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DEPARTMENT OF STATE

OFFICE OF THE ECONOMIC ADVISER

October 14, 1936.

My dear Mr. Secretary:

I do not know of any special comment this Department would wish to make on Mr. Irigoyen's mission.

The Argentine, the only Latin American country which has maintained a perfect record on its bond service, has refunded its sterling issues advantageously and hopes to do the same with its dollar issues but I do not recall any particular mention of Mr. Irigoyen in this connection.

We of course always maintain the most cordial attitude toward the Argentine, although their exchange control involves a differential surtax on most American prod-

TO THE SECRETARY OF THE TREASURY.

TRANSLATION

Ministry of Treasury of the Nation

20

Buenos Aires, October 1, 1936.

Mr. Secretary:

I have the honor to address the Secretary to introduce to him Mr. G. Alonso Irigoyen, financial attaché to the Argentine Embassy in the United States and representative of our Treasury Department in that country.

This Government has followed with the greatest interest the financial and monetary developments which have occurred in the United States in these recent years and has entrusted to Mr. Alonso Irigoyen the task of observing and studying them closely in order to keep this Ministry informed regarding them.

I should therefore appreciate as a special courtesy whatever the Secretary may wish to do for the purpose of facilitating the fulfillment of Mr. Alonso Irigoyen's mission.

Thanking the Secretary in advance for his courtesy, I take the opportunity to send him, through Mr. Alonso Irigoyen, my best wishes for his personal well being.

G. M. ORTIZ

The Secretary of the Treasury of the United States,

Mr. Henry Morgenthau, Jr.,

Washington, D. C.

EA:FL:EB

E. AF.

Ministerio de Hacienda de la Nación

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Buenos Aires, 1º de octubre de 1936.

Señor Secretario:

Tengo el honor de dirigirme al Señor Secretario para presentarle al Señor D. Alonso Irigoyen, agrónomo financiero a la Embajada Argentina en los Estados Unidos y representante de nuestro Departamento de Hacienda en ese país.

Este Gobierno ha seguido con sumo interés los acontecimientos financieros y monetarios que se han producido en los Estados Unidos en estos últimos años y ha encomendado al Señor Alonso Irigoyen la tarea de observar y estudiarlos de cerca a fin de mantener informado a este Ministerio al respecto.

Por lo tanto apreciaría como una cortesía especial todo cuanto el señor Secretario quiera hacer con el fin de facilitar al Señor Alonso Irigoyen el cumplimiento de su misión.

Al agradecer al Señor Secretario de antemano su atención, aprovecho la oportunidad para transmitirle por intermedio del Señor Alonso Irigoyen mis mejores votos para su ventura personal.

Señor Secretario del Tesoro de los Estados Unidos,

Don H. Morgenthau, Jr;

WASHINGTON D.C.

October 14, 1936

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My dear Mr. Minister:

Your letter introducing Mr. C. Alonso Irigoyen has been presented and I appreciate your courtesy in addressing it to me.

I shall welcome the opportunity of meeting Mr. Irigoyen and of giving such assistance as is possible to him in his task of observing and studying monetary developments.

With assurances of my regard, I am

Sincerely,

✓
Henry Morgenthau, Jr.

Hon. G. M. Ortiz,
Ministerio de Hacienda de la Nacion,
Buenos Aires,
Argentina.

Replied to by
Mr. Ortiz, 9/36
Dec. 30, 1936
and filed in
diary of that
date.



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THE AMERICAN RED CROSS

THE BOARD OF TRUSTEES

OF THE

ENDOWMENT FUND

WASHINGTON, D. C.

October 1, 1936

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THE WASHINGTON LOAN AND TRUST CO., TREASURER

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on. Henry Morgenthau, Jr.,
secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

There is sent you herewith a copy of the up-to-date analysis of the portfolio of the Red Cross Endowment Fund along with Standard Statistics' report covering this analysis and making certain recommendations. This report and analysis have been prepared for the meeting to be held in your office at 10:00 A. M. on October 7th.

As suggested in your letter of September 11th I shall check with you on Monday the 5th to be sure if it will be possible for you to be present at the 10:00 o'clock meeting.

Sincerely yours,

Howard J. Simons,
Secretary, Board of Trustees,
Endowment Fund,
American National Red Cross.

STANDARD STATISTICS COMPANY, INC.
345 HUDSON STREET - - - NEW YORK

Organized 24 years ago to distribute investment information to reinforce the efforts of investment houses and investors by a conscientious endeavor to furnish statistics, literature and reports on every financial subject of general interest

PARKER
VICE PRESIDENT

September 18, 1936

Account No. S-1606-b (2)

TO THE BOARD OF TRUSTEES
Endowment Fund
American National Red Cross
Washington, D.C.

Attention: Mr. Howard J. Simons, Secretary

Gentlemen:

The statistical analysis submitted herewith, reveals further decided progress during recent months along the lines of placing your investment portfolio in sounder, more conservative shape, and more in keeping with your requirements, as we see them.

Over the past year and a half, during which time we have been privileged to work with you, the changes in the major classifications of your securities have been as follows:

	Proportion of Portfolio			
	4/26/35	9/10/35	3/13/36	9/14/36
U. S. Government Bonds	0.5%	20.9%	30.0%	39.4%
Railroad Bonds	48.7%	36.4%	22.1%	19.4%
Public Utility Bonds	47.1%	37.8%	36.7%	32.9%

The improvement in investment grade is indicated by the following:

	4/26/35	9/10/35	3/13/36	9/14/36
Percentage of portfolio in securities rated "A" and higher (based on market value and including Government and Municipal bonds)	86.2%	83.0%	93.0%	96.6%

The information contained in this letter has been sent you for your confidential use. While this information has been obtained from sources we believe to be accurate, this Company cannot guarantee the correctness of the information furnished, nor will it assume responsibility for any loss that may be incurred as a result of your acting on its advice. And this also applies to any opinions and forecasts herein, which although based on the most careful analysis, are subject to change without notice.

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9/18/36

This improvement in the general construction of your portfolio reflects, of course, the substantial sales of lower-rated, speculative railroad bonds which have taken place in recent months since the recovery in the market for such issues and reinvestment mainly in Government bonds. It also reflects the reinvestment in prime securities of the substantial sums from bonds which were called for redemption prior to maturity, due to the issuing companies ability to refinance on a lower interest basis.

Naturally, this improvement in the investment quality of your portfolio has been accompanied by a lowering in the rate of return. You are fully cognizant of the fact that the long-term, lower rated railroad bonds which have been liquidated in substantial amount over the past eight or nine months, provided a much greater yield than the high-grade corporation and Government bonds which were purchased in their stead. Specifically, your investment income at the present time, in comparison with what it was a year ago, and as of April 26, 1935, is as follows:

	Market Value of Portfolio	Annual Income	Current Return
	-----	-----	-----
September 14, 1936	\$13,688,786	\$465,035	3.4%
September 17, 1935	9,990,428	427,585	4.83%
April 26, 1935	9,361,729	446,189	4.8%

As previously indicated, a substantial proportion of your investment fund is represented by U. S. Government bonds - 39.4%. While we recognize that the primary consideration in the administration of a fund of this type is security of principal, on the other hand, our understanding of the nature of the purposes for which this fund is maintained is such that we are of the impression that income should also be given consideration.

Available high-grade public utility bonds not selling at or above their call price, meeting the requirements laid down by resolution of your Board of March 27, 1935, - that is, bonds which are legal for savings bank investment in either

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9/18/36

the states of New York or Massachusetts, and which carry our investment quality rating of A1 or higher, are currently selling at levels at which the yield does not provide a sufficient differential over U. S. Government bonds to make them, in our opinion, attractive for your purposes. We are fully cognizant of the lack of value, in your case, of the exemption from income tax which U. S. Government issues provide to corporations, but at the same time, we feel that the approximately 4/10ths of one per cent greater yield such corporate issues afford is not sufficient, all factors taken into consideration. To illustrate this point, the following current quotations and yields on a few representative high grade public utility bonds are shown:

	Qual. Rtg.	Current Quotation	Yield	Call Price

U.S. GOVERNMENT 2½s, 1960-55		102.28	2.67%	
Edison Elec. Ill. Co. (Boston)				
3½s, 1935	A1+	107 1/2	3.09	107 1/2
N.Y. Edison Co. 3½s, 1965	A1+	102 7/8	3.10	105
Cinn. Gas & Elec. 3½s, 1966	A1+	102 3/4	3.10	107
Brooklyn Edison 3½s, 1966	A1+	102 7/8	3.09	106
Pacific Tel. & Tel. 3½s, 1966	A1+	104 3/8	3.01	106
Potomac Elec. Pwr. Co. 3½s, 1966	A1+	104 3/8	3.01	106
Niagara Falls Pwr. 3½s, 1966	A1+	106 7/8	3.14	108 1/2

There are practically no industrial bonds which we would consider suited for your purposes, obtainable at a reasonable price in relation to the yield provided, or with reference to the figure at which they may be redeemed by the issuing company. For instance, the Standard Oil of New Jersey Deb. 3s, 1961, which we believe from an investment standpoint would qualify ideally, are currently quoted around 100-1/2 to yield 2.97%, while General Motors Acceptance Corporation Deb. 3s, 1946 are selling at 102 5/8 to yield 2.63% and are callable at 103.

True, it is possible to obtain somewhat better yields from high-grade railroad bonds, not restricted by call

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prices, but, on the other hand, it would require the payment of substantial premiums and the bonds would be of considerably longer term. We have in mind such issues as:

	Qual. Rtg.	Price	Yield	Call Price

Atch. Top. & S. Fe Gen. Mtge.				
4s, 1995	A1+	115	3.5%	N.C.
St. Paul Union Depot 5s, 1972	A1+	121	3.9%	110(1942)
Chgo. Burl. & Quincy 1st & Ref.				
5s, 1971	A1	116	4.1%	107½(1942)
Norfolk & Western 4s, 1996	A1+	119	3.3%	N.C.
New York Central 3½s, 1997	A1	102	3.4%	N.C.

We would not hesitate to recommend the purchase of the foregoing were it not for the previously expressed attitude of your committee in respect to long-term railroad bonds. The outlook for the railroads of the country, as a whole, is decidedly encouraging at the present time, as there is no doubt in our minds that the present cycle of business recovery has considerably farther to go, and it is inconceivable to us that this will not bring a measure of prosperity to the railroads.

All things considered, it is our opinion that the most logical course for your organization is to continue to buy U. S. Government bonds with such funds as become available. As previously indicated, from the standpoint of the "balance" of the list in respect to diversification, you have an ample backlog of such media, and it is not for such purpose that we recommend further acquisition of Governments. However, we feel that U. S. Government bonds are definitely the most attractive type of investment available under present conditions, particularly when consideration is given to the special requirements of an institution of the type of the American National Red Cross.

Bearing upon our recommendation of a policy providing for further purchases of U. S. Government bonds, we wish to point out that we feel that Treasury obligations have

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considerable appeal, in that we consider them relatively the most attractive group, upon a basis of price, in the market today. It is not conceivable, in our opinion, that the issuance of new U. S. Government bonds will continue at the same rate during the next few years, and when the supply of new issues starts to diminish, as it is bound to, we can well see a widening of the differential between the yield on such issues and corporation bonds. In other words, we feel that the current difference of, let us say, $4/10$ ths of one per cent, between the yield on prime long-term corporation paper and U. S. Government obligations is much too small, and that it is bound to widen over the course of time.

Included in this report is a chart (referred to as Exhibit 1) indicating the relationship between the yield on U. S. Treasury 4-1/4s, 1947-52 and Union Pacific 1st 4s, 1947, (a typical high-grade corporation bond maturing in the same year as the Government issue mentioned may be redeemed), during periods when the Government debt was practically stationary in amount or declining, and during such time as the Government debt was increasing. You will see from this chart that in the mid-1920 years, when the Government debt was being reduced, the yield on the U. S. Treasury 4-1/4s, 1947-52 declined much more rapidly than on the high-grade corporation bond. As this chart so graphically indicates, we believe that there is a definite relationship between the size of the Government's debt and the market value of its obligations, in comparison with other forms of investment, that is, giving due weight to the fluctuations in the loaning rate of money. As the size of the debt increases, there is an increased supply of bonds and new buyers must be found to absorb this greater supply, which can only be done by making yields more attractive in relation to other media, as has been done by the Treasury during the "New Deal" era. Conversely, when the time comes when the Government debt is being reduced, or there is a diminution in the supply of new issues of U. S. Government bonds, the effect is sure to be an investment valuation on a lower yield basis in relation to corporation bonds.

Reference to the maturity table in the subjoined statistical analysis reveals that while approximately 15% of

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your holdings mature during the period from 1941 through 1946, close to 83% of your securities come due in 1947 and after, so as to fall in the general classification of long-term bonds. While we recognize the abnormally high levels currently prevailing for long-term bonds, we are not at all apprehensive regarding the near-term outlook for the bond market, and at this time we do not advocate any steps aimed towards shortening your maturities. In fact, as previously stated, we are currently recommending purchase of additional long-term bonds as funds become available.

The reasoning leading to our optimistic conclusions on the outlook for the bond market is based on the feeling that while the present activity in general business and the bright outlook therefor, will no doubt result in a greater commercial demand for money, there is nothing on the horizon which we can envision, to indicate that a basic change in the present era of extremely low long-term loaning rates for money is at hand. In view of the importance of this general subject upon the administration of your investment portfolio, if you would care to have us do so, we would be pleased to elaborate our views on the outlook for interest rates, either in the form of a written review, or in person at your coming meeting.

Despite the substantial sales of second-grade railroad bonds early this year, your portfolio still includes additional holdings of this nature, although in but extremely modest amount in relation to the condition which existed some time ago. The following table shows the remaining amounts of such securities that we have previously recommended that you sell, and the prices at which we have advised liquidation, which recommendations we repeat at this time:

Holdings as of 9/17/35 -----	Present Holdings -----	Recommended Sale Price -----
490M G.C.C. & St. Louis 4½s, 1977	150M	50M @ 96 1/2 50M @ 98 50M @ 98 1/2

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	Holdings as of 9/17/35	Present Holdings	Recommended Sale Price
New York Central 4½s, 2013	542M	100M	50M @ 95 50M @ 97
New York Central 5s, 2013	228M	25M	25M @ 99
Southern Pacific 4½s, 1969	200M	25M	25M @ 95

Should the foregoing sales be effected, as we think they may well be, during the present period of strength in second grade railroad bonds, this would leave but one issue of railroad bonds in your portfolio rated as low as B1+, other than the several items in default, which we will discuss later. The remaining B1+ rated issue would be the \$100,000 Illinois Central 3½s, 1952. However, due to the mortgage protection this bond enjoys, and in view of the expansion in traffic and earnings of this system over recent months, together with the outlook for further betterment over the remainder of the year, it is our opinion that you would not be justified in disposing of these bonds. The road's financial position is relatively comfortable.

Since our last detailed report there has been very little change in the intrinsic position or market value of your several holdings of defaulted railroad bonds, viz.,-

- 34M Chicago & Northwestern 4½s, 2037
- 50M Chicago, Rock Island & Pacific 4s, 1934
- 25½M St. Louis & San Francisco 4s, 1950
- 23M St. Louis, Peoria & Northwestern 5s, 1948

In previous reviews we have discussed the basic status of these bonds, and we can only add that no definite steps have been taken towards the reorganization of the issuing companies, and until such a development occurs, or other like situated railroads work out reorganization plans, so as to set up a pattern for railroad reorganizations, so to speak, it is our recommendation that you retain these bonds and await further developments.

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City & Suburban Railway (now Capital Transit Company) let 5s, 1948, have recovered to approximately their high for this year, around 90, comparing with 85 at the time of our last report. Due to the very disappointing first half year's showing, when fixed charges were covered but about 1.08 times, and in view of the nature of the business of this company, the general investment status of the bonds, and taking into consideration your small holdings, \$5,000, we advise that the bonds be liquidated.

Approximately a year has elapsed since you acquired, through bequest, 56 shares of Great Southern Lumber Company stock. At the time it came into your possession it was quoted around 52. In view of the substantial liquidating dividends that have been paid on this stock, - \$7 per share already this year, comparing with a total of \$21 in 1935, and \$26.50 in 1934, it does not appear that the present price of around 61 reflects its value. However, we see no point in your organization retaining a small, unimportant holding in a speculative enterprise of this nature, and it would be our suggestion that you offer your stock for sale at \$75 a share. Obviously, this is somewhat above the present market value, but in view of the substantial dividends paid on this stock it is possible that a buyer may be found at this figure. In any event, we think steps should be taken towards disposing of this stock.

Neither do we feel that the 2 shares of Gardena Syndicate should be held as a permanent investment. We have been unable, as yet, to procure any worthwhile information regarding the operation of this enterprise, although the dividend record is exceedingly impressive. We also recommend the sale of the 100 shares of Exchange National Bank, Olean, N.Y.

We notice that you now hold 30 shares of Eastman Kodak and 100 shares of R. J. Reynolds Tobacco. We have a high opinion of both of these stocks in their respective classes, but we do not look upon them as desirable permanent investments for this fund and, accordingly, sale is recommended. As previously indicated in this report, we are optimistic on the longer term outlook for business, feeling that the current upward cycle has considerably farther to go. On the other

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hand, we would not be surprised to see some irregularity in the stock market during the next few weeks, in view of the many uncertainties prevailing, such as the elections, the possibility of labor troubles, and we are not as yet convinced that the high rate of business activity which prevailed during the summer months will not prove to be, at least in part, at the expense of business which would have transpired in normal season.

Several months ago you disposed of \$350,000 Great Northern Railway 4½s, 1977, and reinvested the proceeds in a like par amount of the 4% convertible bonds of this railroad, due in 1946, which issue is secured under the same mortgage as the 4½s, 1977. Despite the substantial appreciation which has occurred, from 111 to 118 in the case of the series "G" 4% bonds, and from 100½ to 107 in the case of the series "H" bonds, we advocate further retention. Despite the drought of the past summer, traffic and revenues have continued to register gains over last year's levels. We currently estimate that earnings this year for the equity stock into which these bonds are convertible, (the series "G" at \$40 per share; the "H" series at \$75), will amount to something in excess of \$3.50 per share, comparing with \$2.87 per share last year, and we are optimistic on the outlook for the bonds, both from an investment standpoint and in regard to their possibilities in the market.

We see no reason to disturb the remaining \$150,000 Great Northern General Mortgage 4½s, 1977, which you hold. This issue has advanced from around 103 to 104, at which price the yield is 4.3%, comparing with but 2% on the series "G" convertible 4s, 1946, and 3.2% on the series "H" 4s, 1946, the latter two being the convertible issues secured under the same mortgage. It is recognized that you have an investment of \$500,000 par amount in Great Northern Railway General Mortgage bonds, and we do not wish to create the impression that we consider this issue as of the highest investment grade. Its rating is "A", but in view of the favorable trend of earnings, we can well foresee the possibility of a higher rating being assigned later on, and it was only a few years ago that Great Northern Railway General Mortgage bonds were rated "A1" and considered a high grade investment. However, in view of your substantial holdings in this issue and the fact that you have \$163,000 par

Account No. S-1506-b (2)

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amount of Northern Pacific bonds, representing a road serving the same section, it is likely that at some time in the future we will propose scaling down your interest in this situation.

While on the subject of bonds of the general investment grade of Great Northern Railway General Mortgage 4s and 4½s, issues carrying our "A" rating, it is in order, we believe, to point out that \$1,127,565, or 8.2% of the portfolio is represented by issues in this rating classification. Such issues represent railroad bonds entirely. We feel that you are sufficiently well acquainted with the significance of our "A" rating to realize that while we consider such bonds as of good investment character, we must face the fact that they are, in general, a shade lower in investment grade than what your requirements justify. Furthermore, the specifications for new investments which were laid down by your Board last year, embodied that new purchases must be of the minimum quality rated "A1".

While we believe that recognition should be given to this admittedly substantial representation in "A" rated bonds, the specific issues you hold are such that we think it would be out of place at this time to take any action. As we have already stated, the outlook for Great Northern Railway, which represents approximately 50% of your "A" rated holdings, is bright, indeed. In fact, we believe that the outlook for the steam railroads of the country, as a whole, is favorable and we would not be surprised to see, over the next year or two, some return towards their former high credit standing upon the part of a great many railroad obligations of the type of those comprising your "A" rated holdings. Certainly, this would apply to Louisville & Nashville and Northern Pacific.

In view of the dependence of Delaware & Hudson to a great extent upon anthracite traffic, we are not especially optimistic on the longer term operating outlook for this railroad. On the other hand, we do not think it would be in order to dispose of the \$21,000 Delaware & Hudson 4s, 1943 at present prices, on account of the valuable investment portfolio the company holds, particularly, its substantial interest in New York Central, 495,000 shares of that railroad's stock being held. Despite the fact that the three companies guaranteeing Arkansas

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& Memphis Railway Bridge & Terminal 5s, 1964 are in receivership, the strategic value of the property upon which these bonds are secured by first mortgage is such that we look upon them as being in an entirely sound position.

It is to be noted that the sales we have recommended or repeated in this review, will result in clearing out of your portfolio all bonds rated "B1+" or lower, other than the \$100,000 Illinois Central 3½s, 1952, the \$53,000 Provident Loan Society of New York 6s, which we do not rate and the several issues of defaulted railroad bonds. As to the Provident Loan Society 6s, despite the fact that this issue is not actively traded in, and detailed information regarding the operation of the enterprise is not readily and promptly available, we think that the security is sound and, that in view of the substantial income afforded at the present price, you would be justified in retaining this holding.

We feel that we should ask your pardon for bringing up a matter that we have so often called to your attention before, that is the number of bonds you still hold, which are selling above the price at which the issuing company has the option of redemption. True, many such issues have already been retired, so that the condition is not of as great importance as before, but still, we believe, that it would be to your advantage to sell these bonds, as listed, in anticipation of their being redeemed at a time when reinvestment opportunities are less attractive than at present.

While we realize that you are not yet in position to take action in respect to the 41,494 shares International Telephone & Telegraph Corporation stock, in view of the prolonged and severe nature of the Spanish Revolution, some comment appears in order. To show the importance of the Spanish properties, interest and dividend income accruing to International Telephone & Telegraph last year from the Spanish telephone unit was \$2,588,116, which compared with total earnings available for interest of \$8,213,410 and net income for the system, after debenture interest, of \$2,443,660. Naturally, a conflict of the proportions of the Spanish revolt inevitably

STANDARD STATISTICS COMPANY, INC.
Continuation

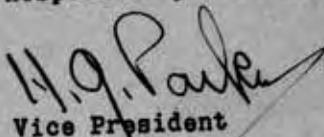
Account No. S-1606-b (2)

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will have adverse effect on internal economic conditions in that country, and restriction of growth in revenues from the Spanish properties is indicated. However, the outlook for International Telephone & Telegraph is not entirely of a discouraging nature because of the rising trend of earnings of the company's manufacturing subsidiaries which operate principally in Belgium, England, France, and Germany, and the improving status of the South American telephone properties.

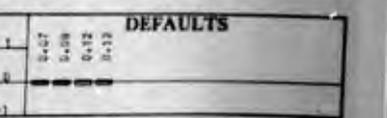
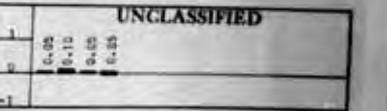
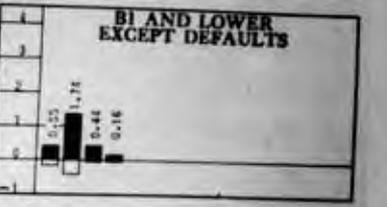
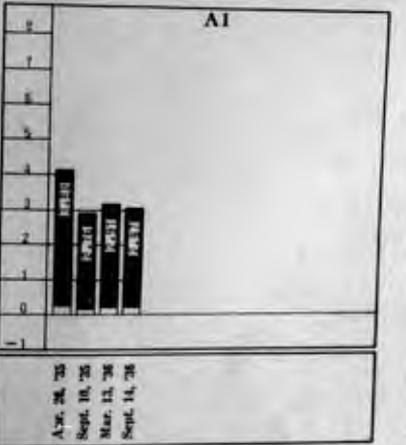
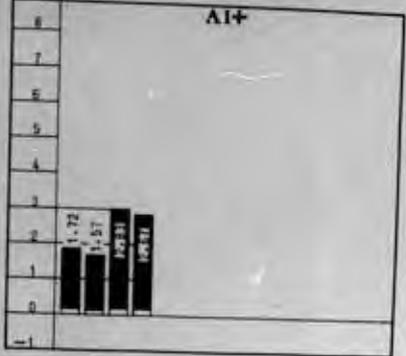
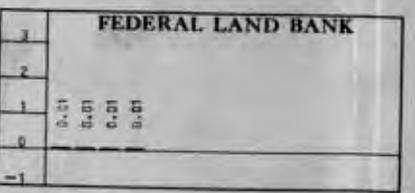
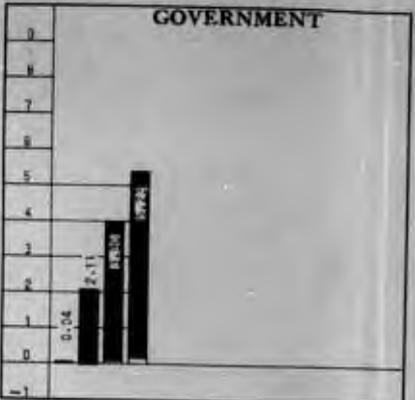
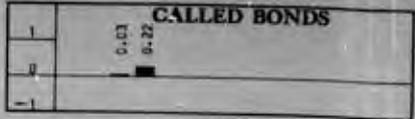
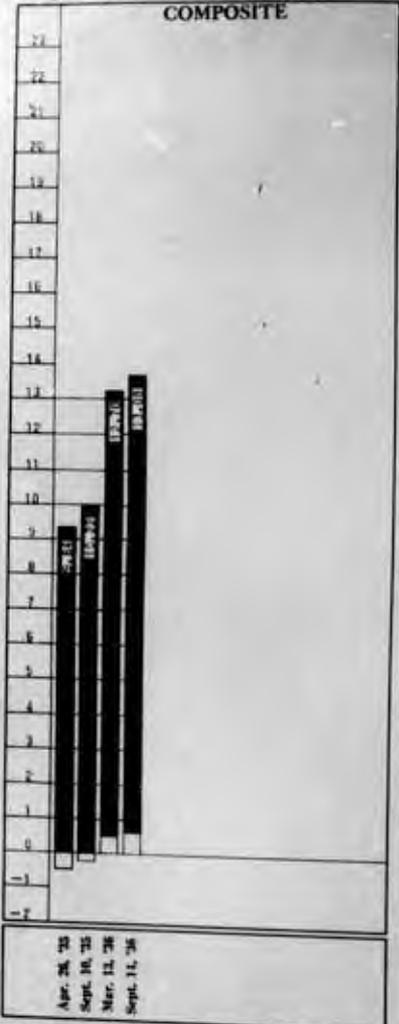
Respectfully submitted



H. G. Park
Vice President

MARKET VALUE

Graphic Analysis of Account No. S-1606-2



Unit: \$1,000,000

Bars above Zero Show Market Value
 Unshaded Portion of Bars Indicates Difference Between Investment Value and Market Value; Above Zero A Profit, Below Zero A Loss

Inserted Figures Show Total Book Value

Chart By The Standard Statistics Co., Inc.

