precautions on their side of the neutral zone, including the digging of trenches and electrification of the armed barriers. No identification can be made of any significant concentration either of Spanish or Italian troops.

France-Spanish relations are described in high French circles as being very unsatisfactory. It is felt that even though France might remain neutral in case of a general war, she will likely afford facilities in the way of airplane and submarine bases to Italy and Germany.

The British Military Attache in Rome was officially informed that the expeditionary force in Albania consists of three corps, estimated at from 90,000 to 100,000 men. It was stated that the troops were ordered to remain as far as practical from the Yugoslavian and Greek borders, and also that due to the costly nature of the expedition they would be withdrawn as soon as circumstances permitted. It was categorically denied that any German troops were in

Italy or Libya. Our own Military Attache, however, states that rumors are persistent that considerable numbers of German specialists have arrived in Italy in the guise of "Strength Through Joy" tourists. Italian officials claim to be genuinely disturbed over the French concentration of troops in the vicinity of Mentone. They state that Italian dispositions at Vintimille are purely for defensive purposes, whereas the French troops seem to have an offensive character.

The German Military Attache in Belgrade, a general officer, whose forecasts in the past have been extraordinarily accurate, stated to our Military Attache somewhat as follows: If war comes, it will be within the next four weeks. Due to disturbing economic conditions in Germany, if war is longer postponed Germany will be seriously handicapped in a military way. He added that there is no danger of a clash in the immediate future, since Goering and other key military men are absent from Germany. The greatest point of friction at the moment, he said, is the situation along the Hungarian-Rumanian frontier.

An interesting contradiction to the last observation comes from Budapest, where a high Hungarian official stated that the British guarantee to Rumania had created a situation necessitating a postponement of Hungarian aims of recovering lost territories. He admitted that a clash with Rumania at this time would likely precipitate a general war, and added that no sane government could take any such responsibility. It was well appreciated in Hungary, he said, that the Rumanian concentration in Transylvania was designed for protection against Germany, and not against Hungary.

April 15, 1939



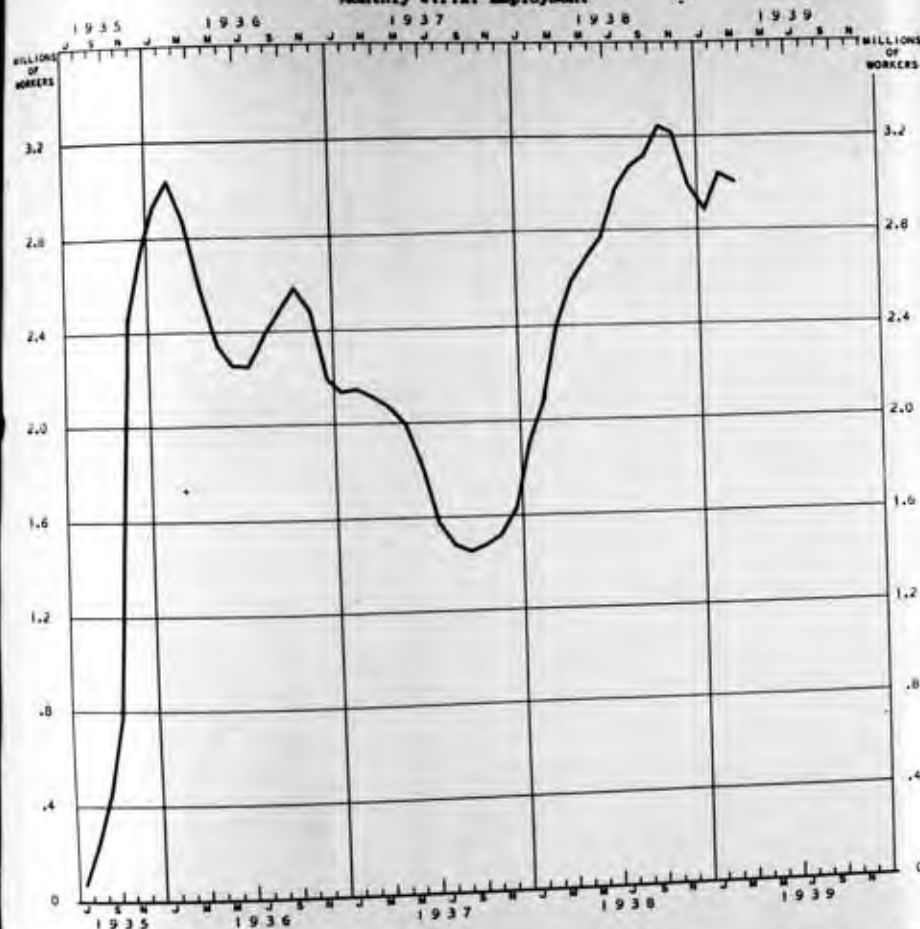
To: The Secretary
From: Miss Lonigan E.L.

