

Dr. Fredenburgh

What Dr. Watson do
you make of this?

Do you think it
needs a reply?

I suppose "Barney"
still owns good
times.

Ed

THE WHITE HOUSE
WASHINGTON

August 20, 1940

MEMORANDUM FOR: Honorable Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System.

Dear Mr. Chairman:

The President has asked me to send
the attached correspondence on to you for
your information.

Very sincerely yours,

A handwritten signature in dark ink, appearing to read 'Edwin M. Watson'. The signature is fluid and cursive, with a large initial 'E' and a long, sweeping underline.

EDWIN M. WATSON
Secretary to the President

Copy

BERNARD M. BARUCH
597 Madison Avenue

New York

August 1, 1940

My dear Pa:

Here is that memorandum.

It contains thoughts necessary to meet every point of attack by Funk. If intelligently used, it can torpedo all his assertions.

Perhaps we may have to change our methods in dealing with gold, and we should say perhaps because there is a direct threat to all concerned. No gold price - no open prices - my, what can be done with proper arguments.

This will drive the South American countries towards us and will scare Russia because she has a tremendous production of gold.

B.M.B.

From time immemorial, gold has been the only thing that at any time, anywhere, in war or peace, could be exchanged for goods or services. Today it is the same for those who have it.

Perhaps the United States paid too much for the gold we purchased but it was done for the purpose of raising prices for everyone, everywhere. Though, as Dr. Fund so gloatingly says, it might have been at our own expense, even Germany benefited by increased world trade because of the increased purchasing power of all countries, including Germany's associates - Russia, Japan and Italy. The axis powers benefited proportionately to the greatest extent. They enjoyed the fruits of a policy which they say has resulted in injury to the United States without enduring the burdens.

Perhaps the price of gold may have to be changed. What will be the effect if it has to be lowered? Will Russia, with her 250,000,000 to 500,000,000 yearly production, be made happier by Germany's desire to demonetize gold, or will Germany take this production from her?

We can always buy gold from those with whom we have trade relations.

What will be the effect upon the Americas who depend as much on gold prices as prices based on gold?

What becomes of the famous barter system if the United States stops making a price for gold on which all prices, even those of barter, are based?

How will Russia, Africa and Latin America, all of whom like high prices which we have made, engage in barter with nothing but a black market or no free market at all on which to exchange their goods? Does the past history of Germany leave any doubt as to her attitude to all other people whom she considers her inferiors?

There will be no open market price for anything.

The United States has never wanted to destroy Germany, or European trade, or to get South American trade, except on the basis of fair competition and only that part of the trade which rightly belongs to her. Her reciprocal trade treaties have been examples, like her gold and silver policies, of her desire to lift the trade of the world that all might share.

If Germany insists upon barter, we shall be forced to meet her on that ground. Will Dr. Funk understand that when this good-natured sleeping giant moves in that direction we shall not turn back until we have shown the utter futility of this narrow policy (economic war) which Germany is threatening to force upon us.

Now just a few words as to raw materials and self-containment.

It has been the policy of America to use the products of all peoples. Germany has said she will make ersatz or substitutes. That path is open to all. We are about to enter it but on a broader scale than Germany. Our scientists and physicists are now being enlisted for the accomplishment of this object. It will not be long before those who have made this threat will find they have created a frankenstein.

America created the automobile, the aeroplane, mass production and industrial mobilization, which even Germany says she "conscientiously followed." America will now find substitutes through her science upon which no one has a monopoly, which will astonish the world. America, with the awakening of the sleeping giants and giantesses of her youth, will go to the end of the road that will make puny the efforts of those who will destroy the opportunities of the whole world for a place in the sun. We will create and make substitutes that will make it impossible for other nations to live against that competition.

Germany has started this and asks the world to barter. We will make cheaper and better raw and manufactured materials through our free competitive system even against the sweated labor of the totalitarian powers and their conquered provinces. We accept the challenge and the new game of marbles.

We do not relish this but if Germany, as Dr. Funk says, wants a barter system, she will have to do it on a basis different from the way it is being done now. No more umbrella holding by Uncle Sam except for his friends.

If they want to play marbles on the basis of deceit, we will play by ourselves and with other free people and free nations. If they will have war to the hilt, on substitutes, we will meet them there and outdo them. The raw materials of some of their conquered provinces will be as useless as if they did not exist. We can play any game of marbles and win.

We will gird ourselves to meet this threat sent on the morn of the Havana Conference. All will be sorry but those who stand with us for the policy of live and let live will be least sorry.

We can make synthetic rubber, as well as produce native guayule rubber, and get increased production in Central and South American countries. Today there is an excise duty on raw rubber. It will be a simple matter to have that duty applied to imported rubber except from those nations with whom we have free trade relations. This is really a subsidy and can be applied to any substitute, to any extent to which Germany may force this economic war. We do not make but we shall not fail to meet to the fullest any threats that may be aimed at our welfare.

There is a very great possibility we may be able to use some of our silver for plating instead of tin.

There are so many things that can be used with intelligence and wisdom. We must not let anyone think we can be beaten at any game of marbles. This is important just now because of the morale. It is important because it is true.

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September 6, 1940.

My dear General Watson:

This is to acknowledge on behalf of the Chairman, who is out West on vacation, receipt of your note of August 20 enclosing correspondence that the President requested be transmitted to the Chairman for his information.

This acknowledgment is belated because I had asked some of our research people confidentially to go over it, which they have now done. I will see that it reaches the Chairman.

Sincerely yours,

Elliott Thurston,
Special Assistant
to the Chairman.

General Edwin M. Watson,
Secretary to the President,
The White House.

ET:b

August 20, 1940

Dear Barney:

I have your arguments aimed at our friend, Doctor Funk, but somehow I don't believe it worth while answering him. I am taking the liberty of sending a copy of your analysis to Marriner Eccles.

I wish I could see you more often. Hope you are feeling well and will let me know when you are in town next.

Always sincerely,

Honorable Bernard M. Baruch,
597 Madison Avenue,
New York, N. Y.