SUMMARY

Rating Classifications	Book Value	Market Value	Ratio Mkt. to Book	% of Portfolio	Annual Income	% of Total Income	Curr. Market Return
	\$	\$	%	%	\$	%	%
Called Bonds	229,500	247,781	108.0	1.8	(a)	-	-
U.S. Gov't. Dir. & Gtd.	5,233,636	5,391,670	103.0	39.4	155,525	33.4	2.9
Federal Land Bank	8,000	8,800	110.0	0.1	320	0.1	3.6
Domestic Municipal	186,360	212,160	113.8	1.6	7,726	1.7	3.6
Canadian Gov't. Gtd.	100,580	119,000	118.3	0.9	5,000	1.1	4.2
Canadian Municipal	150,672	181,500	120.4	1.3	7,500	1.6	4.1
Al+	2,672,517	2,846,810	106.5	20.8	100,597	21.6	3.5
Al	2,871,814	3,083,010	107.3	22.5	121,562	26.1	3.9
A	1,062,381	1,127,565	106.1	8.2	46,250	9.9	4.1
Total A Group	6,606,712	7,057,385	106.8	51.5	268,409	57.6	3.8
Total A & Better	12,515,460	13,218,296	105.6	96.6	444,480	95.5	3.4
B1+	231,950	229,000	98.7	1.7	10,250	2.2	4.5
B1	152,120	141,250	92.8	1.0	6,875	1.5	4.9
B	5,000	4,500	90.0	0.1	250	0.1	5.5
Total B1 and lower except Defaults	157,120	145,750	92.7	1.1	7,125	1.6	4.9
Not Rated	53,000	62,010	117.0	0.4	3,180	0.7	5.1
Defaults - Corporate	121,438	33,730	27.8	0.2	-	-	-
TOTALS	13,078,968	13,688,786	104.6	100.0	465,035	100.0	3.4
Group Classifications							
Called Bonds	229,500	247,781	108.0	1.8	(a)	-	-
U.S. Gov't. Dir. & Gtd.	5,233,636	5,391,670	103.0	39.4	155,525	33.4	2.9
Federal Land Bank	8,000	8,800	110.0	0.1	320	0.1	3.6
Domestic Municipal	186,360	212,160	113.8	1.6	7,726	1.7	3.6
Canadian Gov't. Gtd.	100,580	119,000	118.3	0.9	5,000	1.1	4.2
Canadian Municipal	150,672	181,500	120.4	1.3	7,500	1.6	4.1
Railroad	2,554,653	2,661,975	104.2	19.4	107,130	23.0	4.0
Utilities	4,289,293	4,510,890	105.2	32.9	168,279	36.2	3.7
Industrial	326,274	355,010	108.7	2.6	13,555	2.9	3.8
TOTALS	13,078,968	13,688,786	104.6	100.0	465,035	100.0	3.4

MATURITY TABLE
(Market Values as of September 14, 1936.)

	1936	1940	1941	1942-46	1947 & Beyond	Grand Total
	\$	\$	\$	\$	\$	\$
Called Bonds	347,781					347,781
U.S. Gov't. Dir. & Gtd.				1,058,537	4,333,033	5,391,670
Federal Land Bank				8,800		8,800
Domestic Municipal			33,000		179,160	212,160
Canadian Gov't. Gtd.					119,000	119,000
Canadian Municipal					181,500	181,500
Al+		81,000	214,000	79,500	2,472,310	2,846,810
Al				218,760	2,864,250	3,083,010
A				411,810	715,755	1,127,565
B1+					229,000	229,000
B1 and lower					241,490	241,490
Total	247,781	81,000	247,000	1,777,507	11,335,498	13,688,786
% of Total	1.8	0.6	1.8	13.0	82.8	100.0%

(a) - Annual income on Called Bonds, \$10,125, not included in summary.

CALLED BONDS	Book	Annual	Book	Call	9-10-35	--1936 Prices--		Net	9-14-36	Yield
	Value	Income	Price	Price		3-15	9-14			
225M Kansas City Pwr. & Lt. 4½s, '61 (25M-C) (Called 10-2-36)	\$229,500	(a)	102	110	112	109	110½ x	+1½	\$247,781	- - 1.5 e
U.S. GOV'T. DIR. & GTD.										
506½M Treasury 3½s, 45/43 (6½M-G)	540,972	\$16,453	106.27	100'43						
95½M Treasury 3½s, 45/43 Reg.	95,500	3,104	100	100'43		107.9	108.25	+1.16	550,705	3.0 1.92 e
372½M Treasury 3½s, 46/44 (34½M-B)	400,593	12,106	107.17	100'44		107.9	108.25	+1.16	103,886	3.0 1.92 e
*500M Treasury 3s, 48/46	516,056	15,000	103.7	100'46			108.15		404,046	3.0 2.04 e
50.6M Treasury 2½s, 47/45 (G)	50,600	1,391	100	100'45	102.11	104.5	106.3	+1.30	530,469	2.8 2.32 e
3M Treasury 3½s, 49/46 Reg.	3,000	94	100	100'46		102.8	104.16	+2.8	52,877	2.6 2.20 e
75M Treasury 4½s, 52/47 Reg.	75,000	3,187	100	100'47		105.5	107.1	+1.28	3,211	2.9 2.32 e
*490M Treasury 3½s, 52/49 (14M-A)	511,391	15,312	104.12	100'49	103.5	117.13	119.7	+1.26	89,414	3.6 2.28 e
50M Treasury 4s, 54/44 Reg.	50,000	2,000	100	100'44		105	106.18	+1.18	522,156	2.9 2.54 e
*257M Treasury 2½s, 54/51	260,763	7,067	101.15	100'51		112.10	114.6	+1.28	57,094	3.5 2.12 e
100M Treasury 3½s, 56/46 (G)	100,000	3,750	100	100'46			101.24		261,497	2.7 2.61 e
2,024M Treasury 2½s, 60/55 (910M-G)	2,023,875	58,190	100	100'55	100.00	110.24	112.11	+1.19	112,344	3.3 2.29 e
550M F.F.M.C. 3s, 49/44 (*490M at 102.6)	560,244	16,500	101.28	100'44	100.27	101.8	103.1	+1.25	2,085,352	2.8 2.67 e
\$1,150 H.O.L.C. 2½s, 49/39	1,150	32	100	100'39		102.12	103.27	+1.15	571,141	2.9 2.45 e
20M H.O.L.C. 3s, 52/44	19,262	600	96.10	100'44	100.22	101.30			1,172	2.7 2.05 e
*20.8M H.O.L.C. 3s, 52/44 (A)	21,355	624	102.21	100'44		102.8	103.21	+1.13	20,731	2.9 2.47 e
*\$450 H.O.L.C. 3s, 52/44 (B)	450	13	100	100'44			103.21		21,560	2.9 2.47 e
*\$1,225 H.O.L.C. 3s, 52/44 (C)	1,225	37	100	100'44			103.21		466	2.9 2.47 e
*\$275 H.O.L.C. 3s, 52/44 (D)	275	8	100	100'44			103.21		1,270	2.9 2.47 e
*½M H.O.L.C. 3s, 52/44 (E)	125	4	100	100'44			103.21		285	2.9 2.47 e
*\$1,050 H.O.L.C. 3s, 52/44 (F)	1,050	31	100	100'44			103.21		129	2.9 2.47 e
*½M H.O.L.C. 3s, 52/44 (H)	750	22	100	100'44			103.21		1,088	2.9 2.47 e
									777	2.9 2.47 e

\$5,119,675	TOTALS	5,233,636	155,525						5,391,670	2.9

(a) - Annual income on called bonds, \$10,125, not included in summary.
 x - Selling at or above call price.
 e - Yield to first call date.

FEDERAL LAND BANK

MUNICIPALS		Tax Coll.	
(A)		Prev. Latest	Full Full
Adjusted Net Debt Ratio	Per Capita Net Debt	Year	Year
Dir. (b) Comb.	Dir. (b) Comb.	Year	Year
%	\$	%	%
8.9	8.9	201	201
		74.0	84.0

BM Fed. Land Bk. 4s, 46/44

Book Value	Annual Income	Book Price	Call Price	9-10-35 Price	-1936 3-13	Prices- 9-14	Net Change	9-14-36 Value	Yield Curr. Mat.
\$8,000	\$320	100	100'44	106	109	110	+1	\$8,800	3.6 2.6

DOMESTIC MUNICIPAL NEW YORK

30M N.Y. (Cl.) 4 1/2s, 12-1-41 (G)	30,000	1,350	100	NC		110	110	-	33,000	4.1	2.5
25M N.Y. (Cl.) 4s, 5-1-57 (G)	25,000	1,000	100	NC		110	113	+3	28,250	3.5	3.1
25M N.Y. (Cl.) 4 1/2s, 3-1-57 (G)	25,000	1,062	100	NC		114	117	+3	29,250	3.6	3.3
50M N.Y. (Cl.) Corp. Stk. 3 1/2s, 11-1-52 Reg. (G)	50,000	1,750	100	NC		102	107	+5	53,500	3.3	2.9
50M N.Y. (Cl.) Corp. Stk. 4 1/2s, 11-1-57 Reg. (G)	50,000	2,250	100	NC		115	119	+4	59,500	3.8	3.2
4 1/2M N.Y. (Cl.) Reg. 4s, 5-1-59	3,690	180	82	NC	102	110	113	+3	5,085	3.5	3.2
2 1/2M N.Y. (Cl.) Reg. 4 1/2s, 3-1-63	2,225	112	89	NC	109	116	119	+3	2,975	3.8	3.4
1/2M N.Y. (Cl.) Reg. 4 1/2s, 7-1-67	445	22	89	NC	109	117	120	+3	600	3.7	3.2

187 1/2M NEW YORK

186,360	7,726
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212,160	3.6
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187 1/2M DOMESTIC MUNICIPAL

186,360	7,726
---------	-------

212,160	3.6
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Percent Change in Carloadings 1936 - 1935	
Week Ended	35 Weeks Ended
8-29-36	8-29-36
%	%
-	-

CANADIAN GOV'T. GTD.

Fixed Charges Times Earned	Est. 1935	1936
1934	1935	1936

Gtd. by Gov. of Can.

100M Canadian Natl. Ry. 5s, '54

100,580	5,000
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114	116	119
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+3	119,000	4.2	3.8
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CANADIAN MUNICIPAL

150M Harbour Commissioners (Montreal) 5s, 11-1-69 (50M-B)

150,672	7,500
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105'49

118	121
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+3	181,500	4.1	3.9
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RAILROAD A1+

1.83	2.07	2.46	+10.9	+ 9.6
1.47	1.20	1.63	+ 7.8	+16.7
1.47	1.20	1.63	+ 7.8	+16.7

20M Atch., Top. & S. Fe Gen. 4s, '95 (G)	20,000	800	100	NC		113	115	+2	23,000	3.5	3.4
128M Chi., Burl. & Q. (Ill. Div.) 3 1/2s, '49	112,830	4,480	88 1/2	105	103	106	108 x	+2	138,240	3.2	2.8 (m) e
65M Chi., Burl. & Q. (Ill. Div.) 4s, '49	60,252	2,600	92 1/2	105	109	111	112 x	+1	72,800	3.6	2.9 (m) e

(A) - Debt ratios adjusted to estimated true property valuations.
 (b) - Includes estimated overlapping debt for municipalities. Proportionate state debt is not included.
 x - Selling at or above call price.
 e - Yield to first call date.
 (m) - Minus yield.

Fixed Charges Times Earned			Percent Change in Carloadings 1936 - 1935		RAILROAD (Cont'd.) A1+ (Cont'd.)	Book Value	Annual Income	Book Price	Call Price	9-10-35 Price	-1936 3-13	Prices-9-14	Net Change	9-14-36 Value	Yield Curr.	Yield Mat.	
1934	1935	Est. 1936	Week Ended 8-29-36	35 Weeks Ended 8-29-36													
Gtd. by 7 R.R. Cos.			-	-	25M Cincinnati Union Term. 5s, '57	\$26,356	\$1,250	105½	105	11/1/37	113	113	109x	-4	\$27,250	4.6	4.3
Gtd. by 12 Prop. Cos.			-	-	40M Kansas City Term. Reg. 4s, '60	39,360	1,600	98½	105		106	107	108x	+1	43,200	3.7	3.5
2.28	2.28	2.54	+14.3	+13.6	17M Ore. Wash. R.R. & Nav. 4s, '61	15,744	680	92½	105		104	107	106x	-1	16,020	3.8	3.6
6.47	9.48	15.61	+15.2	+15.9	35M Scioto Valley & New Eng. 4s, '89(G)	35,000	1,400	100	NO			116	119	+3	41,650	3.4	3.2
					330M												
					A1+	309,572	12,810								364,160	3.5	
A1																	
1.83	2.07	2.46	+10.9	+9.5	50M Atchison, Top. & S. Fe Conv. 4s, '55	44,770	2,000	89½	110		105	105	109	+4	54,500	3.7	3.3
0.88	0.90	1.06	+12.6	+14.0	112M Balt. & Ohio 4s, '48	101,624	4,480	90½	105'45		101	106	108	+2	120,960	3.7	3.2
0.88	0.90	1.06	+12.6	+14.0	60M Balt. & Ohio 5s, '48	62,051	3,000	103½	103½'45		107	112	113	+1	67,800	4.4	3.6
1.27	1.29	1.43	+14.6	+11.3	200M Penn., Ohio & Detroit 4½s, '77(100M-B)	196,125	9,000	98½	102½		104	106	105x	-1	210,000	4.3	4.2
1.27	1.29	1.43	+14.6	+11.3	277M Penn. R.R. 4½s, '65(40M-B)(5M-D)(5M-E)	272,622	12,465	98½	NO		107	113	113	-	313,010	4.0	3.8
					699M										766,270	4.0	
A																	
Gtd. by 3 R.R. Cos.			-	-	46M Ark. & Memphis R.R. Br. & Term. 5s, '64	49,634	2,400	103½	104		93	99	103	+4	49,440	4.8	4.8
Gtd. by 3 R.R. Cos.			-	-	10M Cleve. Union Term. 4½s, '77	9,100	450	91	105	10/37	92	101	104	+3	10,400	4.3	4.3
0.46	0.35	0.64	+13.3	+6.4	21M Delaware & Hudson 4s, '43	20,038	840	95½	107½		83	85	86	+1	18,060	4.6	6.5
0.95	1.37	1.51	-3.5	+12.3	175M Gr. North. "G" 4s, '46	194,250	7,000	111	105				118x	206,500	3.4	2.0	
0.95	1.37	1.51	-3.5	+12.3	175M Gr. North. "H" 4s, '46	175,937	7,000	100½	105				107x	187,250	3.7	3.2	
0.95	1.37	1.51	-3.5	+12.3	150M Gr. North "E" 4½s, '77	146,981	6,750	98	105'47		88	103	104	+1	156,000	4.3	4.3
1.28	1.40	1.70	+16.5	+18.3	273M Louisville & Nashville 4½s, 2003	270,894	12,285	99½	105	10/39	101	109	108x	-1	294,840	4.2	4.1
1.06	1.03	1.03	+7.7	+19.3	121M Northern Pacific "C" 5s, 2047	126,055	6,050	104½	105'52		91	107	109	+2	131,890	4.6	4.6
1.06	1.03	1.03	+7.7	+19.3	32M Northern Pacific "D" 5s, 2047	32,867	1,600	102½	105'53		91	107	108	+1	34,560	4.6	4.6
1.06	1.03	1.03	+7.7	+19.3	12½M Northern Pacific 6s, 2047	12,500	750	100	110		97	110	111x	+1	13,875	5.4	2.5e
1.01	1.08	1.29	+18.1	+19.1	25M Southern Pac. (Oreg. Lines) 4½s, '77	24,125	1,125	96½	105		86	97	99	+2	24,750	4.5	4.5
					1,042½M										1,127,565	4.1	
A																	
						1,662,381	46,250										

* - Selling at or above call price.
e - Yield to first call date.
(m) - Minus yield.

Fixed Charges Times Earned			Percent Change in Carloadings 1936 - 1935		RAILROAD (Cont'd.)											
1934	1935	Est. 1936	Week Ended 8-29-36	35 Weeks Ended 8-29-36	B1+	Book Value	Annual Income	Book Price	Call Price	9-10-35 Price	-1936 3-13	Prices- 9-14	Net Change	9-14-36 Value	Yield Curr. Mat.	
			%	%												
0.87	1.00	1.13	+10.7	+12.3	150M Cleve., Cinn., Chi. & St. L. 4½s, '77	\$147,663	\$6,750	98½	105'47	76	90	96	+8	\$144,000	4.7 4.7	
0.83	0.43	0.97	+ 9.9	+14.6	100M Illinois Central 3½s, '52	94,287	3,500	84½	NC	70	80	85	+5	85,000	4.1 4.9	
-----						250M								229,000	4.5	
-----						B1										
0.87	1.00	1.13	+10.7	+12.3	100M N.Y. Cent. & Hud. Rv. R.R. 4½s, 2013	98,464	4,500	98½	110	72	85	93	+8	93,000	4.8 4.8	
0.87	1.00	1.13	+10.7	+12.3	25M N.Y. Cent. 5s, 2013	28,938	1,250	115½	105'51	78	90	99	+9	24,750	5.0 5.0	
1.01	1.08	1.29	+18.1	+19.1	25M Southern Pacific 4½s, '69	24,718	1,125	98½	105	74	89	94	+5	23,500	4.8 4.9	
-----						150M								141,250	4.9	
-----						Defaults										
0.51	0.35	0.24	+11.4	+16.0	34M Chic. North West. 1st 4½s, 2037	33,993	def.	100	-	16	23	23	-	7,820	- -	
0.15	0.03	0.08	+14.8	+14.1	50M Chi., Rock Is. & Pac. 4s, 4-1-34	44,731	def.	89½	-	13	18	19	+1	9,500	- -	
0.19	0.11	0.33	+14.2	+13.4	25½M St. Louis San Francisco 4s, '50(A)	19,342	def.	75½	-	13½	25	28	+3	7,210	- -	
0.51	0.35	0.24	+11.4	+16.0	23M St. L., Peoria & No. West 5s, '48(A)	23,372	def.	101½	-	38	46	40	-8	9,200	- -	
-----						132½M								35,730	-	
-----						Defaults										
-----						2,604½M								2,661,975	4.0	
-----						TOTAL RAILROAD										
-----						2,554,653	107,130									4.0
-----						UTILITIES										
-----						A1+										
6.04	6.37	7.00			75M American Tel. & Tel. 5s, '46	75,000	3,750	100	105	109	108	106 x	-2	79,500	4.7 4.2 0.3 e	
2.29	2.43	2.60			200M Bell Tel. of Pa. 5s, '48	206,188	10,000	103½	100'44	118	120	121	+1	242,000	4.1 2.9	
3.82	3.86	4.40			*205M Brooklyn Edison 3½s, '66	208,787	6,662	101½	106			103		211,150	3.2 3.1	
3.52	4.43	5.20			40M Cleveland Elec. Illum. 3½s, '65	42,028	1,500	105½	107	106	110	110 x	-	44,000	3.4 3.2 (m) e	
4.10	4.40	4.63			300M Duquesne Light 3½s, '65	312,974	10,500	104½	107½	103	107	108 x	+1	324,000	3.2 3.1 0.4 e	
2.34	2.65	3.00			300M Edison Elec. Illum. (Bost.) 3½s, '65	310,977	10,500	105½	107½	103	106	107	+1	321,000	3.3 3.1	
1.95	5.85	8.00			300M Illinois Bell Tel. 3½s, '70	310,780	10,500	103½	107½	107	108 x	+1	324,000	3.2 3.1 2.4 e		

x - Selling at or above call price.

e - Yield to first call date.

(m) - Minus yield.

d - Deficit.

Fixed Charges
Times Earned

Fixed Charges Times Earned			UTILITIES (Cont'd.)		Book	Annual	Book	Call	9-10-35	-1935 Prices-	Net	9-14-35	Yield			
1934	1935	Est. 1936	A1+ (Cont'd.)		Value	Income	Price	Price	Price	3-13	9-14 Change	Value	Curr.	Mat.		
3.83	3.99	4.80	*200M N.Y. & Queens Elec. Lt. & Pwr. 3½s, '65		\$209,794	\$7,000	104½	107		109	107 x -2	\$214,000	3.3	3.1	3.2 e	
3.01	3.27	3.50	200M South. Bell Tel. & Tel. 5s, 1-1-41		201,813	10,000	100½	105	108	107	107 x -	214,000	4.7	3.2	(m) e	
5.30	5.36	6.80	*200M Southwestern Bell Tel. 3½s, '64		211,330	7,000	105½	107½		106	108 x +2	216,000	3.2	3.1	1.0 e	
-----			A1+		2,089,671	77,412						2,189,650	3.5			
-----			A1													
5.04	6.37	7.00	15M American Tel. & Tel. 5s, '60 (10M-G)		15,000	750	100	110	112	113	111 x -2	16,650	4.5	4.3	1.4 e	
5.04	6.37	7.00	08M American Tel. & Tel. 5s, '65		107,460	5,400	99½	110	112	112	112 x -	120,960	4.5	4.3	(m) e	
2.22	2.21	2.40	300M Buffalo Gen. Elec. 4½s, '81		317,581	13,500	105½	107½	109	109	109 x -	327,000	4.1	4.1	2.9 e	
2.22	2.21	2.40	20M Buffalo Gen. Elec. 5s, '56		20,422	1,000	102½	103	107	105	104 x -1	20,800	4.8	4.7	2.2 e	
1.92	1.89	2.50	*62M Conn. River Pwr. 3½s, '61		65,177	2,325	105½	106			106 x -	65,720	3.5	3.4	3.4 e	
2.50	2.60	2.78	*200M Consumers Pwr. 3½s, '65		210,717	7,000	105½	105		105	106 x +1	212,000	3.3	3.2	(m) e	
2.04	2.46	2.78	500M Detroit Edison 4½s, '61		522,965	22,500	104½	105 2/41	112	116	117 x +1	585,000	3.8	3.5	1.6 e	
0.78	0.59	-	5M New York & East River Gas 5s, '44		5,000	250	100	NC	108	111	113 +2	5,650	4.4	3.1		
2.08	2.36	2.90	*125M Pacific Gas & Elec. 3½s, '61		129,140	4,687	103½	110			107	133,750	3.5	3.3		
2.08	2.36	2.90	211M Pacific Gas & Elec. 5s, '42(28M-B)(3M-C)		212,933	10,550	100½	105	106	103	101 -2	213,110	4.9	4.8		
3.33	3.36	3.40	332M Phila. Elec. 4s, '71		329,842	13,280	99½	102½	105	105	105 x -	348,600	3.8	3.7	(m) e	
2.44	2.50	2.75	*250M South. Calif. Ed. 3½s, '60		258,335	9,375	103½	107½		107		267,500	3.5	3.3		
-----			A1		2,194,622	90,617						2,316,740	3.9			
-----			B													
2.45	1.58	-	5M City & Sub. Railway (Wash. D.C.) 5s, '48		5,000	250	100	NC	91	85	90 +5	4,500	5.5	6.2		
-----			TOTAL UTILITIES		4,289,293	168,279						4,510,690	3.7			
-----			INDUSTRIAL													
-----			A1+													
63.29	1.24	-	75M Illinois Steel 4½s, 4-1-40		69,444	3,375	92½	105	108	108	108 x -	81,000	4.2	2.1	(m) e	
5.50	6.00	-	200M Socony Vacuum 3½s, '50		203,830	7,000	101½	102½		105	106 x +1	212,000	3.3	3.0	(m) e	
-----			A1+		273,274	10,375						293,000	3.5			

x - Selling at or above call price.
e - Yield to first call date.
(m) - Minus yield.
d - Deficit.

INDUSTRIAL (Cont'd.) Not Rated		Book Value	Annual Income	Book Price	Call Price	9-10-35 Price	-1936 3-15	Prices- 9-14	Net Change	9-14-36 Value	Yield Curr. Mat.
53M Provident Loan Soc. (N.Y.) Reg. Ctf. of Cont. 6% (5M-E)		\$53,000	\$3,180	100	-	109	114	117	+3	\$62,010	5.1
-----		-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
329M	TOTAL INDUSTRIAL	326,274	13,555	-----	-----	-----	-----	-----	-----	355,010	3.8
-----		-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

NOT INCLUDED IN BREAKDOWN

30 Shs. Eastman Kodak	5,265
100 Shs. Exchange Nat. Bank (Olean, N.Y.)	4,000
2 Shs. Gardena Syndicate Co. (Calif.)	200
56 Shs. Gt. South. Lumber	2,240
41,569 Shs. International Tel. & Tel. Capital Stock	1,548,744
100 Shs. Reynolds (R.J.) Tobacco Co.	5,675

TOTAL	1,566,124

- (A) Held in Town & County Nursing Service.
- (B) Held in Oliver M. Butler Fund.
- (C) Held in Jane A. Delano Fund.
- (D) Held in Margaret Wolf Memorial.
- (E) Held in William Howard Taft Fund.
- (F) Held in Louisa Lee Sargent Fund.
- (G) Held in Estate of Clara A.H.H. Smith.
- (H) Held in Abbie L. Barnum Fund

 Issues selling at or above Call Price

	Qual. Rtg.	Book Value	Annual Income	Book Price	Call Price	9-14-36 Price	9-14-36 Value	Yield		1st Call
								Curr.	Mat.	
128M Chic., Burl. & Quincy (Ill. Div.) 3½s, '49	A1+	\$112,830	\$4,480	88½	105	108	\$138,240	3.2	2.8	(m)
65M Chic., Burl. & Quincy (Ill. Div.) 4s, '49	A1+	60,252	2,600	92½	105	112	72,800	3.6	2.9	(m)
25M Cinn. Union Term. 5s, '57	A1+	26,386	1,250	105½	105 11/1/37	109	27,250	4.6	4.3	1.5
40M Kansas City Term. Reg. 4s, '60	A1+	39,360	1,600	98½	105	108	43,200	3.7	3.5	(m)
17M Ore.-Wash. R.R. & Nav. 4s, '61	A1+	15,744	680	92½	105	106	18,020	3.8	3.6	0.6
200M Penn. Ohio & Det. 4½s, '77	A1	196,125	9,000	98½	102½	105	210,000	4.3	4.2	(m)
75M Amer. Tel. & Tel. 5s, '46	A1+	75,000	3,750	100	105	106	79,500	4.7	4.2	0.3
15M Amer. Tel. & Tel. 5s, '60	A1	15,000	750	100	110	111	16,650	4.5	4.3	1.4
108M Amer. Tel. & Tel. 5s, '65	A1	107,460	5,400	99½	110	112	120,960	4.5	4.3	(m)
300M Buffalo Genl. Elec. 4½s, '81	A1	317,581	13,500	105½	107½	109	327,000	4.1	4.1	2.9
20M Buffalo Genl. Elec. 5s, '56	A1	20,422	1,000	102½	103	104	20,800	4.8	4.7	2.2
332M Phila. Elec. 4s, '71	A1	329,842	13,280	99½	102½	105	348,600	3.8	3.7	(m)
75M Illinois Steel 4½s, 4/1/40	A1+	69,444	3,375	92½	105	108	81,000	4.2	2.1	(m)
		----- 1,385,446 -----	----- 60,665 -----				----- 1,504,020 -----	----- 4.0 -----		

(m) - Minus yield.