 The total number of WPA workers
on April 8, 1939 is 2,901,350.

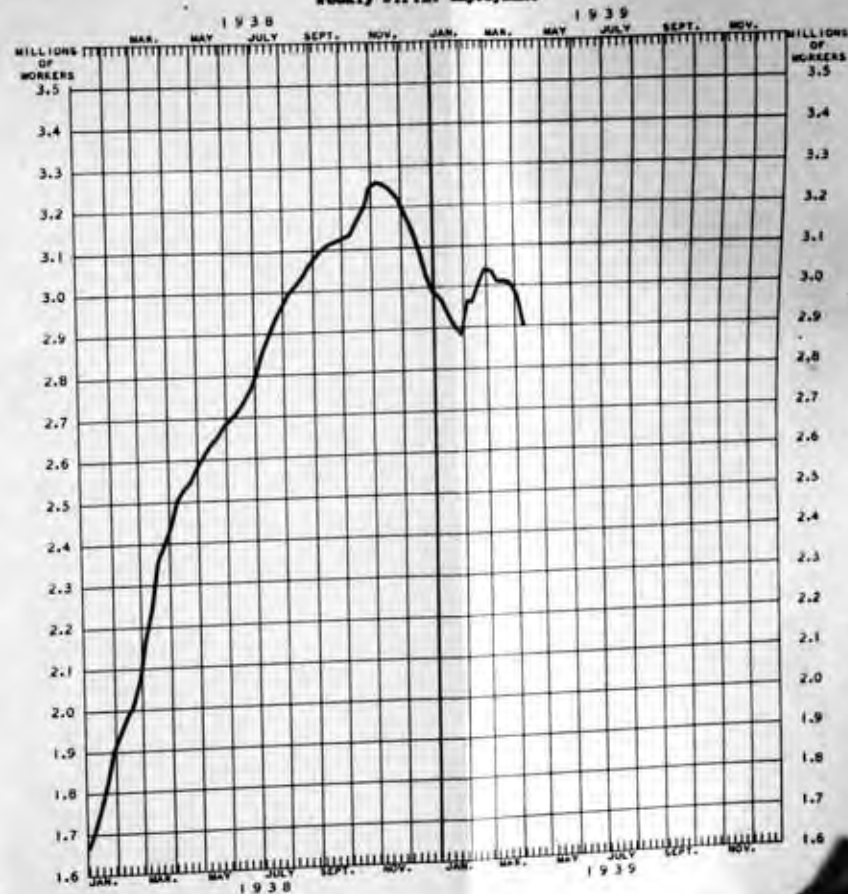
The decrease from April 1 to
April 8 was 74,790 workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

305

Week ending	Number of Workers
1938	(In thousands)
June 4	2,693
June 11	2,712
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,993
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,137
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,258
November 19	3,244
November 26	3,216
December 3	3,185
December 10	3,139
December 17	3,083
December 24	3,021
December 31	2,986
1939	2,967
January 7	2,927
January 14	2,898
January 21	2,883
January 28	2,966
February 4	2,964
February 11	3,010
February 18	3,043
February 25	3,034
March 4	3,009
March 11	3,012
March 18	3,007
March 25	2,976
April 1	2,901 a/
April 8	

Source: Works Progress Administration
 a/ Confidential.

Regraded-Unclassified

WORKS PROGRESS ADMINISTRATION

306

Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986
1939	
January	2,883
February	3,043
March	3,007 a/

Source: Works Progress Administration
 a/ Confidential
 Monthly figures are weekly figures for the
 latest week of the month
 They include certified and non-certified
 workers.

April 15, 1939.

My dear Mr. Secretary:

Under date of April 3, 1939, Dr. Herbert Feis of your Department was advised by the Bureau of Customs with respect to its conclusion that countervailing duties should be imposed under Section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303) on dutiable importations of silk goods from Italy. This Department fully concurs with the statements made in this letter from the Bureau of Customs.

The Treasury Department is also satisfied from information before it that grants are being bestowed upon Italian exports of cotton, wool and leather goods. These exports are aided by the issuance to the exporters of special permits for the importation of raw materials. Such importations are ostensibly to replace the raw materials used in producing the exported goods, but in fact cover substantially more than replacement amounts in many, if not all, cases. The Italian restrictions upon imports are such that these permits have a substantial value, which in some cases may amount to as much as 200% of the value of the goods which may be imported under them.

The issuance of these permits gives the Italian exporter a subsidy having a value equal to the price obtainable for so much of the permit as covers goods in excess of the quantity required to replace like material used in producing the exported articles. A somewhat similar situation was the subject of Downs v. United States, (1903) 187 U.S. 496.

Section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303) requires the Treasury Department to determine or estimate the net amount of the subsidy allowed with respect to each shipment of dutiable merchandise from Italy to the United States in connection with which the above described procedures obtain. However, Treasury representatives who have visited Italy for the purpose of investigating this matter have been denied access to necessary information.

I understand that your Department desires to give the Italian Government an opportunity to submit pertinent information concerning the procedures obtaining with respect to the four classes of goods above mentioned. The Treasury Department will

- 2 -

therefore withhold positive action in the matter until May 15, 1939.

In this connection it is requested that your Department make the necessary arrangements through diplomatic channels so that Italian merchants shipping merchandise to the United States may be permitted and encouraged to disclose the information which will facilitate the orderly and expeditious determination or estimation of the net amount of subsidies allowed in connection with their shipments to the United States, in order that unnecessary hindrances to trade, such as deposits of estimated countervailing duties in excess of those which may be reasonable in the light of full disclosures and long delays in liquidating duties, may be avoided.

Very truly yours,

(Signed) H. Morgenthau Jr.

Secretary

The Honorable

The Secretary of State

HM/MS/cp 4/14/39

April 15, 1939.

My dear Mr. Attorney General:

I have your letter of April 14, 1939, giving your opinion that it is my duty to impose countervailing duties under Section 303 of the Tariff Act of 1930 upon dutiable silk merchandise imported into the United States from Italy, and that the proposed Treasury Decision submitted by me is appropriate in form and substance to accomplish that purpose. Your special courtesy in handling this matter is deeply appreciated.

I also have your letter of April 14, 1939, asking whether I have any objection to publication of the above mentioned opinion.

At the instance of the Department of State, the countervailing duty order is being temporarily withheld pending consideration of representations which may be made by the Italian Government. In these circumstances, I do not believe the opinion should be published at this time, but when the matter is further developed, I shall communicate with you again.

Very truly yours,

(Signed) H. Morgenthau Jr.