Recommended Sales

	Qual. Rtg.	Book Value	Annual Income	Book Price	Call Price	9-14-36 Price	9-14-36 Value	Yield	
								Curr.	Mat.
5M City & Suburban Ry. (Wash., D.C.) 5s, '48	B	\$5,000	\$250	100	NC	90	4,500	5.5	6.2
30 Shs. Eastman Kodak		5,265	180			168	5,040	3.6	
100 Shs. Exchange Natl. Bank, Olean, N.Y.		4,000	No curr. record			49N	4,900	-	
2 Shs. Gardena Syndicate Co. (Calif.)		200	530			NRQ	-	-	
56 Shs. Great South. Lumber		2,240	336			52	2,912	-	
100 Shs. Reynolds Tobacco "B"		5,675	300			56	5,600	5.3	
		-----					-----		
		22,380					22,952	3.2	
		-----					-----		

Remaining Railroad Bonds of lower investment value previously recommended for sale

	Qual. Rtg.	Book Value	Annual Income	Book Price	Call Price	Suggested Sale		
						Price	Value	
150M C.C.C. & St. Louis 4½s, '77	B1+	147,663	6,750	98½	105'47		(146,500)	4.6
						(50 at 96½)	48,250	
						(50 at 98)	49,000	
						(50 at 98½)	49,250	
100M New York Central 4½s, 2013	B1	98,464	4,500	98½	110		(96,000)	4.7
						(50 at 95)	47,500	
						(50 at 97)	48,500	
25M New York Central 5s, 2013	B1	28,936	1,250	115½	105'51	99	24,750	5.0
25M Southern Pacific 4½s, '69	B1	24,718	1,125	98½	105	95	23,750	4.7
		-----	-----				-----	
		299,783	13,625				291,000	4.7
		-----	-----				-----	

Recommended Purchase

Recapitulation		Amt.	Security	Price	Value
Issues at or above call price	\$1,504,020		1,000M U.S. Treasury 2½s, '59-56	101	\$1,010,000
Recommended Sales	22,952		*743M U.S. Treasury 2½s, '54-51	101.19	754,841
Remaining R.R. Bonds	291,000		410M U.S. Treasury 2½s, '47-45	104.9	427,553
Available Cash	360,000				
	-----				-----
Available for Reinvestment	2,177,972				2,192,394
	-----				-----

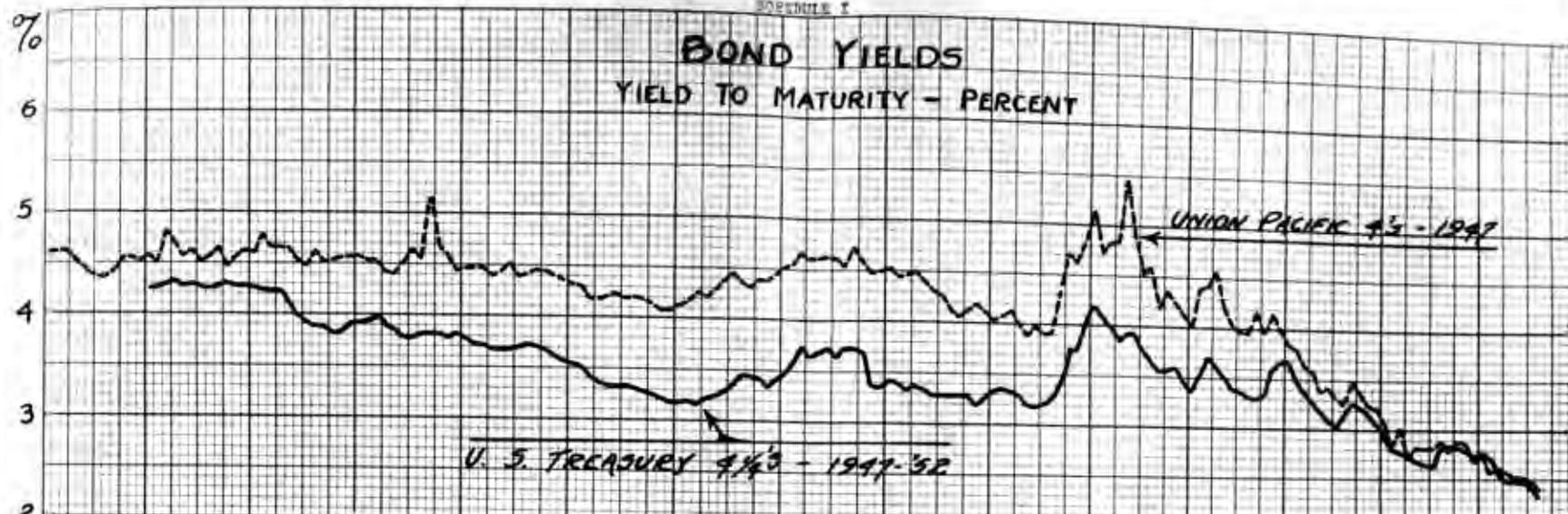
* - To round out holding to \$1,000,000

U.S. GOVERNMENT BONDS

U.S. GOV'T. MATURING WITHIN 10 YEARS			Book Value	Annual Income	Book Price	Call Price	9-10-35 Price	3-13-36 Price	9-14-36 Price	Net Change	9-14-36 Value	Yield Curr.	Yield Mat.
506 1/2M Treasury 3 1/2s, '45/43 (6 1/2M-G)	\$540,972	\$16,453	106.27	100'43	107.9	108.25	+1.16	\$550,705	3.0	1.92	a		
95 1/2M Treasury 3 1/2s, '45/43 Reg.	95,500	3,104	100	100'43	107.9	108.25	+1.16	105,886	3.0	1.92	a		
372 1/2M Treasury 3 1/2s, '46/44 (34 1/2M-B)	400,593	12,106	107.17	100'44		108.15		404,046	3.0	2.04	a		
974 1/2M TOTAL	1,037,065	31,663						1,058,637	3.0				
U.S. GOV'T. MATURING AFTER 10 YEARS			Book Value	Annual Income	Book Price	Call Price	9-10-35 Price	3-13-36 Price	9-14-36 Price	Net Change	9-14-36 Value	Yield Curr.	Yield Mat.
*500M Treasury 3s, '48/46	516,056	13,000	103.7	100'46	102.11	104.5	+1.30	530,469	2.8	2.32	a		
50.6M Treasury 2 1/2s, '47/45 (G)	50,600	1,391	100	100'45		102.8	+2.8	52,877	2.6	2.20	a		
3M Treasury 3 1/2s, '49/46 Reg.	3,000	94	100	100'46		105.5	+1.28	3,211	2.9	2.32	a		
75M Treasury 4 1/2s, '52/47 Reg.	75,000	3,187	100	100'47		117.13	+1.26	89,414	3.6	2.28	a		
*490M Treasury 3 1/2s, '52/49 (14M-A)	511,391	15,312	104.12	100'49	103.3	105	+1.18	522,156	2.9	2.54	a		
50M Treasury 4s, '54/44 Reg.	50,000	2,000	100	100'44		112.10	+1.28	57,094	3.5	2.12	a		
*257M Treasury 2 1/2s, '54/51	260,783	7,067	101.15	100'51		101.24		261,497	2.7	2.61	a		
100M Treasury 3 1/2s, '56/46 (G)	100,000	3,750	100	100'46		110.24	+1.19	112,344	3.3	2.29	a		
2,024M Treasury 2 1/2s, '60/55 (910M-G)	2,023,875	58,190	100	100'55	100.00	101.16	+1.25	2,085,352	2.8	2.67	a		
3,549.5M TOTAL	3,590,685	105,991						3,714,414	2.8				
U.S. GOV'T. GTD. MATURING AFTER 10 YEARS			Book Value	Annual Income	Book Price	Call Price	9-10-35 Price	3-13-36 Price	9-14-36 Price	Net Change	9-14-36 Value	Yield Curr.	Yield Mat.
550M F.F.M.C. 3s, '49/44 (*490M at 102.6)	560,244	16,500	101.28	100'44	100.27	102.12	+1.15	571,141	2.9	2.45	a		
\$1,150 H.O.L.C. 2 1/2s, '49/39	1,150	32	100	100'39		101.30		1,172	2.7	2.05	a		
20M H.O.L.C. 3s, '52/44	19,262	600	95.10	100'44	100.22	102.8	+1.13	20,731	2.9	2.47	a		
*20.8M H.O.L.C. 3s, '52/44 (A)	21,355	624	102.21	100'44		103.21		21,560	2.9	2.47	a		
*\$450 H.O.L.C. 3s, '52/44 (B)	450	13	100	100'44		103.21		456	2.9	2.47	a		
*\$1,225 H.O.L.C. 3s, '52/44 (C)	1,225	37	100	100'44		103.21		1,270	2.9	2.47	a		
*\$275 H.O.L.C. 3s, '52/44 (D)	275	8	100	100'44		103.21		285	2.9	2.47	a		
* 1/2M H.O.L.C. 3s, '52/44 (E)	125	4	100	100'44		103.21		129	2.9	2.47	a		
*\$1,050 H.O.L.C. 3s, '52/44 (F)	1,050	31	100	100'44		103.21		1,085	2.9	2.47	a		
* 1/2M H.O.L.C. 3s, '52/44 (H)	750	22	100	100'44		103.21		777	2.9	2.47	a		
\$595,825 TOTAL	605,886	17,871						618,619	2.9				
a - Yield to first call date.													
SUMMARY			9-10-36 Values		% of								
U.S. Gov't. Maturing within 10 years	1,037,065	31,663	19.6	7.7									
U.S. Gov't. Maturing after 10 years	3,590,685	105,991	68.9	27.2									
U.S. Gov't. Guaranteed Maturing after 10 years	605,886	17,871	11.5	4.5									
\$5,119,675	5,233,636	155,526	100.0	39.4									
							1,058,637	3.0					
							3,714,414	2.8					
							618,619	2.9					
							5,391,670	2.9					

BOND YIELDS

YIELD TO MATURITY - PERCENT



DIFFERENCE BETWEEN TWO CURVES CHARTED ABOVE

BILLION DOLLARS

U. S. GOVERNMENT INTEREST BEARING DEBT OUTSTANDING AS OF JUNE 30.

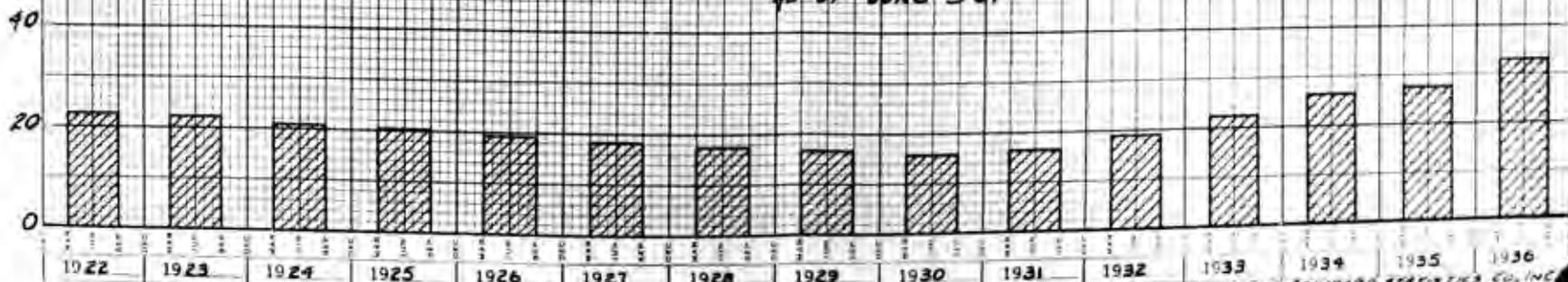


CHART BY STANDARD STATISTICS CO. INC.

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October 1st

At the 9:30 meeting in Secretary Morgenthau's office the following were present:

Mr. Bell	Mr. Oliphant
Mr. Gaston	Miss Roche
Mr. Gibbons	Mr. Taylor
Mr. Haas	Mr. Upham
Mr. Mc Reynolds	

The Secretary related to the group what transpired at the White House last night. (For further details on this see October 1st diary). After he had finished he said, "that's the job I owe George Haas a theatre ticket for" and George Haas replied, "oh no, that's all right".

Mr. Gibbons: I didn't have a chance to tell you that they gave a dinner to the Vice-President in New York and he got up and he told them that they will have to balance the budget, he had gone along as far as he could and they are going to do it regardless. During the war they never made an appropriation that they didn't include in the appropriation a funding item - amortization.

Mr. Morgenthau: Now do you mind, Steve, I have an awful lot of ground to cover?

Mr. Morgenthau: Let's first take the McCarl statement because I have a 10:30 Press Conference. In the first place should I answer McCarl on statement No. 1?

Mr. Gaston: I don't think so.

Mr. Bell: It isn't worth answering.

Mr. McReynolds: You would put it right on the front page if you answered it.

Mr. Morgenthau: I was going to say, "As an Accountant Mr. McCarl may be a good lawyer". (Laughter)

Mr. Oliphant: Anything you tend to say would tend to headline it. I wouldn't say it at all.

Mr. Morgenthau: I am the most suppressed man in Washington. (Laughter) No body will let me say anything. (More laughter).

Mr. Bell: I would like to ask him where he got all his information as Comptroller General. He has no opportunity of getting it.

Mr. Morgenthau: I feel that after 15 years of his experience it is not the best thing to do. I thought of bringing in McCarl as a Special Assistant to myself but I talked to Senator Norris and Senator Norris said, "Don't take him. He will double-cross you the same as he double-crossed me".

Mr. Gaston: That's a good thing to tell us. (Laughter)

Mr. Morgenthau: Then it isn't worth it?

Group: No.

Mr. Morgenthau: Then as to Hearst. I have an answer for him. This part of Hearst's statement, "What right have we to loan money to France? Does not the Johnson Act, etc." Now what I would like to say is, "If Mr. Hearst has had as good financial advice as he has tax experts working for him, he would not have men working for him like that." What about that?

Mr. Oliphant: Of course no.

Mr. Morgenthau: What do you mean? A man whose name I won't tell said you are a couple of sissies. Herbert (Gaston) and Oliphant. They are nothing but a couple of sissies.

Mr. Gibbons: (Trying to guess who the man was) Eddie? (Meaning Eddie Greenbaum)

Mr. Morgenthau: Yes, Eddie Greenbaum.

Mr. Gibbons: Can you prove he (Hearst) has good tax experts? Go ahead and say it.

Mr. Oliphant: Well hold it, Steve.

Mr. Gaston: We are not considering Editor Morgenthau's attitude; we are considering the Secretary of the Treasury.

Mr. Morgenthau: You don't like that?

Mr. Gaston: I would not say that.

Mr. Morgenthau: Miss Roche, don't you think they are good?

Miss Roche: Excellent.

Mr. Gibbons: Well your theory is you can wisecrack these fellows right out of existence like Jimmy Walker. (Laughter)

Miss Roche: Oh my goodness, that would be worse.

Mr. Morgenthau: No it wouldn't. He's right. He's right.

Mr. Taylor: The Secretary of the Treasury is not supposed to be a wise-cracker.

Mr. Oliphant: Another sissie. (Meaning Mr. Taylor) (Laughter)

Mr. Taylor: You can have somebody else do it but you oughtn't to do it.

Mr. Morgenthau: Well would you answer it at all?

Mr. Gibbons: The public at large - how does the man on the street receive that?

Mr. Upham: He doesn't even read it.

Mr. Gibbons: He reads that.

Mr. Morgenthau: Well of course Hearst has left himself wide open if they (the press) ask me.

Mr. Gaston: I'd say we have not loaned any money to France.

Mr. Bell: Say you are keeping well within the Johnson Act.

Mr. Oliphant: I vote that you work till one o'clock every night. (Laughter)

Mr. Gibbons: What about Anslinger's statement in the Post?

Mr. Gaston: I didn't read it in the Post this morning.

Mr. Morgenthau: Those fellows are coming over at 11:15. I am not going to be able to fuss with that thing. (Referring to the President's speech). Do you fellows want to fuss with it?

Mr. Bell: I am working on it.

Mr. Haas: I have a copy of it.

Mr. Morgenthau: Who will give me draft three? You Herbert?

Mr. Gaston: Yes sir.

Mr. Gibbons: When does Al talk?

Mr. Morgenthau: Tonight and Smith is trying to find out what's in that speech. If the President will say what we want him to, it will be a whiz-bang. He has to say it. I don't want him to say that I said so. (Meaning to balance the budget in '38). I could balance the budget but that is not my job. I can do it and not take it out of the hides of the unemployed.

Miss Roche: That's Landon who will take it out of the hides of the unemployed.

11

October 1st

The President casually asked me to drop around at 9 o'clock last night at the White House and when I got there I found Tommy Corcoran, Stanley High and Judge Rosenman with the President.

The President began to read draft 3 of his Pittsburgh speech. When he got through I told him I thought it was a terrible speech and I wished he wouldn't give it. He said, "I have to give it". He had no other speech and had to finish this in an hour and a half.

I then got on the telephone and sent for Gaston, Haas, Seltzer and Bell, inasmuch as the speech was entirely a financial one. After the President finished reading this draft I left the three men in the Cabinet Room and went into the President's room with the other group and told them that all we could attempt to do was to make the speech correct from a fiscal standpoint. As the time drew near for the President to leave we were only about half way through and I refused to release it.

I went up to see the President, while he was in his bedroom entirely alone, and told him that I couldn't release the speech, that the President of the United States just could not make any financial mistakes and if he would trust me I would promise to get it to him some time this morning - I didn't know how but I would get it to him. He smiled and said that was O.K.

We then went back to the President's own room in the office and Corcoran joined us and by one o'clock we had satisfied ourselves that the speech was correct as far as the figures went.

During the discussion earlier in the evening I pointed out to the President that he made the statement that "we will balance the budget sooner than we expect" and that if he made that statement he simply would make himself the laughing stock of America. I told him that Bell and I feel that if he would be tough that he could balance the budget in '38 and still allow a billion dollars for relief. He said, "all right" and I said, "now wait a minute" and I called on Miss LeHand to listen carefully to what I said. I said, "this decision has to be yours and nobody else's". He said, "well I can say the Secretary of the Treasury says the budget can be balanced in '38" and I said, "you have to say it because nobody can balance it but you and both Bell and I feel it can be done."

- 2 -

In the draft that came to us as draft 4 the President said, "the Treasury advises me that the budget can be balanced" and we crossed that out and wrote a very, very powerful statement for him to see.

I arranged through Secret Service that we would be able to talk to Judge Rosenman, who accompanied the President on the train, at 11:15 this morning and read the Treasury corrections to him over the telephone.

I made it clear to Tommy Corcoran that neither Bell nor I would plead with the President to make the statement "that the budget could be balanced in '38", that the President would have to make that statement himself.

October 1, 1938

The Secretary spoke to the President over the telephone this morning and gave him the Treasury corrections in the President's speech.

Referring to the last paragraph, HM, Jr. said, "This is the way it reads now: 'We now have for the first time reached that point in recovery where I feel it is safe to say that assuming no unforeseen national calamity is thrust upon us that I am determined to leave no stone unturned to balance the Federal Budget for the fiscal year of 1938.'" He then said, "Here is the alternative: 'We have reached a stage of recovery where it now seems safe to say that we shall be able to present a balanced Federal Budget for the fiscal year that begins next July.' Dan likes this last one better. Everything else we have given you is acceptable and I didn't, couldn't know whether this would or would not be. Dan says I should call your attention to this: 'If it keeps on rising at the present rate, as I am confident that it will, the receipts of the Government without imposing any additional taxes will within a year be sufficient to care for all ordinary and relief expenses of the Government'." Bell, who was listening in on an extension phone, said to the President, "That's virtually, however, a promised balanced Budget. You might say 'within a year or so, or within two years'."

The President did not like either of these statements and decided not to use them. The President said, with respect to making a definite commitment that the Budget would be balanced in the fiscal year 1938, that that would be contrary to his policy and that he would not make such a definite statement, so he decided not to use either alternative.

~~37~~

October 1st

Mr. Graves and Mr. Hanks were present.

- Graves: What we have done is to make arrangements to provide Hanks with all the personnel that he is going to need at Seattle, Portland and Los Angeles. Any wire tapping work that he wants done he will indicate to me. We have also arranged to provide him with automobiles by the Seattle Division of the Alcohol Tax Unit. When he gets out to the coast he will select some men that he knows in Ireys' organization and advise me who the men are and we will have Ireys detach them and assign them to Hanks.
- Graves: Lieutenant-Commander May, Puleston's man, - we have an understanding with Captain Puleston that May is to be kept in the background and work with Hanks but all of the facilities will be provided by Hanks. He will work with Hanks but will be kept in the background.
- H.M.Jr: The point is this - you are going to get from Graves all the equipment, all the automobiles, all the wire tapping that you need and all the personnel and Navy Intelligence will keep in the background. If you need a Japanese or Chinese interpreter they will furnish it to you. What arrangements have you made to keep Graves informed?
- Graves: Hanks will make a weekly report to me - to my home each week.
- H.M.Jr: Fix him up with a secret Coast Guard code and have it go through Mrs. Freedman.
- Graves: Hanks says he needs \$20,000 in order to pay for information.
- H.M.Jr: Hanks ought to be back here about the 15th or 20th of November.

October 1, 1936
9:15 a.m.

H.M.Jr: Say, your voice sounds a little different than last night.

Knoke: Yes. (Laughs) Well, all I needed was a little sleep.

H.M.Jr: Well, did you get that?

K: Plenty of it.

H.M.Jr: That's good.

K: I just put in a call for Cariguel. I spoke to him -

H.M.Jr: Yes.

K: - nothing new in - politically. He said they are - at the Bank of France they are satisfied that no matter what happens to the amendments, devaluation will go through -

H.M.Jr: Good.

K: He gave me an order to sell francs, unlimited amounts -

H.M.Jr: Yes.

K: - delivery today or tomorrow, at 4.89-5/8 -

H.M.Jr: Yes, I see.

K: He made one statement. I don't know whether it was done for a purpose. He - he has a million dollars here -

H.M.Jr: Yes.

K: - as a result of yesterday's operations and he said he's asking us to pay to the Bank of England today.

H.M.Jr: To do what?

K: To pay it over to the Bank of England.

H.M.Jr: Yes.

K: And he says the purpose is there's plenty of gold on offer in London -

H.M.Jr: Yes.

K: - and he wants to buy some of that gold.

H.M.Jr: Yes.

K: And he added, "I wish I had some more dollars."

H.M.Jr: I see.

K: So I just said, well, I didn't - didn't say anything.

H.M.Jr: Yes.

K: And sterling is 4.95 -

H.M.Jr: Yes.

K: - to - it opened and ruled at 4.95 most of the time .
It's a little easy at the moment - 4.94-1/2.

H.M.Jr: That's all right.

K: Yes, and -

H.M.Jr: (Aside: That's all right.)

K: - the market was called steady all morning in London.

H.M.Jr: Well, that's very good. You don't know how much they've done?

K: Well I - I shall talk to them within the next 15 minutes.

H.M.Jr: Fine. Well, after you talk to London, give me a ring, will you?

K: I shall - yes.

H.M.Jr: Thank you.

October 1, 1936
1:00 p.m.

H.M.Jr: Hello, George.

H: Good morning, Henry?

H.M.Jr: Yes.

H: We have ever since we organized here in New York a monthly review. You may have seen it.

H.M.Jr: Yes.

H: On the money market.

H.M.Jr: Yes.

H: Now one of the most important events in the money market this past month, of course, has been what you have done.

H.M.Jr: Yes.

H: We are going to this time quote the whole statement which you published just as a matter of record in it.

H.M.Jr: Yes.

H: And we make some ordinary comments describing what the thing was.

H.M.Jr: Fine.

H: I didn't want them to put it out though because it concerns you without the courtesy of telling you first that I was going to do it, and then I asked them to send over a copy from the Reserve Board, who always have to approve what we put out, sometime during the day. I don't care - know whether you care to read it or not.

H.M.Jr: Yes. Well, will you tell them to send ^{it} to George Haas.

H: George Haas?

H.M.Jr: Please.

H: All right.

H.M.Jr: I appreciate your letting me know.

H: All right.

H.M.Jr: I'm sure it will be all right.

H: Oh, I think it's all right. We don't get into any argumentary stuff at all.

H.M.Jr: Well I - I - I'm sure it will be all right. I'm very much pleased, and I've cabled for what the Geneva Economic Report said about American recovery. I saw it on the ticker that they had made a very friendly report for the first time.

H: Yes, I think it is the first time (Laughs).

H.M.Jr: Yes.

H: Yes.

H.M.Jr: Well thanks, George.

H: All right, Henry.

H.M.Jr: Thank you.

H: Thank you very much and thank you for telling me about Knoke yesterday. I sent him home - not as early as I would have liked to, but I got him out within an hour after you talked to me.

H.M.Jr: Well I -

H: And he's feeling fine today.

H.M.Jr: Oh he's - he's the cock of the walk today.

H: He's all right. Yes.

H.M.Jr: Fine.

H: That's right.

H.M.Jr: Thank you.

October 1, 1936
1:40 p.m.

42

Operator: Hello, Mr. Cochran. (Pause)

Operator: Hello, Mr. Cochran.

Cochran: Hello.

Operator: Go ahead.