Secretary

The Honorable

The Attorney General

HS/WBS/ea 4/14/39

given to the Secy
by Mr. Messersmith

310
Approx
4-15-39

I have a personal communication from a friend, an American, who happens to be the head of one of the most important companies in Europe. This company has wide interests in practically every part of the world and owns productive companies in many countries in Europe, in South America and in the Far East. He writes me in the following sense:

A number of European corporations -- besides Central Banks, are holding a substantial portion of their liquid reserves in the form of gold bullion. Most of this gold is deposited at present in England, Holland and Switzerland. The question arises whether it is expedient to leave this gold in these countries: it concerns not only the interests of the depositors.

First, there is a danger of the gold falling into enemy hands. Second, access to the strong room containing the gold may be temporarily impeded at the very time when it would be most desirable to have it available for private or public use.

It seems that the regulations in the United States, as they stand at present, preclude the deposit of gold in the United States, exceptions being made solely in favor of certain Central Banks. The suggestion is put forward that

this

-2-

this ruling should be relaxed without departing from the principle that the Federal Government shall be the only authorized buyer of gold in the United States.

In substance the suggestion is that the facilities already afforded to Central Banks be extended to other holders of gold. In order to facilitate supervision and to avoid petty accounts, a minimum of \$1,000,000 might be stipulated for each deposit. Bullion imported for deposit would be delivered to the Federal Reserve, it being understood that this institution would be precluded from transferring it to any buyer in the United States other than the Federal Government, but would be authorized to transfer it (under the same proviso) to the account of a foreign buyer or to export it following the depositor's instructions.

In reply to the foregoing communication from my friend, I said that I did not know of any probability that a change would be made in the regulations now existing in this country with respect to gold. I was not familiar, I said, with the details of our regulations. I said further that the rules and the practices of the Treasury are such that the relaxation to which he referred would almost inevitably involve a change in practice with regard to American citizens. It did not seem likely that the Treasury would consider such a practice, as my correspondent suggested, with respect to American citizens, and under these circumstances

-3-

circumstances it would probably not consider a change in the rule with respect to foreign persons or firms. I put forward the thought that the only procedure which I could see practicable for the present would be for foreign firms and holders of gold to purchase dollars for deposit in this country. This was all that I could see that American citizens could do.

In reply my correspondent made the following comment. The objection raised against his original suggestion did not strike him as conclusive. The British Government has reserved itself a right to commandeer gold in the hands of its nationals but has made it known that in no event will it take possession of foreign gold deposits. On the other hand, a deposit of gold in the United States at the free disposal of a foreign owner would enable him to ship gold whenever and wherever his business interests might require. A holding in dollars would not serve his purpose unless the American Government or the Federal Reserve were prepared to sell him gold at any moment at a fixed price.

April 15, 1939

FOR THE SECRETARY:

May I suggest that you consider turning the supervision of the Bulletin over to somebody else now that it has been started and is fairly well established. My primary reason for making this suggestion is that I believe the Bulletin should be attached to someone of fairly permanent status in the Department so that the Bulletin would not be left an orphan if and when I leave the Department. In addition, however, it has been suggested to me that the Bulletin from now on might develop better if it were under the guidance of someone of greater statistical training who could devote more time and skill to planning its improvement.

ESD



Show to Harry White

24
314

DEPARTMENT OF AGRICULTURE
WASHINGTON

Handwritten initials
April 15, 1939.

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

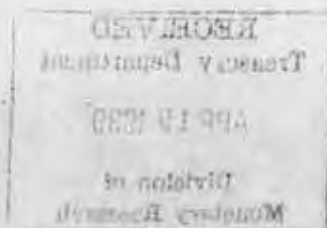
Enclosed herewith are some brief comments on the current proposal to sound out the British government on the matter of exchanging some of our surplus cotton and possibly wheat for rubber and possibly other strategic raw materials to be used as reserves outside the channels of current commerce.

Sincerely,

J. A. Wallace

Enclosure

Secretary



The Proposal to Exchange Surplus Farm Products of the United States
for the Essential Raw Materials of Other Countries.