H.M.Jr: Hello, Cochran.

C: Hello, Mr. Morgenthau.

H.M.Jr: Well, now, do I gather that the thing is finished?

C: I'm not sure right up to the last minute.

H.M.Jr: Yes.

C: I just now talked with the Ministry of Finance, and Baumgartner hadn't gotten out of the Senate yet.

H.M.Jr: Yes.

C: But they didn't think it was quite finished.

H.M.Jr: Yes.

C: But it's just a matter of - of a few minutes, I think.

H.M.Jr: I see.

C: At least an hour - an hour at most.

H.M.Jr: Yes.

C: Because it - it passed the Senate, you know.

H.M.Jr: Yes.

C: The Senate Committee has voted -

H.M.Jr: Yes.

C: - the compromise.

H.M.Jr: Yes.

C: The Senate adopted it. it.

H.M.Jr: Yes.

- C: Then the House - the Chamber began working on it -
- H.M.Jr: Yes.
- C: - and at six - 6:10 they passed it with some small amendments.
- H.M.Jr: Yes.
- C: Just a few of them. And then it was to go back to the - to the Senate -
- H.M.Jr: Yes.
- C: And then the - the Chamber was due to meet at 7:30 again.
- H.M.Jr: Yes.
- C: Because for some reason it had to come to them again -
- H.M.Jr: Yes.
- C: Whether or not the Senate made any amendments.
- H.M.Jr: Yes.
- C: So I've just talked to the Ministry of Finance and will follow it. It's still over at the Senate.
- H.M.Jr: Yes. Well, I guess it's all right though, isn't it?
- C: I couldn't call there - the line was so busy.
- H.M.Jr: And I cabled - I see that Geneva got out a very favorable economic report on America. And I asked Dr. Feis to try to get me a copy of it.
- C: I see. That's - that's just come out now?
- H.M.Jr: Well, it was on the ticker; yes - for the first time they admit that we've got recovery here. Maybe you could get it for me quicker.
- C: Phone a copy of it?
- H.M.Jr: What?
- C: Is Feis getting a copy?

H.M.Jr: Yes.

C: I - I can get one if you need it.

H.M.Jr: Well, you get me one also.

C: All right.

H.M.Jr: If it's not - get me one also.

C: All right.

H.M.Jr: See?

C: Yes.

H.M.Jr: You put yours in the mail pouch.

C: All right.

H.M.Jr: Yes.

C: And I sent you day before yesterday a big bundle of the British and Paris newspapers.-

H.M.Jr: Fine.

C: I'll have another bunch which came in tomorrow which go clear through this thing.

H.M.Jr: Well, I'm going up to New York tonight, and I'll be on the farm tomorrow, but the switchboard here at the Treasury will always know where I can be reached.

C: I see. Well, this - this thing will go through - It's just a question now of an hour or two now.

H.M.Jr: Fine. Well, everything is very quiet here. Commodities are behaving very well.

C: That's good.

H.M.Jr: - and so are the Government bonds.

C: The - the bonds didn't weaken any more?

H.M.Jr: No - no. Everything is fine.

C: Good. I - I talked with Cariguel just before I came home -

H.M.Jr: Yes.

C: I - I was on the way home when you called.

H.M.Jr: Yes. I know.

C: And he said that there was nothing particularly new, that they permitted a little trading in Swiss and Dutch bonds -

H.M.Jr: I see.

C: - this afternoon.

H.M.Jr: Yes.

C: You see there was such a jam of trading there that they had to let a little go on.

H.M.Jr: Yes. Well, things here are very quiet.

C: Yes.

H.M.Jr: Under perfect control, and we haven't bought or sold a pound of sterling this week.

C: You haven't bought any?

H.M.Jr: We've not bought or sold a single pound of sterling this week.

C: Is that so?

H.M.Jr: Yes.

C: Fine.

H.M.Jr: And which I think is remarkable.

C: - that statement yet, are you?

H.M.Jr: What?

C: That - that statement that we talked about some time ago - that arrangement about this precious metal -

H.M.Jr: Well, we got that all signed and ready when those fellows work. We can work here, you know, awful fast when they get ready.

C: It's just a question of when they finish here definitely.

H.M.Jr: Well, we're all right here. We - We've never kept anybody waiting yet.

C: No, I know it.

H.M.Jr: But it's all fine. The President signed it, and it's in Mrs. Klotz's safe, and it's all there waiting.

C: It is?

H.M.Jr: So it's just up to them.

C: They - they've quieted down so they're really not worried now.

H.M.Jr: If you - as soon as we get a breathing spell in Paris, I'd like you to drop over to London for a couple of days.

C: All right. When - whenever you say the word.

H.M.Jr: Well, I'll leave that to you.

C: I'll tell you what - what I should like to do. I should like to be able to go to Basle -

H.M.Jr: Yes.

C: - a week from Sunday.

H.M.Jr: That's all right.

C: They - they have the first B.I.S. meeting there, you see?

H.M.Jr: That's all right. But if - if - if before that, if things are sufficiently quiet, I'd like you to spend a couple of days in London.

C: I see.

H.M.Jr: Use your own judgment.

C: So we could check up on that the first of the week then.

H.M.Jr: That's right.

C: All right.

H.M.Jr: Well, it's - it's good having that phone in your house, isn't it?

C: Yes, and it's good connections.

H.M.Jr: Fine.

C: Perfectly.

H.M.Jr: All right.

C: Oh, by the way, there's just one thing. I noticed in the paper today - the British paper -

H.M.Jr: Yes.

C: - Chamberlain wants to give a speech before some political party -

H.M.Jr: Yes.

C: - about these arrangements, citing the cooperation, and so on.

H.M.Jr: Yes.

C: You haven't had a report of that yet, have you?

H.M.Jr: No.

C: Well, I'll see what it is early in the morning then.

H.M.Jr: All right.

C: And the - and the President's speech yesterday got an especially good press over here.

H.M.Jr: Did it?

C: Yes.

H.M.Jr: You mean the one in Syracuse?

C: The one where he - he sort of struck out and told a funny story or two.

H.M.Jr: Yes. Yes.

C: About Communism, and so on.

H.M.Jr: Yes. Yes. That's all right.

C: The - the paper said he was in fine form, and so on.

H.M.Jr: Yes, he was.

C: - and two or three others.

H.M.Jr: And you got about the red herring all right?

C: Yes. Yes.

H.M.Jr: Yes.

C: And that other - that Hearst business is only appearing in the Ajenca Economique, the financial paper.

H.M.Jr: Good.

C:; I haven't seen it in another paper and I have a copy over at the Embassy if you want me for it.

H.M.Jr: All right.

C: The Ambassador has been very busy with the radio and the movies, and so on.

H.M.Jr: What do you mean - he goes to the movies?

C: Oh, no, makes them.

H.M.Jr: What?

C: I say he's making them.

H.M.Jr: Making them?

C: Yes. After all, he has to go through the -

H.M.Jr: Oh, he hasn't - he hasn't had time to get into the money business?

C: Not yet - no.

H.M.Jr: All right.

C: Then I shall not call you. I'll - I'll wait until you call me, is that right?

H.M.Jr: That's right. That's right.

C: And -

H.M.Jr: Goodbye.

C: And I'll send you wires confirming these conversations because things are moving too rapidly to -

H.M.Jr: That's right.

C: - to wire.

H.M.Jr: Thank you.

C:; All right. Goodnight.

H.M.Jr: Goodnight.

October 1, 1936.

Excellency:

I have the honor to acknowledge the receipt of Your Excellency's note No. 3479 of September 26, 1936, informing me of the Belgian Government's policy with respect to international monetary and economic relations.

The Secretary of the Treasury associates himself with me in expressing this Government's appreciation of Your Excellency's communication and our gratification concerning this declaration.

Accept, Excellency, the renewed assurances of my highest consideration.

CORDELL HELL

His Excellency

Count Robert van der Straten-Ponthoz,

Belgian Ambassador.

AMBASSADE
RÉPUBLIQUE FRANÇAISE
AUX ÉTATS-UNIS
L'ATTACHÉ FINANCIER

No. 12.002

51
NEW YORK
20 EXCHANGE PLACE

October 13, 1936.

Mr. Secretary:

In accordance with the instructions received from the French Minister of Finance, I have the honor to send you herewith the translation in French of your declaration relative to the new gold agreement and the text of the commentary, similar to the British commentary, which accompanied this declaration at the time of its publication in Paris.

I take with pleasure this opportunity of conveying to you, Mr. Secretary, the renewed expression of my highest esteem and consideration.

The Financial Attaché to the French Embassy:

J. Allier

1) TRADUCTION : Comme suite aux avis donnés par lui les trente Janvier et premier Février 1934 prévoyant les achats d'or par la Trésorerie, et le 31 Janvier 1934 concernant la vente de l'or pour l'exportation, le secrétaire du Trésor déclare que dorénavant - et tant que, après préavis de 24 heures, cette déclaration d'intention ne sera pas annulée ou modifiée - les Etats-Unis vendront aussi de l'or aux fins d'exportation ou de consignation d'or (earmark) aux fonds d'égalisation ou de stabilisation des changes qui sont de la même manière disposés à vendre de l'or aux Etats-Unis, pourvu que de telles offres d'or soient faites à des taux et dans des conditions telles que le secrétaire du Trésor puisse les estimer les plus avantageuses du point de vue de l'intérêt public. Le secrétaire du Trésor fait connaître en outre d'ores et déjà la liste des pays étrangers qui remplissent les conditions ci-dessus indiquées et cette liste sera complétée chaque jour. Toutes les ventes d'or de cette espèce seront faites par l'intermédiaire de la Federal Reserve Bank de New-York, agissant comme agent financier des Etats-Unis, aux conditions suivantes que le secrétaire du Trésor estime les plus avantageuses du point de vue de l'intérêt public : "l'or sera vendu au prix de 35 dollars par once de fin plus $1/4$ % pour les frais, et les ventes et les consignations seront soumises aux règles édictées en application du Gold Reserve Act de 1934".

2) COMMENTAIRE : Il ressort du communiqué ci-dessus du secrétaire du Trésor des Etats-Unis d'Amérique que les arrangements relatifs à la coopération technique avec les autorités monétaires des Etats-Unis d'Amérique sont complètement mis au point. Une nouvelle réglementation des

conditions de délivrance de l'or est édictée par le secrétaire du Trésor, réglementation qui permet à tous les pays qui accordent des facilités réciproques d'obtenir de l'or aux Etats-Unis d'Amérique contre les devises de ce pays. Le Gouvernement français a pris les dispositions nécessaires pour que de telles facilités soient données à Paris aux autorités monétaires des Etats-Unis. Cet arrangement qui sera mis en oeuvre au jour le jour doit faciliter grandement les opérations techniques du fonds de stabilisation des changes. Un arrangement analogue a été conclu avec les autorités monétaires de Grande-Bretagne, de manière à assurer une coopération effective entre Paris, Londres et New-York.

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FEDERAL RESERVE BANK
OF NEW YORK

54

ICE CORRESPONDENCE

DATE October 1, 1926.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF FRANCE.

I called Mr. Cariguel at 9:05 today to confirm to him that after having sold francs for him in the morning for delivery yesterday, the details of which were given him by cable and telephone at noon-time yesterday, we had done nothing further for his account. I inquired what the present status was of the monetary legislation before Parliament. He replied there were no news. In reply to my question he stated that they were satisfied that that part of the legislation dealing with devaluation would go through irrespective of what might happen to those articles put on as riders, which really had nothing to do with the monetary problem.

He then referred to an order he had just cabled us instructing us to sell for his account at 4.89 5/8 for delivery today or tomorrow any amounts of francs needed.

He had today requested us, he said, to transfer from his account on our books to the credit of the Bank of England \$1,000,000. He had ordered this transfer, he said, because he had asked the Bank of England to buy some of the gold that was knocking around in London. He added he wished he had more dollars.

LWE:KMC

FEDERAL RESERVE BANK
OF NEW YORK

55

OFFICE CORRESPONDENCE

DATE October 1, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

I called Mr. Bolton at 9:15 today. Bolton stated that the London market this morning had been much quieter; as a matter of fact extremely quiet, with a range for dollars between 4.95 and 4.94 1/8. The latter quotation was the one prevailing at the moment. Dollars seemed slightly on the bid side. So far they had not operated in dollars at all. The gold turnover at fixing was \$3,750,000; a like amount has been done since, the rate going as high as 140 shillings and 7 pence.

I told Bolton of the franc order just received from the Bank of France. He told me he had had a similar order at 101 (at 4.95 equivalent to 4.9009) against which he had sold, so far, 8,000,000 francs.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 1, 1936.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONL. W. KnokeWITH BANK OF FRANCE.

Mr. Cariguel called at 10:46 today to find out what we had done under his order to sell francs. I told him the total so far was 5,150,000 francs (~~5,000,000~~ of which 2,500,000 City Bank, 2,500,000 Banque Belge, all for tomorrow). In addition I gave him paying instructions on 150,000 sold for delivery today. On payments due tomorrow, I said we would cable him tonight.

Cariguel then requested "on account of weakness of sterling against dollars" to lower his limit from 4.89 5/8 to 4.88 5/8 for delivery tomorrow. I explained again that we were selling at his limits plus 3/16 to cover brokerage and handling charges allowed by us to our agents.


LWK:EMC

COPY

October 1, 1936.

My dear Dr. Feis:

I wish to take this opportunity to thank you most sincerely for the splendid advice and assistance which you rendered the United States Treasury during the very difficult negotiations that we have just concluded with the British and French governments.

I feel that we were most fortunate in being able to call on you day or night for your advice and assistance and your knowledge and background on this very difficult and technical negotiation was most helpful in bringing our efforts to a successful fruition.

With kind regards.

Yours sincerely,

(Signed) Henry Morgenthau, Jr.

Dr. Herbert Feis,
Chief of Economic Division,
Department of State,
Washington, D. C.

COPY

October 1, 1936.

My dear Mr. Cochran:

I want to take this opportunity to express my deep appreciation for the splendid work that you have done in assisting the United States Treasury in bringing to a successful termination the very difficult negotiations which we have been conducting for the past month with the French government, looking forward to stabilization of our joint currencies.

In handling the French end of the negotiations you showed rare ability and great judgment and I feel that we were most fortunate in having you in Paris as our representative.

Yours sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. H. Merle Cochran,
First Secretary,
American Embassy,
Paris, France.

COPY

October 1, 1936.

My dear Mr. Hull:

I wish to take this opportunity to thank you most sincerely for the splendid support and cooperation that I received from the State Department and from you personally during the very trying and difficult negotiations which we have just concluded with the British and French governments in regard to monetary stabilization.

I wish to particularly express my appreciation for the very able assistance that I received from Mr. Merle Cochran, of the American Embassy in France, and from Dr. Herbert Feis, here in Washington.

I wish to also compliment your Code Room on the prompt and efficient manner in which they handled the many, many long and difficult cables that were exchanged between myself and the American Embassy in France.

Again thanking you for this splendid cooperation which I received from the State Department during the past two weeks, I remain

Most sincerely yours,

(Signed) Henry Morgenthau, Jr.

The Honorable,

The Secretary of State.

U

GRAY

Belgrade

Dated October 1, 1936

Rec'd 9:15 a.m.

Secretary of State

Washington

36, October 1, 10 a.m.

My 35, September 29, 4 p.m.

The Governor of the National Bank announces that there is no reason to adopt new measures in connection with the dinar and views optimistically the future of the national economy.

REED

KLP:WWC

42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome, Italy

DATE: October 1, 1938, noon.

NO.: 397

I refer to my telegram of September 27, noon,
No. 388.

Before Suvich left Rome he told me that when he received the representatives of the American press he had not made effacing comment regarding war debts inasmuch as he had since decided it was wiser not to do so. I add for the information of the Department that after my previous conversation with Suvich and before his reception of the press, he was received by Mussolini.

PHILLIPS.

EA:LWW

TELEGRAM SENT

U

GRAY

October 1, 1936

Noon

AMLEGATION

RIGA, (LATVIA) Via London

52

Please submit as soon as practicable comprehensive report covering effect of Latvian devaluation on American-Latvian trade. Information with respect to changes in Latvian policy or attitude towards American trade should be obtained from official circles. If a comprehensive report cannot be submitted without appreciable delay, forward by despatch pertinent information as obtained and incorporate it later in desired report.

HULL
RWM

860P.5151/54

EE:LMH:ABF

TELEGRAM SENT

U

GRAY

October 1, 1936

Noon

AMCONSUL

GENEVA (SWITZERLAND)

112

FROM THE SECRETARY OF THE TREASURY

News services here carry short extracts report of League of Nations World Economic Survey apparently both complimentary and optimistic as regards developments in the United States. Please inform us how long this report is and whether newspapers are transmitting its main substance.

EA:HF: LWW

HULL

HF

394

Hong Kong, October 1, 1936.

SUBJECT: Newspaper Comment on the Recent Monetary Agreement between the United States, Great Britain and France.

**THE HONORABLE
SECRETARY OF STATE
WASHINGTON.**

Sir:

1/ I have the honor to enclose herewith a newspaper clipping containing an editorial which appeared in the South China Morning Post of September 28, 1936, on the recent monetary agreement between the United States, France and Great Britain, which is submitted for the reason that the expressions of opinion contained therein reflect the views of many of the British bankers in this city. Ordinarily, the attitude of a group of bankers in any one place would not be of sufficient importance to merit the attention of the Department, but in view of the influence which the British banks in Hong Kong and the British financial experts who visited Hong Kong and China in 1935 exercised on the development of the present monetary system in China, certain of the points brought out in the editorial appear to be of interest. Particularly, the reference to the necessity of some form of bi-metallicism for China points to the recognition of the soundness of the policy in respect of the use of silver which the United

States

- 2 -

States has actively advocated at various times for almost a hundred years.

It is true that the bankers of Hong Kong in co-operation with the government of the Colony, by withdrawing their silver coins from circulation and selling them all, as well as their entire stock of silver bullion, pursued a policy of taking advantage of the high price of silver following the purchases of that metal by the United States Government which policy has resulted in the total abandonment of the use of silver in Hong Kong either as money or as backing for the paper money and minor coins of alloy which have been issued to take the place of silver. Under the monetary laws enacted in 1936, the holders of silver coins and bullion which were requisitioned by the Colonial Government were reimbursed either by certificates of indebtedness of the Colonial Treasury in the case of the three banks of issue, or in paper currency in the case of individuals or commercial banks.

The Hong Kong Government, having requisitioned the silver coin and bullion in the Colony against "certificates of indebtedness" upon which the banks of issue base their notes which constitute the bulk of the money in circulation here, now possesses a reserve against these certificates in the form of credits and exchange which are held principally in London. This is called the "Exchange Fund", but in reality it serves as a stabilization fund and will thus enable Hong Kong to participate in the exchange stabilization movement which has been initiated by the United States, Great Britain and France. However, the Colonial Government has as yet taken no formal steps

toward

- 3 -

toward stabilization. Much depends upon the action of China as Hong Kong cannot permit its currency to be stabilized at a point very remote from the exchange value of the Chinese currency on account of the close commercial relations existing between the Colony and the neighboring provinces of China. Thus, if the money of China is eventually stabilized at a point below its present exchange value, the money of Hong Kong will probably follow it down and its value will in the end be likely to be about five per cent, or at most, ten per cent above the money of China.

In its fluctuations in the exchange market, the Hong Kong dollar may be expected to follow the sterling quotations for the reason that practically all the Hong Kong Exchange Fund is held in London and exchange transactions are largely through that market.

It may be remarked that the change from silver money to paper and minor coins of alloy in Hong Kong has been accepted by the public in the best of spirit and there seems to be no disposition to demand a return to silver; in fact, even the poorer classes seem to prefer paper to silver, although for a while a very large number of counterfeit ten-cent pieces appeared which were so well executed that it was almost impossible to distinguish them from the genuine coins. However, these coins soon developed a "brassy" appearance and to a large extent they have been removed from circulation, the loss apparently having been absorbed by the individual holders.

In banking circles it is feared that the stabilization

of

- 4 -

of exchange will affect the non-British banks in Hong Kong very adversely for the reason that exchange has provided a large part of their business in the past. So far, none of the banks has indicated any intention to retire from this field, but all of them complain that their business has been greatly reduced since November, 1935, when the silver in the Colony was requisitioned by the Government and the import and export of that metal was forbidden except under government license.

Apprehension is also felt in banking circles that the consolidation of the power of the Banking Government in Kwangtung and Kwangai will tend to cause the exchange transactions arising from imports and exports to center in Shanghai through the branches of the Bank of China and that this will make still further inroads on the banking business of the Colony. This change, if it occurs, will be of gradual development and thus unlikely to affect the banking business so seriously as the sudden loss of business which occurred when the currency partially stabilized as a result of cutting loose from silver toward the end of 1935. However, the loss to the banks through the diminution of the exchange business has not been as serious as that which is expected to occur if the exchange value of both the Hong Kong and the Chinese currencies is definitely fixed. The reason for this is that the exchange has been kept flexible so that adjustments to meet any fluctuations in the South China currencies could be made promptly although the Hong Kong currency did not

follow

- 5 -

follow the rapid decline of the Kwangtung and Kwangsi currencies which occurred just before the definite establishment of the authority of the Nanking Government in those provinces in September, 1936.

Finally, there appears to be a feeling of genuine optimism in commercial circles that the promised international stabilization, in which Hong Kong will probably participate, at least indirectly through tying the local dollar to sterling, will eliminate the loss which business has suffered in the past through the wide fluctuations of exchange which since November 7, 1935 has ranged from \$0.57 to \$0.51, United States currency, for the local dollar.

Respectfully yours,

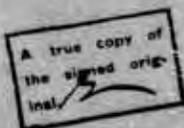
Chas. L. Hoover,
American Consul General.

Enclosure:

1. Newspaper clipping.

In quintuplicate to Department.
Copy to American Embassy, Peiping.
Copy to American Embassy, London.

SSL:5
CLH/g



SOUTH CHINA MORNING POST

Hong Kong

September 20, 1936.

CURRENCY ACCORD

The currency war which has been in progress for seven years and more seems to be nearing its end. Spokesmen of governments have, of course, denied the existence of any such conflict and have attributed all of the instability and intrigues to economic circumstances, the products of the Great War, the war debts and the depression. It has been obvious nevertheless that all countries have been using their currencies as economic weapons. One by one many currencies were forced off their metallic standards; but in most cases their guardians were not reluctant to be so forced. Inflation is another method of protecting industries and correcting unfavourable trade balances, and has been so used - to an extent providing an important new chapter of economic history. Holding Germany up as the awful example, the conservative issued frequent warnings against the effects of inflation; but modern economic science has confounded them. It has been demonstrated that inflation can be controlled and currencies managed though this success does not make the management of currencies any the more acceptable. The real problem is to guarantee management for the common good, without danger of exploitation and abuse by any group and without provoking international manipulation.

The departure of France and her associates from gold might seem, to the "hard money" advocates, to worsen the position rather than improve it, since France, Holland and Switzerland had remained staunchly and unquestionably on gold (except that no coin was available and gold could only be bought and exported in bars). It is confusing and unnecessary to enter into the fine distinctions between being "off gold", being behind a gold embargo and being upon "a reduced gold content." The fact that gold is no longer freely available reduces all the gold using countries to the same class: the currencies are in fact controlled. That would seem to threaten an intensification of conflict; but the more optimistic and logical view is that it brings the nations nearer to the much desired currency agreement. The obstinate retention of the post-war gold values by the European "Gold Bloc" has been held responsible not only for preventing a world currency agreement but for delaying the world's economic recovery. Their departure from gold has been urged frequently as the necessary preliminary to the reconstruction of the world's monetary system. The accord

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- 2 -

now reported among Britain, America and France encourages the hope that full advantage will be taken of the change for these are the principal parties in the concealed struggle for economic dictatorship.

Whether world accord will also mean a general return to metallic standards remain to be seen. This may fairly be said to constitute the test of international sincerity, for the currency based on metal is less easily manipulated. Actually, most of the nations which used to be "on gold" could return thereto (at a revaluation) at once if they wished. France has by no means lost all her gold; and recent figures showed that, with the exceptions of Germany, Russia, Turkey and a few others all nations possessed enough gold to permit them again to base their currencies on the yellow metal, at 30% of the previous valuations. Remembering China, however, obviously some form of bimetalism would be preferable - and of this, unfortunately, there is as yet no sign despite the American pressure. There is room for the hope, however, that currencies will soon again be based on metal - if only for the reason that management of paper currencies involves so much trouble, suspicion and bad feeling.

France has struggled desperately to remain on gold: each new government has been pledged to heroic "defence of the franc." In part this policy has been dictated by her huge gold holding, in larger part by the demands of her numerous rentier class, including the Civil Service, by the poverty of her agricultural population and the fear of financial dictatorship from abroad. France being an importing rather than an exporting country, a deflated state appeared not to incommode her. At the same time the tourist trade upon which she relies to appreciable extent suffered grievously, and foreign opinion will agree unanimously that the inflation now forced upon her will be beneficial. She seems to have succumbed at last to the mischievous factor which incommoded America and Britain before her - the surplus credit resulting from the war, which flies from one country to another in quest of interest. Though the rentiers lose, the nation as a whole should acquire peace of mind; and this should be assured further by the undertakings given by other nations to refrain from competitive under-valuing. In Holland and Switzerland similarly, the stubborn retention of the gold standard seems to have been due largely to pride, both being able to boast that their currencies were backed "100% and more." In Holland especially, solid integrity has appealed even in the face of heavy trade loss - in shipping earnings, for example. In the result the position of the Gold Bloc countries became anomalous. Their wholesale index price levels were low, but their cost of living index was high - disequilibrium (probably to be found also in Hong Kong) in contrast against the economic harmony achieved in Britain and America. This entailed real hardship for the masses and has been partly responsible for the political troubles. Each currency crisis in the Gold Bloc has been survived merely to introduce another crisis. Inflation or revaluation has long been regarded as inevitable, and now that France and Switzerland, if not Holland, have surrendered to circumstances there is a general feeling that at last the world is on the way back to economic sanity. At the moment the Far East seems little affected; but we may even hope for more purchasing power for our dollar.

394

Hong Kong, October 1, 1936.

NEWSPAPER COMMENT ON THE RECENT MONETARY
AGREEMENT BETWEEN THE UNITED STATES,
GREAT BRITAIN AND FRANCE.

SUBJECT:

THE HONORABLE
SECRETARY OF STATE
WASHINGTON.

1/ Sir: I have the honor to enclose herewith a newspaper clipping containing an editorial which appeared in the South China Morning Post of September 28, 1936, on the recent monetary agreement between the United States, France and Great Britain, which is submitted for the reason that the expressions of opinion contained therein reflect the views of many of the British bankers in this city. Ordinarily, the attitude of a group of bankers in any one place would not be of sufficient importance to merit the attention of the Department, but in view of the influence which the British banks in Hong Kong and the British financial experts who visited Hong Kong and China in 1935 exercised on the development of the present monetary system in China, certain of the points brought out in the editorial appear to be of interest. Particularly, the reference to the necessity of some form of bi-metallicism for China points to the recognition of the soundness of the policy in respect of the use of silver which the United

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It is true that the bankers of Hong Kong in co-operation with the government of the Colony, by withdrawing their silver coins from circulation and selling them all, as well as their entire stock of silver bullion, pursued a policy of taking advantage of the high price of silver following the purchases of that metal by the United States Government which policy has resulted in the total abandonment of the use of silver in Hong Kong either as money or as backing for the paper money and minor coins of alloy which have been issued to take the place of silver. Under the monetary laws enacted in 1935, the holders of silver coins and bullion which were requisitioned by the Colonial Government were reimbursed either by certificates of indebtedness of the Colonial Treasury in the case of the three banks of issue, or in paper currency in the case of individuals or commercial banks.

The Hong Kong Government, having requisitioned the silver coin and bullion in the Colony against "certificates of indebtedness" upon which the banks of issue base their notes which constitute the bulk of the money in circulation here, now possesses a reserve against these certificates in the form of credits and exchange which are held principally in London. This is called the "Exchange Fund", but in reality it serves as a stabilization fund and will thus enable Hong Kong to participate in the exchange stabilization movement which has been initiated by the United States, Great Britain and France. However, the Colonial Government has as yet taken no formal steps

- 5 -

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of exchange will affect the non-British banks in Hong Kong very adversely for the reason that exchange has provided a large part of their business in the past. So far, none of the banks has indicated any intention to retire from this field, but all of them complain that their business has been greatly reduced since November, 1935, when the silver in the Colony was requisitioned by the Government and the import and export of that metal was forbidden except under government license.

Apprehension is also felt in banking circles that the consolidation of the power of the Nanking Government in Kwangtung and Kwangai will tend to cause the exchange transactions arising from imports and exports to center in Shanghai through the branches of the Bank of China and that this will make still further inroads on the banking business of the Colony. This change, if it occurs, will be of gradual development and thus unlikely to affect the banking business so seriously as the sudden loss of business which occurred when the currency partially stabilized as a result of cutting loose from silver toward the end of 1935. However, the loss to the banks through the diminution of the exchange business has not been as serious as that which is expected to occur if the exchange value of both the Hong Kong and the Chinese currencies is definitely fixed. The reason for this is that the exchange has been kept flexible so that adjustments to meet any fluctuations in the South China currencies could be made promptly although the Hong Kong currency did not

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Respectfully yours,

Chas. L. Hoover,
American Consul General.

Enclosure:

- 1. Newspaper clipping.

In quintuplicate to Department.
Copy to American Embassy, Peiping.
Copy to American Embassy, London.

CSL:5
GLH/g

A true copy of
the signed orig-
inal.

SOUTH CHINA MORNING POST

Hong Kong

September 28, 1936.

CURRENCY ACCORD

The currency war which has been in progress for seven years and more seems to be nearing its end. Spokesmen of governments have, of course, denied the existence of any such conflict and have attributed all of the instability and intrigues to economic circumstances, the products of the Great War, the war debts and the depression. It has been obvious nevertheless that all countries have been using their currencies as economic weapons. One by one many currencies were forced off their metallic standards; but in most cases their guardians were not reluctant to be so forced. Inflation is another method of protecting industries and correcting unfavourable trade balances, and has been so used - to an extent providing an important new chapter of economic history. Holding Germany up as the awful example, the conservative issued frequent warnings against the effects of inflation; but modern economic science has confounded them. It has been demonstrated that inflation can be controlled and currencies managed though this success does not make the management of currencies any the more acceptable. The real problem is to guarantee management for the common good, without danger of exploitation and abuse by any group and without provoking international manipulation.

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TREASURY DEPARTMENT

77 ~~238~~

UNITED STATES COAST GUARD

HEADQUARTERS

WASHINGTON
October 2, 1936.

SECRET

From: Spagent, Shanghai, China.
To : The Secretary of the Treasury.

The following memo is submitted for your consideration and whatever action you think necessary. It was just received from the Central Bank. Quote:

Referring to the interchange of cables with the Federal Reserve Bank, New York, in which Federal Reserve Bank stated that they would prefer that for any drawings upon them we would draw separately for the amounts of individual sales rather than a lump sum in favor of our commercial banking correspondents in New York, we have to advise that until very recently our commercial funds have been sufficient to meet all demands. However, our sales of exchange in the last few days have so depleted our funds in commercial banks in New York that we should like to draw up to \$7,000,000.00 on our account with Federal Reserve Bank, New York, in order to replenish our working balances with New York commercial banks. In the present somewhat strained atmosphere we feel it would be psychologically unwise for us to ask individual buyers of exchange to apply for payment to Federal Reserve Bank in New York as rumors that we were rapidly depleting our reserves against the currency might arise from such procedure. For the above reason and because of the feeling that our reserve in Federal Reserve Bank should remain untouched we have met all demands from our commercial banking funds up to the present and have refrained from drawing upon the Federal Reserve Bank unquote.

Wsk
This should go into diary.
I gave Lockhead the ans. to Sat. from diary.
get it for diary.
take and own comment

SECRET

for my
comment
Wsk

3
October 8, 1936

Mrs. E. S. Friedman

Mr. Lockhead

Please transmit the following to Spagent, Shanghai, China:
Reference your Cable October 2 submitting same at request
of the Central Bank. In view explanation offered have no objections
transfer of lump sum 7,000,000 dollars as requested with the under-
standing as originally agreed that proceeds of silver sales to
United States Treasury are to be used only for the purpose of
stabilizing Chinese currency.

~~238~~
78 A

Saturday, October 3, 1936

I refer to the request from Kung transmitted through Professor Buck that the Central Bank of China be permitted to transfer \$7,000,000 in a lump sum from their balances with the Federal Reserve Bank to their commercial depositories here. They explained that they had about exhausted their funds in commercial banks and it was necessary to draw on the balances with the Federal Reserve Bank to meet commercial requirements rather than draw a number of small drafts and cable transfers on the Federal which might cause comment at this time. They would prefer to make the transfer in a lump sum.

The Secretary agreed to this request and asked that a cable be sent through Buck, notifying Kung of his decision.

October 2, 1936.

FOR THE SECRETARY

While I was in San Francisco at the convention of the ABA I called upon the San Francisco office of the NRS and the SES.

The NRS is only an administrative office in San Francisco where the activities of operating units in about ~~1/2~~ of the counties of California are directed. The office of the SES is an operating unit under the direction of state headquarters at Sacramento.

I was quite impressed with the personnel and attitude of both organizations in San Francisco. The offices of the NRS are located in a splendid new federal office building. I had quite a discussion with the state director, Mr. Stellern, who seems to be well informed, zealous and earnest. He paints a bright picture of unemployment in California outside of Los Angeles, particularly in the rural counties served by the NRS, feels very definitely that additional funds for more field visits to employers will result not only in increased private placements by the NRS but in more people put to work. Private placements of NRS in California increased one hundred percent in August over July.

It is possible in California to take care of many unemployed for 10 months in the year by moving them with the advance of the season from southern California to northern California. There is a large floating population and a succession of temporary jobs.

While I was in his office, Mr. Stellern talked on long distance phone to 2 or 3 of his offices and he seemed to be handling affairs in a capable executive fashion. The labor unions are friendly and the veterans organizations are friendly. Employers have grown to know and use the employment service.

The offices of the State Employment Service are on the first and second floors of a corner of Mission Street in a busy section of the city and readily accessible. It is a busy place and seems adequate to take care of the many unemployed who visit it. Personnel is pleasant and apparently efficient and the records are in excellent condition. The head of each division keeps on his desk a sheet containing a daily record of calls from private employers, and they are many. The director of the office, Mr. Benson, was enthusiastic about his relations with private employers and felt that they were making very good headway. As a matter of fact the office has many more applications from private employers than it can fill. While I was there, there were several phone calls from department stores and the like, each asking for from 10 to 40 salesmen for the following day. The head of the domestic division had a file of 350 applications for domestic help, at wages of from \$25 to \$65 a month, for which they were having difficulty in finding workers.

October 2, 1936. ~~81~~

FOR THE SECRETARY

When I was in Iowa City, Iowa, on September 25th, I called at the office of the State Employment Service, which is on the second floor of the Post Office building. There is a staff of 3, the director being a former commodity broker. There is a stenographer interviewer and a lady head of the domestic help division. In addition, NYA helps out some.

The University maintains a separate employment service for the 3000 students who work for their education.

While I was in the office several calls came in from employers who wanted workers and the director was able to furnish them. It is a relatively small town and he knows personally most of the employers and most of the people out of work. He said he called the unemployed who are not on relief because he has learned that it is useless to try to get people who are on relief to take private jobs. Moreover, the character of the WPA projects in that locality have been such that WPA was reluctant to spare relief workers when opportunities came for private employment.

There are a few industries in Iowa City and most of the calls for help are for farm work or ordinary labor. The director was quite optimistic about people going back to work eventually but was of the impression that work relief of some kind would have to be continued permanently for a good many of those at present on relief rolls.

-8-

There is some disaffection of the people in Iowa City over the fact that persons on relief rolls have permits for the purchase of fire water at the state liquor stores.

83
October 2, 1936

FOR THE SECRETARY

On September 28th and 29th I attended a conference of approximately 90 State Directors of the National Reemployment Service and State Employment Service from the 48 states and the District of Columbia, held by the United States Employment Service at the Labor Department building.

The discussions of the first day were devoted to the program of reinterviewing of persons on WPA relief rolls. Most of the second day was devoted to discussion of the program for field visits to employers.

While the conference was principally instructional in its character, the instructions being given by Mr. Persons, his assistant Mr. Burr and the Director of Research Mr. Stead, most of those in attendance from the state offices were called upon at one time or another to relate their experiences or voice their opinions. Some of this, of course, was planned in advance by the instructional staff.

Most of the discussion had to do with methods and procedure for preparing to do the reinterviewing. Discussion centered around the many exhibits prepared by the Division of Research of the USES, pamphlets explaining what the USES is and what it does and has accomplished, pamphlets on how to interview and on employer approach and how to make reports and keep records. Such things as occupational code manuals and occupational dictionary and books of job descriptions and how to match jobs and men, and trade questions, all described as an encyclopedia of information on employment service, were displayed and discussed.

For instance, there are 5 large volumes full of descriptions of jobs in the construction industry, including 8 kinds of carpenters and 30 or 40 kinds of steam shovel operators, 3 large volumes of job descriptions in the automobile industry and one in cotton textiles.

Many of these documents are only in the process of completion and will be completed during October and November, for the most part.

Apparently most of the new money is going into additional personnel. Many of the state directors appear to be of the opinion that it is going to be impossible to find and to train, within the period allotted, persons who are capable of reinterviewing the WPA workers. Expressions were frequent that the time allotted was not sufficient to do the work properly and, that while there might be some improvement over the first interview it would still be unsatisfactory. Others were of the opinion that when the job is completed all they will have is "a little more information on a card about a man". The New York officers claim that they have revised their cards from day to day and that there is very little necessity for a reinterview. Their estimate is that in New York the employment service makes about 5% of all the private placements that are made. In many places, it is said, large numbers of the unemployed are unemployable. On the other hand some of the state officials were quite enthusiastic about the reinterview program and the employment visitation program. Nearly all of them referred to the fact that the more visits that are made the more private placements recorded.

The whole tone of their comments seemed to be, however, that this was a record of accomplishment for the USES -- with less emphasis upon the fact that the men got jobs.

Some professional secrets were revealed -- namely, that there are temptations to count many contacts as field visits to employers which are not truly such, again that the private placement record is sometimes padded by ascertaining from an employer that certain persons added to his rolls came from unemployed registered with the service but not actually placed through or by them. These practises were discouraged.

There was a good deal of discussion, by volume, on the desirability of conducting reinterviews either in the office or in the field at the WPA project. They are very fearful of having the service too closely identified with a relief agency and most of them were of the opinion that workers should be called into the office where a dignified employment service atmosphere could be preserved and where the unemployed would be employment service conscious.

Some directors were vigorous in their insistence that the only practical and sensible thing to do was to set up an office in the field even if it did mean a little more hurried procedure. Most of the directors were not planning to really get into action on the program for increased visits to employers until around January. Most of the time of their staffs will be taken up with the reinterview program for the rest of the calendar year. It strikes me that they are more interested in the field visit program from the standpoing of building a sound and satisfactory

relationship with employers for the benefit of normal and regular cooperation during the years ahead than they are in speedy reemployment of the unemployed by private industry and a prompt reduction in relief expenditures by the Treasury.

When Mr. Persons introduced me to the group, after he had explained that the Secretary of the Treasury was personally interested in the work of the USES and had asked me to attend, I tried to express the view that, while the working tools they had been discussing are important and we had some appreciation of their importance, that they should not lose sight of the ultimate end for which the additional funds had been furnished them, namely, increased private employment.

Statement by John W. O'Leary
Chairman, Committee on Employment
Chamber of Commerce of the United States

K--1
1936

Made at meeting of Chamber's Board of Directors, October 2, 1936.

IMMEDIATE RELEASE

Your Committee on Employment desires to report progress, with leave to make a further presentation at a later date.

Naturally there is little that can be new in the continuing desire of employers to expand employment. Independently of the natural human desire to better living conditions the employers' success is greatly dependent on full employment.

The response to the Committee's request for information regarding activities designed to add to employment in private enterprise has been gratifying. Altogether 481 reports from member organizations have now been received. They are representative of all sections of the country.

Utilizing the material furnished from these reports and other data which upon analysis has been found to be dependable, it is clear that private employment has steadily increased during the summer of 1936, and at mid-September there were in private employment in all of its forms at least seven million more wage and salary workers than when employment was lowest in the depression. It is clearly evident that estimates which have been made of unemployment have been greatly exaggerated; that estimates of unemployment on a national basis are necessarily inaccurate and useless for practical purposes.

The Committee recommends at this time that information received from member organizations which offer constructive suggestion for activities having been in some cases tried, and in other cases now being undertaken, be forwarded to all of the member organizations who have responded to the Committee request for information and, also, to all other member organizations that they may be encouraged by the activity of other communities. The Committee reiterates its conviction that employment is a

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local matter, with many local variations, and unemployment is likewise local.

The following suggestions are pertinent and should be of value in employment:

There should be immediate expansion of facilities in the states and communities for young people, and for workers desiring to increase their skill, to obtain training that will fit them for employments through which they can advance their standards of living in accordance with their own capacities and diligence .

Examination of vocational training programs with a view to adjusting them so as to provide aid in the creation of skilled workmen in classifications where definite shortages are becoming evident.

Provision for the training of unskilled workers on relief. In one industrial city selected men are being taken from relief rolls, given a short and intensive course of training in the local trade school, and then placed in jobs in private enterprise.

Directing attention to the need for retraining of skilled workers who have lost their former aptitudes or who now must undertake a different line of skilled work.

Examination of relief rolls to prevent ineligible persons from obtaining relief.

Frequently takes the form of a plan whereby relief rolls are systematically checked against payrolls of principal firms, with payrolls kept in the custody of the chamber. In one instance, a committee of representative citizens has been created to review cases on relief rolls and to classify them according to their degree of merit and need.

Analysis of relief registrations and sample studies of case histories for the purpose of obtaining accurate information on just how employable the registrants are.

In developing this activity an effort is made to determine what work was done prior to the depression by persons now on relief; in at least one instance the inquiry has been pushed back to 1925.

Presentation to the chief executives of business concerns of the desirability of their giving ^{further} personal attention to the possibility of their business needing the services of persons now unemployed and available.

There should be arrangement with relief officials (1) to allow persons on relief to use relief time for interviews in endeavors to obtain private employment, and (2) to assure persons on relief that they will be returned to relief if private employment proves of brief term.

Circulation of lists of employables on relief with information as to their skills and aptitudes among local manufacturers and other employers.

Cooperation with public employment offices which list employable persons on relief in any of its forms, for the purpose of increasing their efficiency in making placements in private employment.

There is an example of a county-wide committee which estimates monthly the need for agricultural labor and then places this information at the disposal of federal and state relief and public employment agencies.

Endeavor to see that work-relief projects are useful, not disruptive of normal activities, and being useful are not abandoned at partially completed stages.

Examination of the effects locally of the policies and rules of the Works Progress Administration upon reemployment in private enterprise. Where such rules and policies are retarding reemployment, changes to offset such retarding influences should be urged.

Upon receipt of reports from this further invitation the Committee report before you will be reexamined, both as to facts and recommendations, and the report in its final form will be presented at the next meeting of the Board, for such action as the Board desires.

JOHN W. O'LEARY

Chairman, Committee on Employment.

COMMITTEE ON EMPLOYMENT

John W. O'Leary, Chairman, President, Machinery & Allied Products Institute,
Chicago.

L. K. Comstock, President, Merchants Association of New York, New York City.

George S. Hawley, President, Bridgeport Gas Light Company, Bridgeport

P. W. Litchfield, President, Goodyear Tire & Rubber Co., Akron, Ohio.

Redfield Proctor, President, Vermont Marble Company, Proctor, Vermont

Charles C. Sheppard, President, Louisiana Central Lumber Co., Clarks, La.

Daniel W. Streeter, Vice President, Niagara Share Corporation, Buffalo, N. Y.

Alexander Thomson, Chairman, Champion Paper and Fibre Co., Hamilton, Ohio

T. Guy Woolford, Chairman of the Board, Retail Credit Company, Atlanta, Ga.

MM

GRAY

PARIS

Dated Oct. 2, 1936

Rec'd. 12:20pm.

Secretary of State

Washington, D.C.

957, October 2, 11am. (SECTION SEVEN).

All establishments and all persons by whose intermediary operations on gold, ingots, bars or currencies, have been effected, will be instructed to communicate all registers and all documents without any exception as well as all useful information, to verification agents which will be designated to this end by the Ministry of Finance. Refusal will be punished by fines and obligations provided for by Article 226 of the Registration Code.

Article XIII. All cash or credit operations relating to the purchase of foreign currencies concluded between September 1 and September 26, 1936, by the physical and moral persons referred to in Article X, must, within 15 days from the promulgation of the present law, be declared to the Ministry of Finance.

Failure to declare will be punished by a fine which may amount to three times the amount of the sums not declared.

Article XIV. A special tax of 50% is created on net profits arising from liquidation accounts of forward operations

mm 957, Oct. 2, 11am. Sec. 7. from Paris. -2-

operations entered into between September 21 and September 26 on French security markets with the exception of operations on securities of the French state. Operations corresponding to duly justified commercial requirements will be exempt from this tax.

This tax must be withheld by the market intermediaries
(END SECTION SEVEN)

BULLITT

KLP
VWC

LMS

GRAY

Paris

Dated October 2, 1936

Rec'd 1 p. m.

Secretary of State,
Washington.

957, October 2, 11 a. m. (SECTION EIGHT)

from the settlements made by them to their customers.
The tax will be levied in accordance with method of taxation on market operation.

SECTION THREE

SPECIAL PROVISION.

Article XV. The stipulations of the law of August 19, 1936, for the repression of unjustified price increases shall apply to all increases which on the pretext of devaluation may be made in said prices provided it is not established beyond doubt before the Committees appointed under the above law that the increases result from the rise in value of imported goods.

In the event that before December 31, 1936, an appreciable rise in the cost occurs compared with the indices of October 1, 1936, the government shall be authorized after approval by the National Economic Council and by decree of the Council of State to set up the organization of procedure of compulsory conciliation and of arbitration

effective

LMS 2-No. 957, October 2, 11 a. m., Sec. 8, from Paris.

effective during a period of six months with a view to settlement of differences arising from such increase of prices and relating to the drafting, the execution and the revision clauses of collective contracts relating to salaries.

The Government may also upon the recommendation of the bodies appointed for this purpose under the law, demand the revision of prices of agricultural products subject to control.

BULLITT

RR

LMS

GRAY

Riga

Dated October 1, 1936

Rec'd 1:55 p. m.

Secretary of State,
Washington.

83, October 1, 5 p. m.

Your telegram No. 82, September 28, 6 p. m.

Bank of Latvia buying rate for dollars 5 selling rate
520 quoted since Monday but nominal until today. Black
Bourse transactions reported at around 8 lats per dollar and
32 lats per pound.

LANE

RR:HPD

JS

Gray

BERLIN

Dated October 1, 1936

Rec'd 5:40 p.m.

Secretary of State,
Washington, D.C.

298, October 1, 7 p.m.

Embassy's 296, September 30, 6 p.m.

NEW YORK TIMES despatch of September 30 on Schacht's interview to the press seems adequately to cover additional developments last night.

The press reaction today is largely a recapitulation of what Schacht expressed to foreign correspondents with particular emphasis upon the following points:

One. Germany intends to maintain stability of currency but is ready to negotiate at any time with a view to establishing a real stability on the basis of a fixed agreement concerning gold parities and on a freer exchange of goods.

Two. For Germany this real stability must include a settlement of the German foreign debt question along the lines of a reduction of capital and rate of interest and possibly a moratorium in addition.

Three. A settlement of Germany's raw material problem which is linked to the colonial question.

Four. The reestablishment of "international credit and capital mechanism" or in plain words the possibility

of

-2-

From Berlin, No. 298.

of foreign loans to Germany.

Five. The necessity of continuing export subsidies to counteract foreign devaluations. Certain advantages for Germany such as cheaper purchase of raw materials and reduced interest payments on foreign debts are also cited.

In well-informed circles here the reaction generally is that the success of this effort to bargain for German devaluation is problematical and that Germany's ability to resist the pressure of these new devaluations plus whatever success may attend the new four year plan will be the determining factor. Incidentally, there may be a psychological consideration involved in that the German masses in view of past experiences might not clearly distinguish between devaluation under present circumstances and inflation.

DODD

SMS NPL

JS

Gray

PARIS

Dated October 1, 1936

Rec'd 6:18 p.m.

Secretary of State,
Washington, D.C.

956, October 1, 7 p.m.

After a debate of more than twelve hours, the Senate last night voted in favor of the monetary bill, passing Article One (the principle of devaluation) by 137 votes to 127 and the text as amended by the Senate Finance Committee by 141 votes to 125. The amendments proposed by the Senate were of so drastic a character that there was no chance of acceptance of the bill in that form by the Chamber. All the so-called "social" provisions were removed from the bill and a single clause substitute empowering the Government to apply the existing legislation to prevent price raising on the pretext of devaluation. Blum was forced to interrupt in the debate and warned the Senate of the serious responsibility they would incur if by their action they transferred the question from a monetary to a political plane. He added that the Senate might defeat the Government but that devaluation remained a fact.

The bill in its amended form was then referred to the Chamber Finance Committee which promptly revoted its own original text and submitted it to the Chamber which early this morning also revoted the bill in its original form.

The situation

-2-
From Paris, #956.

The situation when the Senate met again at 9:30 this morning appeared difficult and there were reports to the effect that the Prime Minister might be forced to put the question to a vote of confidence unless a last minute compromise could be reached. This contingency was avoided as a result of efforts by Chautemps, acting as mediator, who drew up a provisional text to which Blum agreed, authorizing the Government in case there should be a marked increase in the cost of living before December 1, 1936, to proceed by decree on the advice of the National Economic Council to set up a procedure of conciliation and obligatory arbitration to deal with labor conflicts or other consequences resulting from such increased living costs as well as to exercise control over prices. The bill with this compromise provision was then referred to the Chamber which late this afternoon approved it by a vote of 354 to 217 adding one article imposing a penalty tax on speculators. The bill in this form is now before the Senate Finance Committee which is expected to report it favorably, and it is generally believed that with possibly one or two minor modifications of a technical nature the bill will be enacted by both houses tonight.

BULLITT

SMS EMB

Secy Morgenthau's Press Conf

WCNS59

Hearst

SECRETARY MORGENTHAU TODAY CHARGED PUBLISHER WILLIAM RANDOLPH HEARST WITH USING "INCORRECT" FACTS IN AN EDITORIAL CRITICIZING THE ADMINISTRATION.

10/1--R1053A

WCNS61

ADD HEARST-MORGENTHAU

ANGERED BY A SIGNED EDITORIAL IN HEARST NEWSPAPERS TODAY CRITICIZING PRESIDENT ROOSEVELT AND HIS POLICIES INCLUDING THE NEW TRI-NATION MONETARY AGREEMENT, MORGENTHAU, EXCLAIMED:

"I READ WHAT HE SAID. HE HAS HIS FACTS INCORRECT WHEN HE ASKS WHAT RIGHT HAVE WE TO LEND MONEY TO FRANCE.

"WE HAVE NOT LOANED ANY MONEY TO FRANCE."

10/1--R1057A

*Messing**Francs Available*

WCNS64

SECRETARY MORGENTHAU REVEALED THIS MORNING THAT THE BANK OF FRANCE UNDER THE NEW TRI-PARTITE CURRENCY AGREEMENT HAS BEEN MAKING FRANCS AVAILABLE TO AMERICAN AND BRITISH BUSINESSMEN TO MEET THEIR COMMITMENTS AND AVOID A "SQUEEZE" CAUSED BY THE CLOSING OF THE PARIS BOURSE.

10/1--R11A

WCNS65

ADD STABILIZATION, MORGENTHAU

THE FRANCS WERE PROVIDED FOR THE USE OF BUSINESSMEN WHO HAD COMMITMENTS TO PAY IN FRENCH CURRENCY BUT WERE UNABLE TO OBTAIN THE FUNDS IN NORMAL CHANNELS BECAUSE OF THE SHUT-DOWN OF FRENCH MARKETS PENDING PARLIAMENTARY APPROVAL OF DEVALUATION MEASURES.

MORGENTHAU SAID THE BANK OF FRANCE YESTERDAY AND TODAY HAD MADE FRANCS AVAILABLE IN LONDON AND THROUGH THE FEDERAL RESERVE BANK OF NEW YORK SO THAT BUSINESSMEN WOULD NOT BE SUBJECTED TO WHAT HE CHARACTERIZED AS "AHRPSHOOTERS' TACTICS."

HE SAID THE FRANCS WERE PROVIDED AT A NOMINAL PRICE BUT NOT AT THE DEVALUATED RATE. MORGENTHAU ADDED THAT THE TRANSACTIONS WERE "NOT LARGE" AS BUSINESS TRANSACTIONS GO.