1. We urgently need reserve stocks of strategic raw materials. The available appropriations and appropriations that might be made available in the legislation now before Congress would fall far short of adequately taking care of this need. It is therefore desirable to secure as large supplies as might be possible for exchange for surplus agricultural products.
2. The same considerations might move other foreign governments. For example, British and Dutch producers are now restricting their production of rubber to 50 percent of normal, and of tin to 40 percent of normal.
3. The cotton and wheat we would exchange would be held as reserves abroad and not enter into usual commercial channels, not to be released unless prices go beyond certain points.
4. The strategic materials acquired by us would be ample security for existing loans against cotton and wheat.
5. The expense of procuring the strategic materials in question would greatly increase in the event of an international conflict.
6. It is impossible to tell what disposition we will find on the part of other countries as regards their willingness to enter into such interchanges. That would necessarily have to be a matter for future diplomatic discussion.
7. An exchange of cotton for rubber could be accomplished without any cost to the Treasury if the necessary authority is given to the Commodity Credit Corporation.
8. The cost of carrying cotton is twice as much as the cost of carrying rubber on a pound basis, and four times as much on a dollar basis.
9. Shipments of rubber are now being held down by the International Rubber Relations Committee in line with the reduced level of consumption. Stocks are not excessive. Any accumulation by the United States for the exchange of cotton would therefore be a matter of considerable time. Negotiations for an exchange of this sort would probably have to be in terms of our standing ready to release cotton in amounts equivalent to the increase in production of rubber in excess of current commercial requirements. Any substantial excess production of rubber for this purpose would probably take a considerable length of time.

CJ

PLAIN

London

Dated April 15, 1939

RECEIVED 8:22 a.m.

Secretary of State,
Washington.

Rush 489, April 15, noon.

FOR TREASURY FROM BUTTERWORTH.

One. With reference to the subject matter of my 473, April 13, 2 p.m. and paragraph No. 2 of 483, April 14, 7 p.m., the London press carries reports of an alleged plan "as described by Mr. William S. Wasserman, President of the Investment Corporation of Philadelphia and of the Delaware Fund Incorporated" whereby American investment trusts insurance companies and banks with the assistance of the United States Government would take over British and French holdings of American securities and arrange a program for orderly disposal in the event of war.

The city editor of the TIMES comments as follows:
"In all sections of the city much interest was expressed in the New York report that the Reconstruction Finance Corporation had indicated its willingness to finance the orderly sale of British and French security holdings in the

-2- # 489, April 15, noon, from London

the United States of America in the event of war. It appears that this represents a spontaneous suggestion on the part of the Reconstruction Finance Corporation presumably at the instance of higher quarters in Washington rather than the outcome of any actual Anglo-American negotiations on the subject. And although the offer is not to be regarded as pure charity since the orderly realization of securities would be in the interests of the United States no less than ourselves it evidently to some extent represents an expression of political good will. The fact that a government financial agency is apparently proposing to take the lead in such financing is a reminder of the extent of government incursion into the financial field since the war. When securities were realized and credits raised against securities in the United States of America between 1915 and 1918 every transaction was left in the hands of a banking consortium headed by Messrs. J. P. Morgan. It is quite probable however that despite a measure of government intervention the financial arrangements would be left for the most part to the usual banking quarters. It is certainly desirable in view of their experience that this should be so. The reports so far mention only
United

-3- #489, April 15, Noon, from London

United States security holdings. During the last war however funds were raised in America on a wide range of securities other than actual dollar stocks. Securities accepted as collateral ranged from South American and other foreign government bonds to British railway sterling debentures."

Needless to say it would be useful to have confirmation or otherwise of this report.

Two. The feature of the foreign exchange market this morning was the erratic movements of the Belga about which there are being circulated rumors of impending devaluation. It is noteworthy that the one months' Belga has moved to a greater relative extent than the three months.

Of the 178 bars dealt in at fixing 165 were married and there were considerable dealings both before and after fixing.