10/1--R1102A

WCNS67

ADD STABILIZATION, MORGENTHAU

"THE REASON FOR THE LACK OF FRANCS WAS BECAUSE OF CLOSING OF THE FRENCH MARKET," MORGENTHAU SAID. "BUSINESSMEN HAD OPEN COMMITMENTS WHICH THEY WISHED TO CLOSE OUT ON LEGITIMATE BUSINESS TRANSACTIONS.

"THEREFORE, PENDING REOPENING, THE BANK OF FRANCE MADE AVAILABLE ALL NECESSARY FRANCS FOR LEGITIMATE TRANSACTIONS IN LONDON AND NEW YORK."

HE SAID THE FIRST FRANCS WERE MADE AVAILABLE YESTERDAY WHEN THE BANK OF FRANCE AUTHORIZED THE FEDERAL RESERVE BANK OF NEW YORK TO MAKE SPOT FRANCS AVAILABLE. THE SAME THING WAS BEING CARRIED OUT TODAY, HE SAID.

10/1--R1107A

WCNS71

ADD STABILIZATION, MORGENTHAU

MORGENTHAU SAID THAT WHEN THE BOURSE REOPENS THE REGULAR CHANNELS FOR OBTAINING FRANCS WILL AGAIN BE AVAILABLE.

"IT WAS THE SENSIBLE AND PRACTICAL THING TO DO," MORGENTHAU CONTINUED "IT PREVENTED BUSINESS MEN, WHO WERE WORRIED, FROM GETTING PANICKY."

MORGENTHAU SAID THAT THE ACTION WAS PART OF THE AGREEMENT TO PREVENT VIOLENT SWINGS IN THE FRENCH, BRITISH AND AMERICAN CURRENCIES.

HE REITERATED THAT NO DEFINITE UNDERSTANDING WAS CONTAINED IN THE "GENTLEMEN'S AGREEMENT" FIXING DEFINITE RATIOS OF EXCHANGE FOR THE FRANC, POUND AND DOLLAR.

MORGENTHAU SAID THAT UNDER THE AGREEMENT, THE BRITISH COULD USE THEIR \$1,800,000,000 EQUALIZATION FUND FOR CREATING DOLLAR BALANCES IN THIS COUNTRY.

QUESTIONED WHETHER AMERICAN GOLD WOULD BE MADE AVAILABLE TO THEM, THE SECRETARY REPLIED:

"I HAVE NO COMMENT."

10/1--R1115A

OCT 1 1936

11.00

MORGENTHAU REVEALS BANK OF FRANCE MADE
FRANCS AVAILABLE IN NEW YORK AND LONDON YESTER-
DAY

WASHN- SECY OF TREASURY MORGENTHAU TODAY REVEALED THAT THE BANK OF FRANCE UNDER THE TRIPARTITE AGREEMENT MADE AVAILABLE FRANCS FOR THE CLOSING OF END OF MONTH TRANSACTIONS BY LEGITIMATE BUSINESS MEN- THE SECRETARY SAID THAT THE MOVE -KEPT SHARPSHOOTERS FROM MAKING UNREASONABLE PROFITS AND KEPT PEOPLE FROM GETTING PANICKY-

17.10

OCT 1 1936

ADD MORGENTHAU

WASHN - THE SECY AGAIN EXPRESSED SATISFACTION OVER THE WAY THE STABILIZATION EFFORTS ARE GOING - HE HAD NO COMMENT TO MAKE ON POSSIBLE DIFFICULTIES IN FRENCH PARLIAMENT BY SPONSORS OF THE FRANC DEVALUATION BILL
-0-

OCT 1 1938

ADD MURGENHAU 11,05

WASHN- THE SECRETARY REITERATED THAT
THERE WAS -NO DEFINITE UNDERSTANDING- ON A
RATIO OR A RANGE BETWEEN THE POUND AND THE
DOLLAR IN FOREIGN EXCHANGE

THE SECRETARY WOULD NOT COMMENT ON QUESTIONS
RELATING TO THE OPERATIONS OF THE BRITISH EQUAL-
IZATION FUND IN NEW YORK- THE QUESTION WAS
WHETHER THE FUND WOULD CREATE GOLD BALANCES IN
NEW YORK- THIS QUESTION AND THE QUESTION OF A
FIXED RATIO BETWEEN POUND AND DOLLAR ARE APPAR-
ENTLY MATTERS YET TO BE DECIDED UPON

THE SECRETARY ALSO STATED THAT THERE WAS
NO AGREEMENT IN CONNECTION WITH THE CURRENCY
STABILIZATION MOVES TOUCHING UPON THE CONTINUED
AUTHORITY BEING RETAINED BY PRESIDENT ROOSEVELT
TO FURTHER DEVALUE THE DOLLAR

IN RESPONSE TO INQUIRIES THE SECRETARY
SAID THAT THERE HAD BEEN NO LOANS MADE TO FRANCE
- SOME OBSERVERS HAD INTERPRETED CERTAIN DEVELOP-
-MENTS OVER THE PAST WEEK AS INDICATING MATERIAL
AID HAD BEEN EXTENDED FRANCE BY THE U S TREASURY

IN DISCUSSING THE MOVE ON THE PART OF THE
BANK OF FRANCE TO MAKE FRANCS AVAILABLE IN NEW
YORK AND LONDON ON TUESDAY THE SECRETARY SAID
THAT THIS DID NOT MEAN THAT PEOPLE CAUGHT SHORT
IN FOREIGN EXCHANGE COULD EXPECT ANY OF THE
GOVERNMENTS INVOLVED IN THE TRI-PARTITE AGREE-
MENT TO COME TO THEIR AID- BUT WHERE LEGITIMATE
BUSINESS NEEDS WARRANT ACTION OF THE CHARACTER
TAKEN BY THE BANK OF FRANCE IT CAN BE EXPECTED

WCNS102

Harrison on Monetary Agree

NEW YORK.--SENATOR PAT HARRISON, SAID TODAY HE BELIEVED THAT THE MONETARY AGREEMENT BETWEEN THE U. S., GREAT BRITAIN AND FRANCE WOULD BE FOLLOWED BY "FURTHER ACTION FOR INTERNATIONAL MONETARY STABILIZATION."

HARRISON MADE THE STATEMENT DURING A VISIT TO DEMOCRATIC HEADQUARTERS.

"IT IS HARD TO PICK OUT THE OUTSTANDING ACHIEVEMENT OF THE ROOSEVELT ADMINISTRATION," SAID HARRISON. "I THINK THE MONETARY AGREEMENT WILL BE FOLLOWED BY FURTHER ACTION FOR INTERNATIONAL MONETARY STABILIZATION. THIS WILL BE ONE OF THE GREAT ACHIEVEMENTS OF OUR TIME.

"IN 1933, THE LONDON ECONOMIC CONFERENCE FELL DOWN BECAUSE EUROPE WOULD HAVE HAD US ACCEPT THEIR OWN VALUATION OF THE AMERICAN DOLLAR. NOW EUROPE IS FOLLOWING US AND MUST ACCEPT OUR VALUATION OF THE DOLLAR. THIS PUTS THE UNITED STATES IN A MOST ADVANTAGEOUS POSITION. IT WILL BRING CONFIDENCE TO THE WORLD AND WILL ADD TO OUR INTERNATIONAL TRADE AND COMMERCE.

10/1--E126P

FRANCE
PARIS

UNITED PRESS - October 1, 1936.

106

WCNS3

Franc Devaluation Bill

PARIS.--THE SENATE PASSED THE GOVERNMENT'S FRANC DEVALUATION BILL TODAY IN A FORM SATISFACTORY TO PREMIER BLUM. IT NOW GOES TO THE CHAMBER FOR AGREEMENT.

10/1--R836A

WCNS13

ADD FRANC, PARIS

AS PASSED BY THE SENATE, THE BILL DID NOT INCLUDE THE SWEEPING SOCIAL MEASURES FOR COMPENSATING LABOR AND PENSIONERS THAT THE GOVERNMENT'S ORIGINAL DRAFT INCLUDED. BUT IT ENDOWED BLUM WITH CONSIDERABLE POWER TO PREVENT UNDUE RISES IN PRICES AND TO SETTLE LABOR DISPUTES ARISING FROM PRICE INCREASES.

IF, AS EXPECTED, THE SENATE'S VERSION IS ACCEPTED BY THE CHAMBER THE LEGAL BASIS FOR DEVALUATION WILL BE PROVIDED TODAY.

10/1--R9A

WCNS44

Add French Devaluation Bill

ADD FRANC, PARIS

THE CHAMBER, RESUMING CONSIDERATION OF THE BILL AS ADOPTED BY THE SENATE, UNANIMOUSLY RESTORED TO THE WAR VETERANS THE 13 PER CENT PENSION CUT WHICH THEY HAVE UNDERGONE.

10/1--R1017A

add Fr devaluation Bill

WCNS53

ADD FRANC, PARIS

THE CHAMBER FINANCE COMMISSION ACCEPTED THE SENATE'S TEXT OF THE DEVALUATION BILL WITH UNIMPORTANT CHANGES. THE CONFLICT BETWEEN THE TWO HOUSES THUS WAS ENDED AND THE MEASURE DEFINITELY WILL BE PASSED AS SOON AS IT GETS THE OFFICIAL FLOOD STAMP WITHIN THE NEXT FEW HOURS

10/1--R1038A

Blum

WCNS76

ADD FRANC, PARIS

PREMIER BLUM ANNOUNCED IN THE CHAMBER THAT HE WOULD LEAVE FOR THE LEAGUE MEETING AT GENEVA TONIGHT, INDICATING THAT ANY DANGER OF A GOVERNMENTAL CRISIS HAD BEEN AVERTED.

10/1--R1136A

WCNS80

ADD FRANC, PARIS

THE CHAMBER APPROVED THE SENATE'S VERSION OF THE FRANC DEVALUATION BILL WITH ONLY MINOR CHANGES, ASSURING ITS DEFINITE ENACTMENT TONIGHT

10/1--R1155A

8.51
9661 1130
FRENCH SENATE PASSES MONEY BILL

PARIS-UP- THE SENATE PASSED THE GOVERN-
MENT-S FRANC DEVALUATION BILL TODAY IN A FORM
SATISFACTORY TO PREMIER LEON BLUM - IT NOW GOES
TO THE CHAMBER FOR AGREEMENT

AS PASSED BY THE SENATE THE BILL DID NOT
INCLUDE THE SWEEPING SOCIAL MEASURES FOR
COMPENSATING LABOR AND PENSIONERS THAT
THE GOVERNMENT-S ORIGINAL DRAFT INCLUDED - BUT
IT ENDOWED BLUM WITH CONSIDERABLE POWER TO
PREVENT UNDUE RISES IN PRICES AND TO
SETTLE LABOR DISPUTES ARISING FROM PRICE
INCREASES

IF AS EXPECTED THE SENATE-S VERSION
IS ACCEPTED BY THE CHAMBER THE LEGAL BASIS
FOR DEVALUATION WILL BE PROVIDED TODAY

-0-

OCT 1 1936

9.40

FRENCH CHAMBER RESTORES PENSION CUT
PARIS-U P- THE CHAMBER RESUMING CONSIDERA-
TION OF THE DEVALUATION BILL AS ADOPTED BY THE
SENATE UNANIMOUSLY RESTORED TO THE WAR VETERANS
THE 13 PER CENT PENSION CUT WHICH THEY HAVE
UNDERGONE

-0-

OCT 1 1936

943

109

ADD FRENCH SENATE PASSES MONEY BILL
PARIS-U P- SENATE FINANCE COMMITTEE TO WHOM
THE BILL WAS REFERRED AGAIN BY SENATE JUST AFTER
IT CONVENED TODAY ADOPTED A COMPROMISE TEXT
GIVING PREMIER LEON BLUM BROADER POWERS TO DEAL
WITH A RISE IN PRICES SHOULD ONE RESULT FROM
DEVALUATION

MEANWHILE THE CHAMBER MOVED TOWARD A
COMPROMISE BY REVISING THE -SOCIAL RIDERS-
WHICH HAVE BEEN THE BONE OF CONTENTION BETWEEN
THE TWO HOUSES AND COMPLETELY ELIMINATING SOME
OF THE CLAUSES OBJECTED TO BY THE SENATE- THEY
WILL BE DISCUSSED LATER AFTER THE PRESENT EMER-
GENCY HAS PASSED

AS A RESULT OF THESE COMPROMISES GOVERNMENT
OFFICIALS WERE HOPEFUL THAT THE BILL IN
FINAL FORM COULD BE PASSED TODAY AND DEVALUA-
TION OFFICIALLY DECREED

THE NEW SENATE TEXT AS APPROVED BY FINANCE
COMMITTEE EMPOWERS BLUM TO INVOKE THE LAW ON
AUGUST 20 1936 TO SUPPRESS A RISE IN PRICES
UNLESS IT IS PROVED JUSTIFIABLE

IT ALSO ADDS A CLAUSE EMPOWERING THE
GOVERNMENT AFTER THE NATIONAL ECONOMIC COUNCIL
AND THE COUNCIL OF STATE CONCUR TO IMPOSE
OBLIGATORY ARBITRATION IN CASES WHERE A RISE IN
PRICES ABOVE THE OCTOBER 1 INDEX PROVOKE LABOR
CONFLICTS IF THEY OCCUR BEFORE DECEMBER 31

MINISTER OF STATE CAMILLE CHAUTEUPS FORMERLY
PREMIER WAS CREDITED WITH COOLING THE HEATED
SENATE ATTITUDE TOWARD THE GOVERNMENT-S BILL AND
PAVING THE WAY FOR COMPROMISE- THE DRAFT AS
PASSED WAS REVISED BY FORMER MINISTER OF JUSTICE
EUGENE RAYNALDY

OCT 1 1936 10.35
 ADD FRENCH DEVALUATION BILL

PARIS-U P- THE CHAMBER FINANCE COMMISSION
 ACCEPTED THE SENATE-S TEXT OF THE DEVALUATION
 BILL WITH UNIMPORTANT CHANGES- THE CONFLICT
 BETWEEN THE TWO HOUSES THUS WAS ENDED AND THE
 MEASURE DEFINITELY WILL BE PASSED AS SOON AS IT
 GETS THE OFFICIAL FLOOR STAMP WITHIN THE NEXT
 FEW HOURS

-0-

OCT 1 1936 11.15
 BLUM TO LEAVE FOR GENEVA TONIGHT

PARIS -UP- PREMIER LEON BLUM ANNOUNCED
 IN THE CHAMBER THAT HE WOULD LEAVE FOR THE
 LEAGUE MEETING AT GENEVA TONIGHT

-0-

11.45 11.45
 FRENCH CHAMBER APPROVES SENATE DEVALUATION

BILL

PARIS-U P- THE CHAMBER APPROVED THE
SENATE-S VERSION OF THE FRANC DEVALUATION BILL
 TODAY WITH ONLY MINOR CHANGES ASSURING ITS
 DEFINITE ENACTMENT TONIGHT

-0-

OCT 1 1936 FRENCH POLITICAL SITUATION

11.46

PARIS-ODDS ARE IN FAVOR OF A COMPROMISE BEING REACHED BETWEEN FRENCH SENATE AND CHAMBER OF DEPUTIES OVER DISPUTE WITH RESPECT TO GOVERNMENTAL POWERS TO COMBAT UNDUERISE IN PRICES RESULTING FROM DEVALUATION MAJORITY IN BOTH HOUSES REALIZE THE GRAVITY OF A POLITICAL CRISIS WHILE THE FRANC IS ADRIFT- THE MAIN DANGER WOULD COME FROM A SUDDEN SNA. VOTE

THE SELF ASSERTION OF THE SENATE HOWEVER REFLECTS CONVICTION THAT THE COUNTRY DEMANDS THAT THE GOVERNMENT BE ABLE TO HOLD A BALANCE MORE FAIRLY BETWEEN EMPLOYERS AND WORKERS AND TO PROTECT RIGHTS OF PROPERTY AND AVERT DANGER OF EXTREMISM IN EITHER DIRECTION

HENCE THERE IS A PROBABILITY OF A BREAK UP IN THE POPULAR FRONT IN NOVEMBER AT INSTIGATION OF THE RADICALS WHO CONTEMPLATE A MINISTRY HEADED BY CAMILLE CHAUTEMPS- THIS MINISTRY WOULD EMBRACE CERTAIN ELEMENTS OF THE CENTER AND POSSIBLY WOULD HAVE SOCIALIST PARTICIPATION- AT ANY RATE IT WOULD ATTEMPT TO OBTAIN ASSURANCE OF NEUTRALITY IF NOT ACTUAL SUPPORT OF THE SOCIALIST VOTES

CONVICTION IS WIDESPREAD THAT ONLY UNDER A GOVERNMENT WHICH IS INDEPENDENT OF COMMUNIST INFLUENCE IS

ADD FRENCH CHAMBER APPROVES DEVALUATION
PARIS U P ^{THE} ^{VOTE} IN THE CHAMBER WAS 354

112

TO 217

-0-

OCT 1 1936

ATTACKS FRENCH BUDGET DEFICITS

PARIS - JOSEPH CAILLAUX FORMER PREMIER AND
MINISTER OF FINANCE SPEAKING BEFORE THE
FRENCH SENATE DESCRIBED THE BUDGET SITUATION
AS -TERRIBLE- - HE ESTIMATED THAT THE BUDGET
DEFICIT FOR 1935 WAS 9 000 000 000 FRANCS
WHILE FOR THIS YEAR IT WILL AMOUNT TO 20
000 000 000 FRANCS

HE URGED THAT THE FRENCH GOVERNMENT
IMITATE THE BRITISH AND BELGIAN EXAMPLES OF
GOVERNMENTAL ECONOMIES ACCOMPANYING DEVALUA-
TION INSTEAD OF HEAVY DISTRIBUTION OF
BONUSES ETC AS IS PROPOSED

OCT 1 1936

M ADD ATTACKS FRENCH BUDGET DEFICITS

PARIS - THE LOSS OF 2 500 000 000 FRANCS
OF GOLD LAST WEEK LEAVES THE BANK OF FRANCE
WITH 50 000 000 000 FRANCS GOLD RESERVES WITH
WHICH TO START THE NEW FRANC REGIME PLUS
1 250 000 000 FRANCS OF FOREIGN BALANCES -
THIS IS ABOUT EQUAL TO THE RESERVES OF GOLD
AND SILVER WITH WHICH THE POINCARÉ ^{Franc} WAS
STARTED IN 1928 - THE MAXIMUM GOLD RESERVE
SINCE 1928 WAS 83 00

1130

113

ADD FRENCH POLITICAL SITUATION

IS THERE ANY PROSPECT OF RESTORATION OF
TRANQUILITY AND REVIVAL OF CONFIDENCE OF BUSINESS UNDER STIMULUS OF DEVALUATION

OCT 1 1936

MOST DIFFICULT PROBLEM REMAINS INEVITABLE
RISE IN PRICES DUE NOT SO MUCH TO DEVALUATION
ITSELF BUT AS EFFECTS OF SOCIAL LEGISLATION-
IT IS ESTIMATED THAT WHOLESALE INDEX WILL RISE
15 PC TO 20 PC EVEN THOUGH CONTROL IS EXERCISED
RIGOROUSLY- CERTAIN CONCESSIONS TO THE WORKERS
THEREFORE APPEAR INEVITABLE WHATEVER GOVERNMENT
IS IN POWER

OCT 1 1936

ADD FRENCH POLITICAL SITUATION

IS EXPECTED TO PRODUCE INCALCULABLE RELIEF
AND BENEFIT TO WHOLE ECONOMIC STRUCTURE
PROVIDED ONLY THAT THE ADMINISTRATION IS IN
HANDS OF MEN WHO ARE DETERMINED TO PRESERVE LAW
AND ORDER TO AVOID EXTREMES IN EITHER DIRECTION

-0-

OCT 1 1936

12.33

FRENCH BOURSE PLANS TO REOPEN TOMORROW

PARIS - THE FRENCH BOURSE PLANS TO REOPEN
TOMORROW AND ALSO HOLD A SATURDAY SESSION

IN ITS LATEST FORM THE DEVALUATION BILL
IMPOSES A 50 PC TAX ON FORWARD TRANSACTIONS IN
SECURITIES EXCEPT RENTES - IT IS NOT CLEAR
HOW THIS TAX WILL BE LEVIED AS DETAILS ARE
LACKING

THE DEVALUATION BILL PASSED BY PARLIAMENT
EXCLUDES THE CONTROVERSIAL COMPENSATORY CLAUSES
WHICH ARE NOW SEPARATE BILLS

-0-

OCT 1 1936

114

ADD ATTACKS FRENCH BUDGET DEFICITS

PARIS - THE MAXIMUM GOLD RESERVE
SINCE 1928 WAS 83 000 000 000 FRANCS AT THE
END OF 1932 - FROM THERE THE RESERVE FELL TO
74 000 000 000 FRANCS EARLY IN 1934 BUT
RETURNED TO OVER 82 000 000 000 FRANCS
TOWARD THE END OF THE YEAR - THE NET LOSS
DURING 1935 WAS 16 000 000 000 FRANCS AND FOR
1936 TO DATE ALSO IS 16 000 000 000 FRANCS

REVALORIZATION OF THE GOLD STOCK WILL MAKE
THE NEW RESERVE AROUND 67 000 000 000 FRANCS
OF WHICH 10 000 000 000 IS TO BE RESERVE
FOR CREATION OF THE EXCHANGE FUND 3 000 000
000 FRANCS FOR RELIEF OF MUNICIPAL AND PROVIN-
CIAL FINANCES AND 3 000 000 000 FRANCS FOR
REPAYMENT OF THE TREASURY-S DEBT TO THE BANK OF
FRANCE

THE AMOUNT OF HOARDED GOLD THAT WILL BE
SURRENDERED IS PURE GUESS WORK - UNDER THE
FINAL TEXT OF THE BILL ONE MONTH WILL BE
ALLOWED FOR SURRENDER AND SALE OF HOARDED
GOLD TO THE BANK OF FRANCE ON THE OLD FRANC
VALUE AFTER WHICH TIME ALL GOLD REMAINING IN
PRIVATE POSSESSION MUST BE DECLARED BEFORE
NOV 15

IN PREVIOUS ADD SEVENTH LINE SHOULD READ
-THE POINCARÉ FRANC WAS- ETC

THERE WERE INDICATIONS THURSDAY NIGHT
OF SOME CANCELLATION OF BUYING ORDERS FOR
THE BOURSE REOPENING FRIDAY MORNING BECAUSE
OF THE 50 PC CASH MARGIN REQUIREMENTS AND
50 PC TAX ON PROFITS OF SECURITIES THROUGH THE
EXCHANGES

GREAT BRITAIN
LONDON

DOW JONES - October 1, 1936.

10.75

BANK OF ENGLAND SUPPLIES FRANCS AT 101 00
LONDON - REUTERS- OFFICIAL RATE AT WHICH
BANK OF ENGLAND IS SUPPLYING FRANCS TODAY FOR
SETTLEMENT OF CONTRACTS PREVIOUSLY ENTERED INTO
IS 101 00 FRANCS TO THE POUND

-0-

9661 1 100
OCT 1 1936

LOCALLY FRANCS ARE AVAILABLE FROM OFFICIAL
SOURCES FOR SAME PURPOSE AT 4 89 13-16 CENTS -
YESTERDAY THE BANK OF ENGLAND SUPPLIED FRANCS AT
96 FRANCS TO THE POUND WHILE THE LOCAL RATE WAS
5 16 5-8 CENTS

OCT 1 1936

-0-

ITALY
ROME

UNITED PRESS - October 1, 1936.

116

WCNS79

Italian Cabinet

ROME.--THE CABINET WILL MEET NEXT MONDAY AND THE FASCIST GRAND COUNCIL ON NOV. 18, IT WAS ANNOUNCED TODAY. IT WAS BELIEVED THE CABINET MEETING IS CONNECTED WITH THE MONETARY SITUATION.

10/1--R1153A

OCT 1 1936
11.45

ITALIAN CABINET TO MEET MONDAY

ROMEUP- THE CABINET WILL MEET NEXT MONDAY
AND THE FASCIST GRAND COUNCIL ON NOVEMBER 18
IT WAS ANNOUNCED- IT WAS BELIEVED THE CABINET
MEETING IS CONNECTED WITH THE MONETARY SITUATION

-0-

OCT 1 1936

2:59

ITALY TO SHAPE LIRA POLICY

ROME -REUTERS- THE PLANS OF THE ITALIAN
GOVERNMENT FOR THE FUTURE OF THE LIRA WILL BE
SHARPED DEFINITELY AT A MEETING OF THE CABINET
WHICH HAS BEEN CALLED FOR 10 OCLOCK MONDAY
MORNING - THE DECISION PROBABLY WILL BE
ANNOUNCED IMMEDIATELY AFTER THE MEETING - IN
THE MEANTIME IT IS UNDERSTOOD THAT THE ITALIAN
STOCK EXCHANGES WILL REMAIN CLOSED UNTIL
TUESDAY

-0-

WCH:MG

GENERAL AMERICAN BUSINESS HAS ADVANCED TO THE POINT "WHERE
IT CAN BE CONSIDERED PROGRESSIVE," THE LEAGUE OF NATIONS'S WORLD
ECONOMIC SURVEY REPORT SAID TODAY.

WHILE CITING THE SETBACKS IN PRESIDENT ROOSEVELT'S RECOVERY PROGRAM
DUE TO THE STANBROOK COURT DECISIONS, THE SURVEY SAID:

"RECOVERY WAS A LITTLE PERTURBED BY THESE JUDICIAL CHANGES, A STEADY
INCREASE IN ECONOMIC ACTIVITY, DESPITE THEM AND DESPITE THE APPROACH-
ING WINTER, LOW INTERESTS ECONOMICALLY DISTINGUISHED FROM POLITICAL UNREST,
AND THE RESURGENCE OF THE CONFIDENCE."

THE SURVEY SAID MAINTENANCE OF THE DOLLAR SINCE 1934 AT A CONSTANT
RATE OF WORLD EXCHANGE AND THE GOVERNMENT'S WORK RELIEF PROGRAM WERE
IMPORTANT FACTORS IN RECOVERY.

10/1-11035A

Friday, October 2, 1936

In accordance with our agreement with the Chinese Government we authorized the Federal Reserve Bank of New York, as fiscal agent of the Treasury, to bid the Central Bank of China for 9,000,000 ounces silver at the rate of 45¢ per ounce on October 1, 1936. The Federal Reserve Bank advised us today of the receipt of a cable from the Central Bank of China accepting our bid. However, as the Central Bank of China had already loaded the amount of 9,451,000 ounces of silver on board boat September 25, they asked whether our bid would cover the full amount of 9,451,000 ounces instead of the 9,000,000 ounces originally agreed upon. Upon referring this question to Secretary Morgenthau he instructed the Federal Reserve Bank to close the deal for 9,451,000 ounces, thus allowing China to sell us 451,000 ounces more than they were technically entitled to.

(Lochhead)

Friday, October 2, 1936

In speaking to the Secretary on the telephone at 4:45 P. M. today the question of the decline in the rate for sterling was discussed. The market had opened in London at 4.93 1/8 and subsequently advanced to 4.93 3/8 without any special activity. The Secretary wanted to know whether it would not be possible to support sterling by buying gold in the London market instead of buying tremendous sterling balances. I agreed with him that it would be more desirable to support sterling by the purchase of gold but there was a question as to the feasibility of so doing. The Secretary said that he would like to give this a trial and wanted us to put an order in the London market to buy gold the following day if the rate should decline below 4.93. I pointed out that we already had an order with the Bank of England to purchase up to \$100,000,000 in gold at 34.77 or better without any reference to the price of sterling and any new order would be an overlapping of our standing order. The Secretary thought that we might at least give the order to the Bank of England and ask that they be more forceful in endeavoring to execute our order for the purchase of gold. It was agreed that I should call Mr. Knoke at the Federal Reserve Bank and ask him to place the order with the Bank of England unless he had any objections, in which case he was to communicate by phone direct to the Secretary.

A little later Mr. Knoke informed me that he had been in touch with the Secretary and advised against placing said order because it might be construed as interference in their market and in addition any attempt to

Friday, October 2, 1936

execute a sizeable order on the London market on a Saturday morning might cause a disturbance which was not intended. In the circumstances the Secretary had decided not to place the order for the time being but to await the outcome of the present negotiations for the exchange of gold between the various stabilization accounts.

The Secretary instructed me to request Mr. Knoke and Professor Williams of the Federal Reserve Bank to make arrangements to be in Washington on Monday so that they could discuss any questions which might be brought up regarding the proposed arrangements to exchange gold between stabilization accounts.

(Lochhead)

U

GRAY

Paris

Dated October 2, 1936

Rec'd 7:30 a.m.

Secretary of State

Washington

957, October 2, 11 a.m. (SECTION ONE)

FROM COCHRAN.

Reference my 938, September 28, 1 p.m.

There follows a translation of the French Monetary Law as voted last night and as promulgated on page 1040 of the Journal Official of October 2, 1936:

FIRST SECTION

MONETARY PROVISIONS

Article I.

The application of the provisions embodied in Articles II and III of the Monetary Law of June 25, 1928, are suspended.

Article II.

The new gold content of the franc French monetary unit will be fixed later by a decree taken in Council of Ministers; the weight of the franc may not be either less than 43 milligrams nor more than 49 milligrams of gold of 900/1000 fine.

The conditions of convertibility in gold of notes of the Bank of France will also be fixed by a decree taken in Council

U -2- #957, Oct. 2, 11 a.m. (Sec. 1) from Paris

Council of Ministers.

Article III.

Until the issue of the first decree contemplated
in the preceding article an exchange

BULLITT

RR

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GRAY

Paris

Dated October 2, 1936

Rec'd 9:10 a.m.

Secretary of State

Washington

957, October 2, 11 a.m. (SECTION TWO)

stabilization fund will regulate the relations between the franc and foreign currencies by maintaining the parity of the franc in relation to the gold within the limits fixed by the same article.

The exchange stabilization fund will be administered by the Bank of France for the account of, and under the responsibility of, the public Treasury. The conditions of its operation will be decided upon by the Governor of the Bank of France within the framework of the general instructions furnished by the Minister of Finance.

The Bank of France will have the option of selling to, and of buying from, the exchange stabilization fund gold and foreign currencies.

Article IV.

The convention concluded between the Minister of Finance and the Governor of the Bank of France on September 25, 1936, is approved.

The said convention is exempt from stamp and registration duties.

Article V.

U -2- #957, Oct. 2, 11 a.m. (Sec. 2) from Paris

Article V.

The gold holdings and foreign currency holdings actually held by the banks of issue of Algeria, of the Colonies and protectorate countries will be made ^(the?) to object of revaluation to be carried out under conditions similar to those laid down in the convention referred to in the preceding article.

The Minister of Finance is authorized to conclude with the bank of issue concerned conventions fixing the

BULLITT

RR

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GRAY

Paris

Dated October 2, 1936

Rec'd 9:20 a.m.

Secretary of State

Washington

957, October 2, 11 a.m. (SECTION THREE)

conditions under which the state will receive the amount of the profits resulting from this revaluation.

Article VI.

The new definition of the franc is not (*) to international payments which, prior to the promulgation of the present law, were stipulated in francs. With respect to these international payments the French monetary unit will be defined in accordance with the monetary law in force in France at the time when the obligation which gave rise to the payment was contracted.

An international payment is a payment effected in execution of a contract involving double transfer of funds from country to country.

International obligations issued before the promulgation of the present law and having been made the object of an exchange or of a transaction between debtors and creditors cannot be considered as having lost their character of international obligations.

Article VII.

Notwithstanding all contrary legislative sanctions
or

U -2- #957, Oct. 2, 11 a.m. (Sec. 3) from Paris

or conventional provisions the banks of issue of Algeria and of the Colonies may carry French francs in their accounts.

Article VIII.

Negotiations of gold in ingots and bars and of gold currencies are subordinated to the authorization of the Bank of France. All ingots of this provision will be subject to a fine equal to the value.

BULLITT

RR:WVC

(*) Apparent omission.

U

GRAY

Paris

Dated October 2, 1936

Rec'd 9 a.m.

Secretary of State
Washington

957, October 2, 11 a.m. (SECTION FOUR)

of the gold negotiated.

The importation and exportation of gold bars or ingots and gold currencies are prohibited unless authorized by the Bank of France. Infractions of this prohibition will be subject to the penalties provided for in the customs code.

The authorization contemplated in the first paragraph of the present article will be forthcoming as concerns negotiations of gold relating to industrial or commercial requirements.

Upon the issue of the decree envisaged in the first paragraph of Article II above, the provisions of the present article may be suspended by decree.

Article IX.

The stipulations embodied in the decree of September 25, 1936 providing for the postponement of payment of certain commercial bills and other commercial obligations, are ratified.

SECOND SECTION

Declaration of gold and measures against speculation.

Article X.

U -2- #957, Oct. 2, 11 a.m. (Sec. 4) from Paris

Article X.

All physical or moral persons domiciled in France, owners, at the date of September 26, 1936, of gold ingots, bars or currencies may, up to November 1st, 1936, surrender them to Bank of France for the account of the stabilization fund at the price of one franc for 65.5 milligrams of gold 900 thousandths fine

BULLITT

RR

JR

TELEGRAM SENT

GRAY

October 2, 1936

1 p.m.

AMEMBASSY

PARIS (FRANCE)

383.

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

Please keep me advised of any news regarding
possible Italian monetary action on Monday.

HULL
(HF)

EA:LWW

U

GRAY

Paris

Dated October 2, 1936

Rec'd 7:33 a.m.

Secretary of State

Washington

958, October 2, noon.

Embassy's telegram 956, October 1, 7 p.m.

The Monetary Bill as passed by the Chamber was voted last night in the Senate by a show of hands. The JOURNAL OFFICIAL of this morning carries the text which is being cabled by Cochran for the Treasury.

The special session of Parliament has adjourned and Parliament will not reconvene until the normal time which will be in all probability early in November.

BULLITT

WWC

M

NC

GRAY

Praha

Dated October 2, 1936

Rec'd 9:25 a.m.

Secretary of State

Washington

46, October 2, 10 a.m.

It is understood that governors of the national banks of the Little Entente will meet at Praha from 5th to 7th instant at the suggestion of French financial authorities to consider coordination in connection with devaluation which well informed opinion considers likely. Please inform Commerce.

WRIGHT

WYC

JR

GRAY

Paris

Dated October 2, 1936

Rec'd 1:57 p.m.

Secretary of State,
Washington.

960, October 2, 5 p.m.

FROM COCHRAN.

In continuation of my telegram No. 957, October 2, 11 a.m., the provisions embodied in Articles 16 of the government's original bill abrogating certain economy decrees of 1934 and 1935 the matters covered in Articles 21, 22 and 23 of the government's original bill relating to the convention concluded on September 27, 1936, between the Minister of Finance and the amortization fund concerning annuity payments, et cetera, (including the text of the convention concluded with the amortization fund referred to in my telegram No. 943, September 29, 11 a.m., as Annex No. 2) and the arrangements contemplated in Article 25 of the government's original bill providing for an advance of 3,000,000,000 francs to the Credit Foncier de France were made the subject of three separate laws which were also passed on the night of October 1 and promulgated in the Journal Official of October 2,

The

IR #2- 960, October 2, from Paris, 5p.m.

The following is a summary of these laws:

First law abrogates certain decree laws of 1934 and 1935 which provided for levies or reductions on war pensions, retirement allowances for war veterans and Legion of Honor and military medal payments;

Second law approves the convention concluded on September 27, 1936 with the amortization fund and provides certain advantages for holders of the Auriol Bachrach bonds; third law authorizes the Ministry of Finance to conclude a convention with the Credit Foncier de France in connection with an advance of 3,000,000,000 francs to permit the latter to reduce interest rates on loans granted at high rates.

Please repeat to Commerce.

BULLITT

RR

LMS

GRAY

Paris

Dated October 2, 1936

Rec'd 2:34 p. m.

Secretary of State,
Washington.

961, October 2, 6 p. m.

FROM COCHRAN.

Paris Bourse and exchange market reopened today for the first time since September 25th following promulgation this morning of devaluation law offers of dollars and sterling were heavy. Bank of France took the dollars at 21.45 and pound at 105.75 holding these rates steady. Understand that in London British control was selling dollars at 4.93 and buying dollars at 4.9325. Florin weakened some today. Swiss franc kept around its old parity with the French franc.

Bourse was very strong. To prevent a skyrocket market official intervention restricted the rise some shares such as Royal Dutch being quoted only once.

Still too early to gauge reflux of French capital but continuation of today's tendency should materially ease French money market. Since Bank of France was counterpart to sterling and dollar operations today private traders did nothing. They look, however, for Bank of France to

let

LMS 2-No. 961, October 2, 6 p. m., from Paris.

let trading revert into normal channels once bank has given a clear indication of the rate which it desires for the franc and has taken care of the initial rush.

BULLITT

RR

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED**FROM: American Embassy, Paris, France****DATE: October 2, 1936, 7 p.m. (Delayed)****NO.: 962****FROM COCHRAN.**

This evening at half-past six I had a talk with Cariguel; he confirmed that he had had a heavy day, but that all business offered could be handled by the Bank of France. However, as yet he had not had time to calculate what the total of the day's operations had been.

Bank of France discount rate was today lowered from 5 to 3 per cent; advances against securities from 6 to 4; 30 days advances from 5 to 3.

Statement of Bank of France as of September 25 showed gold loss 2,580,000,000 francs; new advances to Treasury of 570,000,000 francs; and coverage reduced from 57.42 to 54.42 per cent.

BULLITT.**EA:LWW**

LMS

GRAY

Paris

Dated October 2, 1936

Rec'd 5:32 p. m.

Secretary of State,
Washington.

963, October 2, 10 p. m.

FOR SECRETARY OF THE TREASURY FROM COCHRAN.

Reference Department's 383, October 2, 1 p. m.

Pennachio, Paris representative of Bank of Italy, talked with me this evening. He said his bank had been telephoning him constantly from Rome today seeking information in regard to operations on Paris market during first day under new monetary regime. Pennachio had experienced difficulty in keeping Rome advised since the pressure of business on the Paris market was so heavy that it was almost impossible to get in touch with any of the operators either by telephone or in person.

Pennachio does not know what the Italian Council of Ministers will decide at their meeting on Monday. His personal opinion is that the Italian officials themselves do not yet know. They have been following with intense interest all phases and developments of the three power monetary arrangement. They are not yet convinced, however, that

LMS 2-No. 963, October 2, 10 p. m., from Paris.

that this arrangement will in itself make certain that steps will be taken to achieve international economic recovery. Pennachio said that the Italians were most favorably impressed by the role that the United States had played in the recent developments and attribute to us the highest motives and absolute sincerity.

(END SECTION ONE)

BULLITT

SIS:NPL

LMS A portion of
this telegram must be
closely paraphrased be-
fore being communicated
to anyone. (A)

Paris

Dated October 2, 1936

Rec'd 7:10 p. m.

Secretary of State,

Washington.

963, October 2, 10 p. m. (SECTION TWO)

The Italians have been struck on the other hand by the lack of statements emanating from British official sources since the joint declarations were issued in support thereof or in promise of future advances in the economic field. The British, according to Pennachio, have not formally communicated with the Italians in an effort to influence the latter to follow the lead of France but have been passing on very direct hints to their Italian official contacts. As I have pointed out previously, Italy has practically no foreign capital abroad which could be expected to be repatriated in the event of devaluation. The Italians, moreover, seem somewhat skeptical as to whether there may be any important reflux into France considering the present French and European political situations.

((GRAY) The lira at Paris today was quoted at 162.50 as compared with 119.45 on September 25. This indicates that there has been only a slight decline of
the

LMS 2-No. 963, October 2, 10 p. m. from Paris.

the lira in an anticipation of Italian devaluation. The turnover here was light amounting to only 200,000 lira for the day according Pennachio.

(END OF MESSAGE)

BULLITT

Sis

UNITED PRESS - October 2, 1936.

WCNS45

NEW YORK.--A FRANCEH FRANC VALUED AT FROM 4.878 TO 4.819 CENTS WAS INDICATED AS THE INTENTION OF THE FRENCH GOVERNMENT TODAY.

ADVICES FROM PARIS SAID THE FRANC WOULD BE PERMITTED TO DRIFT AND THAT THE STABILIZATION FUND WOULD BE USED TO MAINTAIN THE FRANC ON A BASIS OF 20.50 TO 20.75 TO THE DOLLAR. THIS WOULD MEAN THE FRANC RATE OF 4.878 TO 4.819 CENTS EACH.

IN LEADING EXCHANGE MARKETS TODAY THE FRANC WAS CONSIDERABLY BELOW THIS FIGURE.

10/2--R1037A

OCT 2 1936 10.18

DUTCH MONEY RATES

PRIVATE CABLE ADVICES STATE PRIVATE
DISCOUNT RATE IN AMSTERDAM IS 2 PC AND
BUYING RATE ON PRIME GUILDER ACCEPTANCES IS 2
1-16 PC REPRESENTING A SLIGHT FIRING IN THE
AMSTERDAM MONEY MARKET

-0-

11.45-144

FOREIGN EXCHANGES QUIET

IN VIEW OF DEVELOPMENTS ABROAD THIS MORNING THE LOCAL FOREIGN EXCHANGE MARKET IS SURPRISINGLY QUIET LOCAL TRADERS STATE - WIDE DECLINES HAVE TAKEN PLACE IN FRANCS AND GUILDERS BUT BUSINESS IS SMALL

FRENCH FRANCS ARE QUOTED AT ABOUT 4 66 1-2 CENTS OFF 9 3-4 POINTS FROM LAST NIGHT-S CLOSE - THIS BRINGS RATE TO ABOUT THE MIDDLE POINT BETWEEN THE TWO STABILIZATION LIMITS

PROVIDED FOR IN THE STABILIZATION LAW - BANK OF FRANCE HAS MADE FRANCS AVAILABLE AT AROUND THIS LEVEL IN PARIS AND IN LONDON THIS MORNING BUT SO FAR THERE ARE NO INDICATIONS OF OFFICIAL OPERATIONS IN THIS MARKET

DUTCH GUILDERS HAVE DROPPED TO 53 70 CENTS FROM 54 25 CENTS LARGELY IN SYMPATHY WITH DROP IN FRANCS - EXCHANGE DEALERS SAY THERE IS NO SIGN OF OFFICIAL CONTROL IN GUILDERS - SOME QUARTERS HOLD OPINION THAT DUTCH AUTHORITIES PREFER TO STAND ASIDE FOR THE MOMENT AND ARE UNWILLING TO PEG THE GUILDER WHILE GERMAN MARK REMAINS AN UNCERTAIN QUANTITY - THIS IS BASED ON IMPORTANT POSITION WHICH GERMANY PLAYS IN DUTCH ECONOMY

SWISS FRANCS ARE HOLDING STEADILY AT 23 01 CENTS OFF 2 POINTS FROM LAST NIGHT - SWISS AUTHORITIES ARE BELIEVED TO BE HOLDING THE RATE BY OFFICIAL OPERATIONS

STERLING CONTINUES UNCHANGED AT 4 DLS 93C TO 4 DLS 93 1-4C WHICH MEANS THAT THE FRANC HAS DROPPED IN TERMS OF BOTH THE DOLLAR AND THE POUND

OCT 2 1936
OCT 1936

FRANCE
PARIS

UNITED PRESS - October 2, 1936.

145

WCNS4

PARIS.--THE FRENCH GOVERNMENT PUBLISHED AN OFFICIAL DECREE TODAY DEVALUATING THE FRANC AND REOPENING THE BOURSE.

THE LAW REVALUATING THE FRANC PROVIDED A GOLD CONTENT RANGING BETWEEN A MAXIMUM OF 49 MILLIGRAMS AND A MINIMUM OF 43 MILLIGRAMS COMPARED WITH 65.5 MILLIGRAMS, THE PREVIOUS GOLD CONTENT.

IN TERMS OF THE U.S. DOLLAR, 43 MILLIGRAMS WOULD BE EQUIVALENT TO 22.96 FRANCS PER DOLLAR, WHILE 49 MILLIGRAMS WOULD EQUAL 20.15 FRANCS PER DOLLAR.

AFTER THE DECREE WAS PUBLISHED, THE BANK OF FRANCE REDUCED ITS DISCOUNT RATE FROM FIVE TO THREE PER CENT. IT HAD BEEN RAISED TO HALT FRANCE'S LOSS OF GOLD.

THE BOURSE REOPENED AT NOON, MOST ACTIVELY. SOME ISSUES BOOMED BUT TRADING WAS HANDICAPPED BY A DEARTH OF OFFERS.

IN THE FIRST HALF HOUR THE DOLLAR REMAINED AT 21.45 FRANCS, AND THE BRITISH POUND AT 105.75.

SUEZ WAS 2,3000 COMPARED TO 20740 AT THE LAST SESSION, SANTA FE 530 COMPARED TO 440; ROYAL DUTCH 3950 COMPARED TO 3285, FRENCH 3 PER CENT RENTES 78.20 AGAINST 69.30, 4 1/2 PER CENT 84 CENTS 74.10.

CONTRARY TO EXPECTATIONS IT WAS ANNOUNCED THAT THE BOURSE WOULD REMAIN CLOSED TOMORROW AND THAT MONTH END LIQUIDATION WOULD BE MADE MONDAY.

MEANWHILE THE SENATE AND CHAMBER ADJOURNED UNTIL THE FIRST WEEK OF NOVEMBER.

10/2--R843A

WCNS15

PARIS.--AMERICAN BANKS WERE BUYING DOLLARS TODAY AT 21.25 FRANCS AND POUNDS AT 105.75 FRANCS.

10/2--R916A

Regarded Unclassified

FRENCH BANK RATE CUT TO ^{8.30} 3 PC

OCT 2 1936

PARIS - THE BANK OF FRANCE HAS REDUCED THE DISCOUNT RATE TO 3 PC FROM 5 PC - THE NEW LOAN RATE IS 4 PC AND THE RATE ON SHORT ADVANCES 3 PC

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OFFICIAL DECREE DEVALUES FRANC

^{8.36} OCT 2 1936

PARIS -UP- THE FRENCH GOVERNMENT PUBLISHED AN OFFICIAL DECREE TODAY DEVALUATING THE FRANC AND REOPENING THE BOURSE

THE DECREE WHILE DEVALUATING THE FRANC DID NOT PEG IT AT A DEFINITE POINT - IT WILL BE HELD BY AN EQUALIZATION FUND AT BETWEEN 101 AND 103 TO THE POUND AND BETWEEN 20 50 AND 20 75 TO THE DOLLAR FOLLOWING FINAL PASSAGE OF THE BILL THE SENATE AND CHAMBER ADJOURNED UNTIL THE FIRST WEEK OF NOVEMBER

-0-

J
840

OCT 2 1936

PARIS BOURSE OPEN

PARIS -UP- THE BOURSE REOPENED AT NOON MOST ACTIVELY - SOME ISSUES BOOMED BUT TRADING WAS HANDICAPPED BY A DEARTH OF OFFERS

SUEZ WAS 23 000 COMPARED TO 20 740 AT THE LAST SESSION SANTA FE 530 COMPARED TO 440 ROYAL DUTCH 3 950 COMPARED WITH 3 285 FRENCH 3 PC RENTES 78 20 AGAINST 69 30 AND 4 1-2 PER CENTS 84 AGAINST 74 10

IT WAS ANNOUNCED THAT THE BOURSE WOULD REMAIN CLOSED TOMORROW AND THAT MONTH END SETTLEMENT WOULD BE MADE MONDAY

-0-

9.05

OCT 2 1936

PARIS MARKETS REOPEN

PARIS - EXCHANGES OPENED AT 21 45 TO THE DOLLAR AND 105 75 TO THE POUND STERLING EXACTLY MIDWAY BETWEEN THE GOLD LIMITS THUS ENABLING THE CONTROL TO MANEUVER EITHER WAY - THE FRANC WAS MAINTAINED STABLE THRUOUT THE MORNING AND IS EXPECTED TO BE KEPT FOR SEVERAL DAYS OR EVEN WEEKS UNLESS ABNORMAL PRESSURE DEVELOPS EITHER WAY

THE BANK OF FRANCE WAS THE SOLE SUPPLIER OF FRANCS FOR WHICH THERE WAS A STEADY DEMAND BUT APPARENTLY NOT OVERWHELMING

-0-

PARIS BOURSE 9.10 OCT 2 1936

PARIS - ALL BUYERS AND NO SELLERS DELAYED
 QUOTATIONS OVER AN HOUR AFTER THE OPENING
 OF THE BOURSE AND UNTIL 1 PM -

AMONG RENTES ONLY THE PERPETUAL
 3S WERE POSTED AT 78 20 AGAINST 69 30 -
 FIRST PRICES FOR SUEZ CANAL ROYAL DUTCH AND
 DE BEERS AND OTHER ISSUES WERE UP AROUND 20
 PC

THE POST OFFICE ANNOUNCED A THREE HOURS
 DELAY IN PHONE SERVICE TO LONDON

-0-

ADD PARIS BOURSE

9.12

PARIS - BY 2 PM TWO HOURS AFTER THE
 OPENING NO FRENCH INDUSTRIAL ISSUES WERE
 QUOTED AND ONLY ONE BANK ISSUE THE SOCIETE
 GENERALE WHICH SOLD AT 705 TO 740 AGAINST
 PREVIOUS CLOSE OF 622 - PRICES FOR RENTES
 WERE LARGELY NOMINAL BUT THE 5S OF 1920 WERE
 102 AGAINST PREVIOUS CLOSE OF 93 - THE 4S OF
 1925 WHICH ARE TIED TO STERLING SOLD AT 95
 AGAINST 93 50 AND 4 1-2S OF 1932 WERE TRADED
 AT 84 AGAINST PREVIOUS CLOSE OF 74 10

-0-

9361 2 100

OCT 2 1936

149

9:29

ADD EXCHANGES OPEN IN PARIS

PARIS- THE RATE FOR SWISS FRANCS WAS QUOTED AT 4 85 FRENCH FRANCS AGAINST THE FORMER PARITY OF 4 9249 AND FOR DUTCH GUILDERS 11 50 AGAINST FORMER PARITY OF 10 2595

-0-

TO DISCUSS LOWERING TARIFF BARRIERS

PARIS-U P- FRANCE TODAY SENT MINISTER OF COMMERCE CHARLES SPINASSI TO GENEVA TO DISCUSS LOWERING TARIFF BARRIERS AND REMOVING IMPORT QUOTAS

9:35

HIS MISSION WAS TO END IF POSSIBLE THE -SYSTEM OF ECONOMIC WARFARE- REPRESENTED BY TRADE RESTRICTIONS

THE FRENCH DELEGATION IN GENEVA HAS BEEN ENGAGING IN DISCUSSIONS WITH REPRESENTATIVES OF OTHER COUNTRIES TO ACCOMPLISH THIS END.