KENNEDY

RR

RECEIVED

APR 15 1944

THE SECRETARY OF THE TREASURY
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 15, 1939, noon

NO.: 743

FROM COCHRAN.

Reference is made to my telegram No. 722 of April 13, 7 p.m., last two paragraphs.

I received by telephone at 11:30 this morning the following message from Secretary de Jong of the Netherlands Bank:

"(1). The Netherlands Government is gladly prepared to consult with the United States Government in the matter referred in the message under reply.

(2) The Netherlands Government wishes however to draw the attention to the fact that apart from the gold earmarked in the United States the assets mentioned in the message under reply, that is, the bank deposits, securities, and investments, belong as far as the Netherlands are concerned to private institutions or individuals.

END SECTION ONE

BULLITT.

RECEIVED

EA:LWW

APR 15 1939

TELETYPE UNIT
 TELETYPE UNIT
 TELETYPE UNIT

REB

SPECIAL GRAY

Paris

Dated April 15, 1939

Rec'd 10:48 p. m.

Secretary of State,
Washington.

743, April 15, noon. (SECTION TWO)

Three. In the opinion of the Netherlands Government the sale of the gold earmarked in the United States cannot present any difficulties. On the other hand it is not to be expected that the private institutions and individuals aforementioned would in the event of the European war proceed to panicky selling of the assets which they hold in the United States.

Four. The Netherlands Government has not the intention to mobilize and to sell the assets held in the United States by Dutch subjects or residents in the Netherlands.

Five. If in the event of a European war mobilization of such assets became necessary the Dutch Government is prepared to consult with the Government of the United States before proceeding to realization or sale of the assets in question.

Six.

REB

2-#743, From Paris, Apr. 15, noon.
(Sec. Two)

Six. The Netherlands Government is of opinion that it would not be advisable to hold a conference of representatives of the countries who are members of the tripartite accord and that after what has been said above as far as the Netherlands are concerned there is no reason for such a conference."

(END OF MESSAGE)

BULLITT

RECEIVED

APR 15 1940

TRINITY DEPARTMENT
Office of the Secretary
Department of the Secretary

CA

TELEGRAM SENT

GRAY

April 16, 1939

8 p.m.

AMERICAN EMBASSY

LONDON (ENGLAND)

263

FOR BUTTERWORTH FROM SECRETARY OF THE TREASURY
STRICTLY CONFIDENTIAL

Please convey the following to the British Treasury.

We note with satisfaction the plans of the British Treasury as outlined in cable No. 428 of March 31, 1939 with respect to measures to be taken to insure orderly liquidation of British-owned American securities in case of eventualities in Europe.

We refer to your cable No. 473 of April 13, 1939, in which the British Treasury inquires with respect to their ability to borrow here on the collateral of requisitioned American securities of British residents.

It would appear to us that the dollar funds which the British Government might need during the early stages of any conflict might preferably be obtained either through the utilization of the dollar balances or through the sale of gold rather than from the immediate sale of any substantial amount of securities. The British Government, in the event they adopted the measures indicated in their

cable

CA

--2--263 to London..

cable No. 428, would have dollar funds for their immediate needs. In such event, there should be ample time, after the outbreak of hostilities, in which to canvass the possibility of further supplies of dollar exchange from securities.

Without having time to consult the Attorney General it is the informal opinion of the Treasury Counsel that under the Johnson and the Neutrality Acts, private sources in this country would be unable, in the event of war to extend credit either to the British Government directly or through the medium of an agency of the British Government or a "straw man"; but that the Johnson and the Neutrality Acts would not prohibit such loans against American securities requisitioned from British residents if made by the United States Government or any agency thereof, either directly to the British Government or one of its agencies.

Reference is made to your cable No. 483 of April 14.

We shall be glad to receive the documents referred to relating to the British financial regulations to be promulgated upon the outbreak of war, and shall treat them, of course, with utmost secrecy. We also appreciate the efforts of the British Treasury in arranging for Bewley to remain in this country for purposes of consultation.

In view of the apparent desire of the British

Government

CA

--3--263 to London..

Government to proceed with the discussions on a bilateral basis, we are willing to proceed on this basis. In the event that subsequent developments, in the opinion of either Government, indicate the desirability of altering this procedure, the matter can, of course, be discussed again.

We have formulated tentative plans for the protection of our government bond, security, and commodity markets.

We would bend every effort toward keeping these markets open for the orderly conduct of business.

In your cable No. 489 of April 15, 1939 you request information as to the press report of an alleged plan for orderly disposal of foreign holdings of American securities. The only official discussions which are going forward with respect to this matter are joint consultations among appropriate governmental agencies. Our Government has publicly denied consulting with Wasserman and others on the plan referred to in the press reports of April 14, 1939.

On Saturday the Secretary of the Treasury conferred with Governor Towers of the Bank of Canada conveying to him the message similar to that of cable No. 261 of April 12, 1939.

HULL

(HF)

RECEIVED

APR 17 1939

RECEIVED
APR 17 1939
U.S. DEPT. OF TREASURY

4-16-39
Strictly Confidential 326

CABLE TO AMERICAN EMBASSY

LONDON

FOR BUTTERWORTH FROM SECRETARY OF THE TREASURY

PLEASE CONVEY THE FOLLOWING TO THE BRITISH TREASURY

We note with satisfaction the plans of the British Treasury as outlined in cable No. 428 of March 31, 1939 with respect to measures to be taken to insure orderly liquidation of British-owned American securities in case of eventualities in Europe.

We refer to your cable No. 473 of April 13, 1939 in which the British Treasury inquiries with respect to their ability to borrow here on the collateral of requisitioned American securities of British residents.

It would appear to us that the dollar funds which the British Government might need during the early stages of any conflict might preferably be obtained either through the utilization of the dollar balances or through the sale of gold rather than from the immediate sale of any substantial amount of securities. The British Government, in the event they adopted the measures indicated in their cable No. 428, would have dollar funds for their immediate needs. In such event, there should be ample time, after the outbreak of hostilities, in which to canvass the possibility of further supplies of dollar exchange from securities.

Without having time to consult the Attorney General it is the informal opinion of the Treasury Counsel that under the Johnson and the Neutrality Acts, private sources in this country would be unable, in the event of war to extend credit either to the British Government directly or through the medium of an agency of the British Government or a "straw man"; but that the Johnson and Neutrality Acts would not prohibit such loans against American securities requisitioned from British residents if made by the United States Government or any agency thereof, either directly to the British Government or one of its agencies.

Reference is made to your cable No. 483 of April 14.

We shall be glad to receive the documents referred to relating to the British financial regulations to be promulgated upon the outbreak of war, and shall treat them, of course, with utmost secrecy. We also appreciate the efforts of the British Treasury in arranging for Bewley to remain in this country for purposes of consultation.

In view of the apparent desire of the British Government to proceed with the discussions on a bilateral basis, we are willing to proceed on this basis. In the event that subsequent developments, in the opinion of either Government, indicate the desirability of altering this procedure, the matter can, of course, be discussed again.

We have formulated tentative plans for the protection of our government bond, security, and commodity markets.

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We would bend every effort toward keeping these markets open for the orderly conduct of business.

In your cable No. 489 of April 15, 1939 you request information as to the press report of an alleged plan for orderly disposal of foreign holdings of American securities. The only official discussions which are going forward with respect to this matter are joint consultations among appropriate governmental agencies. Our Government has publicly denied consulting with Wasserman and others on the plan referred to in the press reports of April 14, 1939.

On Saturday the Secretary of the Treasury conferred with Governor Towers of the Bank of Canada conveying to him the message similar to that of cable No. 281 of April 12, 1939.

Approved by the President - 6 P.M. April 16, 1939

8 Sowell Street

Law School of Harvard University,

Cambridge, Mass. 16 April/39

Dear Mr. Secretary,

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I am up here for a few days,
standing by for an addition to
my family.

After much consideration
of your offer, I am still
unprepared to accept. It is
a big job, and one with which I
am so unfamiliar, that a year
and a half would be too short
a time for me to master it and
make any impression upon it.
Therefore, my decided feeling is
that I ought to decline your
offer. If you care to talk with

me further when I get back to
Washington, I shall be happy
to come over to see you. Mean-
while, I want you to feel
relieved of any commitment
to me and free to look
elsewhere. I must appreciate
the honor of having been
invited into your official
family.

Sincerely yours

Calvin - Trappier

Mrs. Secretary Wright
Washington, D.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 16, 1939.

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Attached is a copy of the letter signed by the Attorney General to be delivered to the President tomorrow in regard to our proposed Executive Order imposing foreign exchange restrictions and for other purposes. Miss Baumgartner, the Attorney General's secretary, read the letter to me over the telephone and stated that the Attorney General had signed it this morning.

For our purposes, the letter, in my opinion, is satisfactory. In light of the draft which the Attorney General submitted at our meeting yesterday afternoon, it represents a substantial compromise decidedly in our favor.

E. H. F.

Attachment

My dear Mr. President:

I am herewith transmitting a proposed executive order, prepared in the Treasury Department and informally submitted for my consideration, regulating transactions in foreign exchange, transfers of credit, payments, and the export of coin, bullion and currency.

Legal doubt exists only with respect to that provision which requires detailed reporting of foreign-owned assets in the United States. It is believed, however, that the order would be upheld even in that respect if issued under conditions of national emergency, the existence of which you should determine.

The proposed order cites as authority section 5(b) of the Act of October 6, 1917, 40 Stat. 411, as amended by section 2 of the Act of March 9, 1933, 48 Stat. 1. It amends Executive Order No. 6560 of January 15, 1934 and places further restrictions upon transactions in foreign exchange, transfers of credit, payments, and export or withdrawal of coin, bullion, or currency. This phase of the order follows substantially the express language of the statute and is wholly free from doubt.

The order also provides for the filing of detailed reports concerning foreign-owned assets in the United States. The statute does not, in express terms, provide for the filing of such reports, but I am satisfied that such requirement is sustainable and would be upheld if made during a period of war or national emergency.

The statute relied upon for authority reads as follows:

"(b) During time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit between or payments by banking institutions as defined by the President, and export, hoarding, melting, or earmarking of gold or silver coin or bullion or currency, by any person within the United States or any place subject to the jurisdiction thereof; and the President may require any person engaged in any transaction referred to in this subdivision to furnish under oath, complete information relative thereto, including the production of any books of account, contracts, letters or other papers in connection therewith in the custody or control of such person, either before or after such transaction is completed. Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. As used in this subdivision the term 'person' means an individual, partnership, association, or corporation."

It is believed that the words "investigate, regulate or prohibit" in the statute could be relied upon as implying authority to require the reports if the order were issued during a period of war or other national emergency, upon the theory that knowledge of the nature, location, and ownership of all foreign-owned property would be necessary for the proper and efficient administration of foreign exchange control.

It must be observed, however, that violations of the statute and orders or regulations issued thereunder are punishable, upon conviction, by fine and imprisonment. Thus, in the final analysis any implication in the statute is to be resolved by the courts. Whether the courts would sustain the implied authority in my opinion would depend upon the nature

- 3 -

of the emergency existing. The extent to which public opinion approved the exercise of the power would unquestionably have a bearing upon the successful administration of the order.

Subject to the above observations the proposed order has my approval as to form and legality.

Respectfully,

(Signed) Frank Murphy

The President,

The White House

April 16, 1939.

Secretary Morgenthau

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EHF:akm 4-16-39

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