IN AN INTERVIEW ON THE EVE OF HIS DEPARTURE SPINASSI SAID

-SYSTEMS OF QUOTAS AND TARIFF BARRIERS BEING IN FACT ECONOMIC WARFARE IT IS CERTAIN THAT IF WE CAN BRING ABOUT AN ERA OF ECONOMIC AND FINANCIAL PEACE THE COUNTRIES USING THESE WEAPONS CAN RETURN TO A PERIOD OF NORMAL RELATIONS-

OCT 2 1936

10.08

OCT 2 1936

ADD PARIS BOURSE

150

PARIS- VOLUME WAS SO GREAT THAT A DRASTIC REDUCTION IN BUYING ORDERS WAS NECESSARY- NEVERTHELESS AUTHORITIES WERE OVERWHELMED ON THE OFFICIAL BOURSE AND EVEN IN THE COULISSE -THE CURB MARKET HELD ON THE STEPS OF THE BOURSE- ONLY ABOUT HALF OF THE LIST WAS QUOTED

BITTER PROTEST IS HEARD AGAINST THE 50 PC TAX ON NET PROFITS RESULTING FROM LIQUIDATION OF COMMITMENTS IN ALL SECURITIES EXCEPT NATIONAL FUNDS ENTERED INTO BETWEEN SEPTEMBER 21 AND SEPTEMBER 26 FOR FORWARD ACCOUNT- OPERATIONS WHICH WERE DONE IN CONNECTION WITH COMMERCIAL REQUIREMENTS ARE EXEMPTED- NEVERTHE- LESS THE ARDOR OF TRADERS HAS NOT BEEN CHILLED

IT IS POINTED OUT THAT THE DEVALUATION LAW FAILS TO PENALIZE PROFITS MADE ON COMMODITIES

PARIS BOURSE

10.08

PARIS- THE PARIS BOURSE CLOSED AT THE NORMAL HOUR AT 2 30 PM WITHOUT OFFICIAL QUOTATIONS FOR DOMESTIC STOCKS EITHER CASH OR FORWARD- AUTHORITIES HAVING LIMITED THE RISE IN QUOTATIONS TO 20 PC SELLERS WERE ABSENT AND BUYERS WERE COMPELLED TO WAIT UNTIL MONDAY SINCE THE PROPOSED SESSION FOR SATURDAY HAS BEEN CANCELLED -THERE WAS GREAT EXCITEMENT THROUGHOUT AMONG THE PROFESSIONALS

ON THE CURB INTERNATIONALS WERE UP GENERALLY 30 PC CORRESPONDING TO EXCHANGE DEPRECIATION AND BUSINESS DONE PROBABLY WAS VERY SMALL AND GENUINE BUYERS HAD VERY LITTLE SATISFACTION

OCT 2 1936

OCT 2 1936

10.05

ADD FRANC EXCHANGE

PARIS- ARTICLE 6 OF THE DEVALUATION LAW
MAKES THE NEW DEFINITION OF THE FRANC INAPPLIC-
ABLE TO INTERNATIONAL PAYMENTS ALREADY STIPULAT
-ED IN FRANCS- FOR THESE THE DEFINITION OF THE
MONETARY UNITS WILL CONFORM TO THE MONETARY LAW
IN FORCE IN FRANCE AT THE DATE OF CONTRACTION OF
THE OBLIGATION

THE ARTICLE FURTHER DEFINES AN INTERNATIONAL
PAYMENT AS A PAYMENT EFFECTED IN EXECUTION OF A
CONTRACT IMPLYING A DOUBLE TRANSFER OF FUNDS
FROM COUNTRY TO COUNTRY- HENCE THE FRENCH
HOLDERS OF FRENCH AND FOREIGN GOLD BONDS ARE
NOT ENTITLED TO BENEFIT FROM THE EXEMPTION- THE
LAW ALSO EXPRESSLY STATES THAT INTERNATIONAL
SECURITIES WHICH HAVE BEEN SUBJECT TO EXCHANGE
OR TRANSACTIONS BETWEEN CREDITORS AND DEBTORS
WILL RETAIN THE CHARACTER OF INTERNATIONAL
PAYMENTS

IT IS AUTHORITYTATIVELY ESTIMATED THAT SINCE
1928 OVER 3 000 000 000 FRANCS OF FRANC LOANS
HAVE BEEN ISSUED FOR FOREIGN ACCOUNT IN FRANCE
AND THE LAW IS PRIMARILY INTENDED TO SAFEGUARD
HOLDERS OF THESE LOANS

-0-

OCT 2 1936
OCT 2 1936

PARIS BOURSE

PARIS -UP- INTERNATIONAL ISSUES MADE
LARGE GAINS ON THE PARIS BOURSE TODAY BUT
MOST FRENCH STOCKS WERE NOT QUOTED BECAUSE OF
LACK OF OFFERINGS

AT THE OPENING OF THE MARKET THERE WAS AN
ORDER FOR 10 000 SHARES OF BANK OF PARIS STOCK
AND ONLY 25 SHARES WERE OFFERED - THEREFORE
NO QUOTE WAS AVAILABLE AND THE SAME SITUATION
PREVAILED ON BANK OF FRANCE STOCK

AMONG THE INTERNATIONAL SHARES RIO TINTO
CLOSED AT 1 810 FRANCS COMPARED WITH A PREV-
IOUS CLOSE - LAST FRIDAY - OF 1 385 FRANCS-
ROYAL DUTCH CLOSED AT 4 000 FRANCS COMPARED
WITH THE PREVIOUS 3 285 FRANCS AND SUEZ CANAL
WAS 23 300 FRANCS COMPARED WITH 20 740 FRANCS
-0-

OCT 2 1936

ADD PARIS BOURSE

PARIS - ACTIVITY WAS FEVERISH
SEVERAL DAYS ARE BELIEVED TO BE NECESSARY
FOR THE BOURSE AND FOREIGN EXCHANGE MARKETS
TO SHAKE DOWN TO THE NEW CONDITIONS AND
WORK NORMALLY

-0-

POLAND
WARSAW

UNITED PRESS - October 2, 1936.

153

WCNS23

WARSAW.--THE CABINET, AFTER A MEETING AT WHICH PRESIDENT MOSCICKI PRESIDED, ANNOUNCED TODAY THAT POLAND WOULD ADHERE TO THE GOLD STANDARD.

10/2--R928A

8.59

NO CHANGE IN POLISH MONEY POLICY
WARSAW - THE POLISH GOVERNMENT HAS DECIDED
THERE IS NO REASON TO CHANGE ITS MONETARY
POLICY ACCORDING TO REUTERS

-0-

OCT 2 1936

AUSTRIA
VIENNA

UNITED PRESS - October 2, 1936.

155

WCNS24

VIENNA.--FINANCE MINISTER LUDWIG DRAXLER AND VIKTOR KIENBOECK,
DIRECTOR OF THE NATIONAL BANK, ANNOUNCED TODAY THAT THE SCHILLING
WOULD N O T BE DEVALUED.

10/2--R929A

8.57

OCT 2 1936

NO AUSTRIAN DEVALUATION

VIENNA - AN OFFICIAL COMMUNIQUE STATES
THAT AFTER CAREFUL CONSIDERATION THE MINISTER
OF FINANCE HAS REJECTED THE IDEA OF ANY DE-
VALUATION OF THE AUSTRIAN SCHILLING ACCORDING
TO REUTERS

-0-

HUNGARY
BUDAPEST

DOW JONES - October 2, 1936.

157

MM
OCT 2 1936

11:43

HUNGARY NOT TO DEVALUE

BUDAPEST - REUTERS - THE HUNGARIAN
GOVERNMENT HAS DECIDED AGAINST ANY DEVALUATION

-0-

M
OCT 2 1936

ADD HUNGARY NOT TO DEVALUE

12:01

BUDAPEST -REUTERS- THE HUNGARIAN GOVERNMENT-
S DECISION NOT TO DEVALUE ITS CURRENCY WAS
REACHED AT A CABINET MEETING HELD TODAY-
COMMERCIAL NEGOTIATIONS WILL BE OPENED WITH
FOREIGN COUNTRIES IN VIEW OF THE NEW SITUATION

-0-

8:56
OCT 2 1936
CZECHO-SLOVAKIA MAY DEVALUE

PRAGUE - A NEWS AGENCY DISPATCH QUOTES THE NEWSPAPER VENKOV A LEADING ORGAN OF THE AGRARIAN COALITION AS SAYING THAT DEVALUATION TO THE EXTENT OF ABOUT 30 PC IS PROBABLE IN CZECHO-SLOVAKIA BUT NO DATE HAS BEEN FIXED FOR TAKING THIS STEP

-0-

M -
MR

OCT 2 1936
TO DISCUSS CZECHO MONEY POLICY

11:59

PRAGUE- THE CZECHOSLOVAKIAN GOVERNMENT HAS BEEN SUMMONED TO MEET AT 6 PM TO DECIDE ITS FUTURE MONETARY POLICY ACCORDING TO REUTERS

-0-

DJ 4.40
OCT 2 1936
CZECHOSLOVAKIAN EXCHANGE

PRAGUE - REUTERS - NO DECISION WAS MADE REGARDING FUTURE MONETARY POLICY IN CZECHO-SLOVAKIA AT A SPECIAL MEETING OF THE CABINET THIS EVENING

THE ECONOMIC COMMITTEE OF THE CABINET IS STUDYING THE PROBLEM OF CZECHOSLOVAKIAN CURRENCY AND A FINAL DECISION WILL BE MADE SATURDAY

REUTERS LEARN THAT DEVALUATION OF THE CZECHOSLOVAKIAN CROWN WILL NOT EXCEED 16

1-2 PC

-0-

DJ9.03
JAPAN'S POSITION ON CURRENCY PACT
TOKIO - IT IS UNDERSTOOD THAT THE *OCT 2 1936*
FOREIGN OFFICE AND FINANCE MINISTER CONFERRED
REGARDING THE FRENCH REQUEST FOR JAPAN-S
ADHERENCE TO THE THREE-POWER MONETARY AGREEMENT
ACCORDING TO REUTERS - IT IS AUTHORITATIVELY
STATED THAT PRESS REPORTS THAT JAPAN IS
WITHHOLDING ITS SUPPORT OF THE AGREEMENT ARE
INCORRECT AND BASELESS

-0-

LMS

GRAY

Paris

Dated October 2, 1936

Rec'd 5:32 p. m.

Secretary of State,
Washington.

963, October 2, 10 p. m.

FOR SECRETARY OF THE TREASURY FROM COCHRAN.

Reference Department's 383, October 2, 1 p. m.

Pennachio, Paris representative of Bank of Italy, talked with me this evening. He said his bank had been telephoning him constantly from Rome today seeking information in regard to operations on Paris market during first day under new monetary regime. Pennachio had experienced difficulty in keeping Rome advised since the pressure of business on the Paris market was so heavy that it was almost impossible to get in touch with any of the operators either by telephone or in person.

Pennachio does not know what the Italian Council of Ministers will decide at their meeting on Monday. His personal opinion is that the Italian officials themselves do not yet know. They have been following with intense interest all phases and developments of the three power monetary arrangement. They are not yet convinced, however, that

LMS 2-No. 963, October 2, 10 p. m., from Paris.

that this arrangement will in itself make certain that steps will be taken to achieve international economic recovery. Pennachio said that the Italians were most favorably impressed by the role that the United States had played in the recent developments and attribute to us the highest motives and absolute sincerity.

(END SECTION ONE)

BULLITT

SIS:NPL

**PARTIAL PARAPHRASE OF SECTION TWO OF TELEGRAM No. 983
of October 3, 1936, from the American Embassy, Paris.**

On the other hand the Italians have been struck by the lack of statements emanating from British official sources since the issue of the joint declarations in support thereof, or in promise of future advances in the economic field; according to Pennachio, the British have not formally communicated with the Italians in an effort to influence Italy to do as France has done, but they have been passing on to their Italian official contacts very direct hints. Italy, as I mentioned previously, has almost no foreign capital abroad which in the event the lira was devalued could be expected to be repatriated. Moreover, the Italians seem somewhat skeptical as to whether, taking into consideration the political situations in Europe, particularly France, there may be any important reflux into France.

The lira at Paris today was quoted at 162.50 as compared with 119.45 on September 25. This indicates that there has been only a slight decline of the lira in an anticipation of Italian devaluation. The turnover here was light amounting to only 200,000 lira for the day according to Pennachio.

END OF MESSAGE.

BULLITT.

FEDERAL RESERVE BANK
OF NEW YORK

CE CORRESPONDENCE

DATE October 2, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATIONL. W. KnobeWITH BANK OF FRANCE.

I called Mr. Cariguel at 10:40 today. I told him that I had learned that there was some demand in this market for francs for tomorrow's delivery which it might be difficult to purchase here. Under the circumstances I was wondering whether he wished to supply these francs. Cariguel replied that it had been his intention to give me an order good until the end of the day, probably on the basis of 4862 and that he would cable me accordingly shortly. He then changed his mind and suggested that I take this order from him over the telephone. (He has since confirmed by cable.)

I asked what the demand had been for francs in the last few days both in New York and London. He replied that up to this morning he had sold about 60,000,000. I asked whether they were planning to publish a price for gold in the near future. Cariguel replied that he did not think so; for the time being they expected to operate in francs at the present rate of 2145 which was the equivalent of 48 milligrams of gold.

LWK:KMC

OFFICE CORRESPONDENCE

DATE October 2, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

I called Mr. Bolton at 10:49 today. I suggested that he send me every morning in time for our opening a cable giving me information on the doings in the London market, the fund's operations, price ranges, turnover, etc. Bolton promised he would do that.

As regards today's market, he said they had reopened the franc market in London by arrangement with Bank of France and had kept the rate fairly steady. As a result of today's operations he thought the French would accumulate considerable sterling and dollar balances. The dollar had ranged from 4.92 ^{in London} 3/4 to 4.95 1/4; in Paris between 21.44 and 21.48; francs in terms of sterling around 108 3/4. They had tried to keep all quotations as steady as possible; had sold \$1,500,000 (about) but were just now buying a few back. The feature of the dollar-sterling market had been its remarkable steadiness in the face of a very big turnover, something like \$25,000,000 up to that time. Gold had been fixed at 141 shillings; probably 1 1/2 to 2 million pounds had changed hands. They were putting through a million dollars in gold for us under our order.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

165

CE CORRESPONDENCE

DATE October 2, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knack

WITH BANK OF FRANCE.

Mr. Cariguel called me at 1:45 today. He inquired how much we had sold. I told him about 15,000,000 francs value tomorrow, details to follow by cable tonight. He then inquired whether he might count on being able to convert the dollars placed to his account with us against his franc sales, into gold on Tuesday. I replied that, as I had suggested to him a few days ago, the Treasury was anxious to know two things: (1) whether giving up of gold was to be on a reciprocal basis and (2) at what level the French would try to hold the franc. Cariguel repeated that conversion of balances into gold had always been a matter of reciprocity with them and that as far as the price was concerned he could, if we wanted him to, cable us every morning the price which they would pay us for gold on that day and at which they would sell us gold on that day. This was the arrangement they had completed with the British and the Belgians to whom he had quoted this morning the following prices per kilo fine:

Buying at francs 23,984.004
Selling " " 24,006.367

15.4 % = 24723949
34.77 % = 24156602

Their buying price for gold is equivalent to giving up francs at .0469177 (francs 21.5133 to the dollar); their selling price is equivalent to taking in francs at .0468740 (francs 21.5337 to the dollar). The spread between buying and selling price for gold is about .025%.

Both buying and selling price might, Cariguel added, be subject to a commission. I inquired whether, if, for instance, on a Friday we had a very weak franc market here which we might wish to

23,984.004 = 745.986018 - 107
24,006.367 = 746.681585 - 107

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE October 2, 1936.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONM. L. W. KnekeWITH BANK OF FRANCE.

- 2 -

support by means of buying francs in this market at a rate based on his selling price for gold as cabled us on that day and as a result we had acquired francs deliverable in Paris the following Monday, we could convert these francs into gold on Monday at the gold price cabled us on Friday morning even though that price had changed in the meantime. Cariguel's reply was very emphatically in the affirmative.

I thanked Cariguel for the information given me and told him that with these details before me I could now discuss the matter promptly with Washington and was hopeful that I could let him have the reply by Monday morning. I inquired whether he had the same arrangement with the British and the Belgians and Cariguel replied, "Yes," adding that he had quoted them the above prices today. He would hereafter quote them to all those central banks or stabilization funds that asked for them.


LWK:KMC

DEPARTMENT OF STATE
WASHINGTON

October 2, 1938.

My dear Mr. Secretary:

I greatly appreciate and esteem the letter you have sent me in regard to my part in the recent negotiations concluded with the British and French Treasuries.

May I say in reply that I much appreciated the opportunity to participate in these negotiations, and entirely feel that whatever effectiveness my participation had was due to your clear and steady leadership.

I hope that subsequent events may make these negotiations a genuinely significant beginning of a more tranquil world.

With best regards,

Yours sincerely,

Herbert Feib

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

OFFICE CORRESPONDENCE

DATE October 3, 1936.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM: L. W. KnokeWITH BANK OF FRANCE.

I called Mr. Cariguel at 9:44 today. Everything had gone smoothly in Paris, he said, and he had just sent me a cable to sell francs at 487, delivery Monday or Tuesday. Beginning Monday, he added, he would give me francs only for the regular delivery, that is two days.

I referred to our telephone conversation of yesterday, when he ^{let} asked what our position was with regard to allowing France to convert dollar balances into gold; at that time I ^{let} told him that I was hopeful that I could give him a reply Monday morning. As matters stood now I was afraid he would have to wait a little longer. I explained that I had been asked to go to Washington on Monday, when the question would finally be discussed in all its details, particularly in reference to the actual gold prices quoted by him yesterday and today. I ventured the opinion that a day more or less probably did not matter since he could always buy gold in London. Cariguel replied that they were anxious to know definitely how they stood in New York and emphasized their ^{desire} willingness to sell us gold when we had no fixed prices here. I tried to cheer him up and to assure him that, in my humble opinion, the whole matter would be straightened out to everybody's satisfaction in the very near future. I inquired whether any gold which we might acquire in Paris would be free for export at any time; Cariguel replied, "Absolutely," and went on to explain that, as he put it, the Paris gold market had been entirely transferred to the Bank of France; nobody could do anything in France with regard to gold without the permission of the Bank of France, that the Bank of France was the one to

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 8, 1936.CONFIDENTIAL FILESSUBJECT TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF FRANCE.

- 2 -

issue licenses, which they had the authority to do even for individuals, and that it was not necessary for them to refer to the Treasury. In brief, the regulations were very liberal.

I inquired on what basis he was working in gold with London. Cariguel replied that he had converted into gold all the sterling he had bought. Every morning, he said, he quoted the Bank of England a price for gold in francs at which, during that day, he would trade. The Bank of England in turn, every morning, quoted him a price for gold in shillings at which they would sell gold to or buy gold from him during that day; all prices quoted were for gold in any amount. Yesterday and today they had sold him gold at 141 shillings. Either party of course could change the price during the day if market conditions made it necessary, but all business done prior to the change would be put through at the old rate. All day yesterday, the price of 141 shillings quoted him in the morning by the Bank of England, remained unchanged although the best offer the market was willing to make in the afternoon was at 141 shillings and 5 pence.

His price today, Cariguel said, had been francs 25,950.460 buying and he would have sold (although this was not as yet finally settled) at 25,972.622. The Banque National de Belgique had given him gold today for delivery Tuesday (evidently against belgas, which Cariguel had bought in the Paris market today).

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE October 3, 1958.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONL. W. KnokeWITH BANK OF FRANCE.

- 3 -

I again inquired whether it was his plan to quote us every day a price in francs in gold not only at which he would buy but also at which he would sell. He confirmed, adding that the price quoted daily would naturally vary according to the dollar rate in New York; I might tell you that it is our intention to keep the market as stable as possible, he added.

I suggested that if he wanted to telephone us on Monday, he ask for Mr. Sproul; I expected to be back Tuesday.

LWK:KMC

LMS

GRAY

Praha

Dated October 3, 1936

Rec'd 8:20 p. m.

Secretary of State,

Washington.

47, October 3, 10 p. m.

Devaluation having been tentatively determined upon it is announced that a bill will be drafted Monday providing that reduction of gold content probably not to exceed 16 per cent of present parity for submission to Parliament during the week. Please inform Commerce.

WRIGHT

HPD



**CHAMBER OF COMMERCE
OF THE UNITED STATES**
Washington

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K--3
1936

RELEASE MORNING PAPERS OCTOBER 3, 1936.

WASHINGTON OCTOBER 2 ----- W. F. Gephart, vice-president of the First National Bank, St. Louis, head of the Chamber's Committee on Monetary Policy, today made the following statement on recent monetary action to the Board of Directors of the Chamber of Commerce of the United States in session here:

XXXX

RECENT MONETARY ACTION

The French government has been granted statutory authority to devalue the franc and, within certain restrictions, to take steps to protect the French economy from untoward effects that might possibly accompany devaluation. It had previously been assured in a gentlemen's agreement with the American and British governments that the French decision to revalue the franc would be welcome and that all three governments would use appropriate available resources to minimize, if not avoid, any disturbances in the basis of international exchange resulting from the proposed readjustment.

The governments announced a belief that the success of their policy is linked with the development of international trade, through early and progressive relaxation of the present system of quotas and exchange controls, and through providing a basis for their abolition. The three governments, in inviting the cooperation of other nations to realize the success of their policy, expressed the hope that no country would seek to obtain an unreasonable competitive exchange advantage.

The devaluation of the French franc will mean a contemplated reduction in its gold content of 25.19 per cent minimum to 34.35 per cent maximum, with no definitive gold-par point established. In other words, the range of the eventual gold parity of the franc is indicated, but the parity point has not been fixed. The range indicates that the gold parity of the franc that will be sought in relation to the present gold parity of the dollar is between 4.35 points and 4.96 cents, as against the recent gold parity of 6.53 cents. In other words, on a par basis the dollar will be worth from

20.15 francs to 22.96 francs, depending upon the government's decree, instead of 15.07 francs. There is indication today that the operations of the French equalization fund, which is now being established, are likely to reflect a policy of permitting the franc to drift between 20.50 and 20.75 to the dollar, or in other words that efforts will be made to confine the franc's exchange value to from 4.878 cents to 4.819 cents.

It may be interesting in this connection to note that we have thus far devalued the dollar to a little less than 41 per cent; that the effective depreciation of the pound is about 39 per cent; that the Belgian belga was depreciated about 28 per cent and the Japanese yen about 65 per cent. The Swiss government has just announced decision to devalue its franc by from 26 to 34 per cent. The Netherlands has gone off the gold basis in a manner comparable to British action, with the possibility of the guilder depreciating about 20 per cent. The Brazilian milreis has been tied to the dollar and decisions of other states apparently impend. The situation of the German and Italian currencies continues uncertain, with resistance announced to devaluation, but with lively expectation of eventual revaluation.

Significance

Whatever differences of opinion there may be as to the circumstances or necessity of the monetary actions of our own and other governments which preceded the recent developments, and whatever differences of view may exist as to the wisdom of present decisions, the fact that they have considerable significance is unquestioned.

The success of the indicated policies will present a better outlook for world improvement than has offered since the exchanges were disrupted five years ago.

The gentlemen's agreement between the three governments, with other countries joining in the concert of action, is an important example of inter-

national cooperation.

It is an earnest of desire and intention upon the part of leading nations to avoid monetary aggression; it should contribute to a diminution, if not removal of the fear of a currency war between these important countries.

The successful conclusion of the announced policies should bring us nearer to the end of arbitrary currency manipulations by governments, whether or not their laws now contain devaluation limits.

It marks the more definite emergence of a form of conditional stabilization of great currencies, with, it is true, a considerable freedom of action reserved, but with possible parity points more discernible.

It reflects an intention of leading governments to seek the relaxation, if not the abolition, of such artificial and deadening impediments to international trade as quotas and exchange restrictions, which mainly have been outgrowths of currency uncertainties.

While the large question whether certain currencies are now or may later prove to be undervalued or overvalued is not yet resolved, it is natural to suppose that not only is there more definite formal understanding as to the ratio between francs and dollars and the ratio between francs and sterling, but also between dollars and sterling, at least to the extent of a dollar-sterling ratio that within limits it would appear practicable to aim at.

With the relief of some, if not most, of the uncertainty as to the franc which has been disturbing the world markets, it is also natural to suppose that the expected relaxation of quotas and exchange controls will provide some impetus to international trade. To the extent that the development of international trade depends upon monetary policies, it should be encouraged over the long run by the apparent informal understandings between the American, French and British governments as to prices that will be paid for gold and as

to the possible ranges of the ultimate gold contents of their currencies as well as to the protective use of their equalization funds.

The revaluation of any currency, of course, must cause instant disturbances to trade. It is impossible at this time to determine the probable effects upon world price levels but with the improved prospect of eventual increase of trade, the immediate unsettlement of price relationships should not deter trade development for long.

In the existing situation the possibilities of a decline in our government bond market or of an undue demand for export of gold or of disturbance of our bank reserves should be measured against the enormous protective powers which have been reposed in the Administration and which with orderly management should be able to withstand any harmful developments.

Repatriation of some of the short-term foreign funds that sought refuge in this country is to be expected as well as some part of the long-term foreign capital invested here. Disturbed conditions abroad and the fact that determination has not been made of the exact points at which French, Dutch, Swiss and other important currencies will be linked to gold should delay repatriation of much of the refugees balances. Foreign investments that had been made here on long-term account probably will not be removed in any disturbing volume while these influences obtain and there are expectations of profitable employment in this country.

Our monetary gold reserve approaches \$11 billions which, in the view of many, is in excess of our needs. The surplus reserves of the banks in the Federal Reserve System are nearly \$2 billions. The stabilization fund and other powers can operate to cushion any shock should there be harmful repercussions and can be employed protectively until order is restored.

Even with success of the announced decisions of the American, British and French governments, it should be realized that international trade and finance will not be restored to desirable volume until there are no serious threats to peace and until there is final fixation of the gold values of the currencies of the great trading nations and exchange fluctuations are confined within a narrow range without the use of artificial devices by the governments.

It should also be realized that the achievement of a balance of the budget of our government is necessary to assurance that once a desirable gold parity for our dollar is fixed it can be maintained. The early establishment, here and abroad, of balanced budgets and the cessation of inflationary debt policies will contribute greatly to a more orderly economic system, including stable currencies, just as they will encourage financial commitments, especially those of long-term nature which are so essential to reemployment and to the development of domestic and international trade.

It is now evident that greater order in government finances and the abandonment of currency manipulations and even of so-called managed currencies, in favor of fixed parity points protected by normal methods, offer as great an earnest of peaceful intentions of government as can be afforded to the world. Peace, it is true, is necessary to progress. Determined efforts to obtain order in government finances and in currencies contribute to world peace and to government stability.

In conclusion, it would appear that American business, in awaiting the outcome of the recent monetary action, has some basis for confidence that the action will be helpful and will provide a better foundation for the necessary steps which must and should be taken as quickly as possible to achieve definitive stabilization of the exchange. The development will be followed closely by the Chamber's Committee on Monetary Policy, in formulating its recommendations concerning future action.

U

GRAY

Budapest

Dated October 3, 1936

Rec'd 9:30 a.m.

Secretary of State

Washington

44, October 3, 1 p.m.

Cabinet decided October 2nd no currency measures
deemed necessary.

STEWART

GW:HPD

u

GRAY

Paris

Dated October 3, 1936

Rec'd 9:40 a.m.

Secretary of State

Washington

964, October 3, 11 a.m. (SECTION ONE)

FROM COCHRAN.

The decree published in the JOURNAL OFFICIAL of September 26 (see my telegram 926, of that date) providing for the suspension of demands for payment of commercial bills and other commercial obligations expressed in gold or in foreign currencies is dating from October 3 by a decision of the Minister of Finance published in the JOURNAL OFFICIAL of October 3.

The JOURNAL OFFICIAL of today publishes a decree suspending the application of article I and II of the decree of May 31, 1930 governing the monetary regime of Indo-China. A later decision will fix the new gold content of the piastre. In the meantime, the Bank of France will assure convertibility at the rate of 10 francs for each piastre.

Dating from today the annual rate of interest of two years National Defense Bonds has been fixed at 3.5 per cent.

As of interest in connection with the parliamentary

BULLITT

U

GRAY

Paris

Dated October 3, 1936

Rec'd 10:35 a.m.

Secretary of State

Washington

964, October 3, 11 a.m. (SECTION TWO)

approval of the French devaluation law envisaged by the three power monetary declaration and the Government's promise to proceed to a certain tariff demobilization, please refer to embassy's telegram of 965, October 3, 11 a.m. reporting decrees published in today's Journal Official providing for the reduction of: (1) certain customs duties; (2) the import tax on quota goods; (3) exchange compensatory surtax; and (4) the suspension of certain quotas. Furthermore the same Journal Official provides for the creation of a customs commission to undertake studies with a view to enabling the Government to proceed "to a complete and methodic reform of the French tariff".

The following lines are quoted from the LONDON TIMES account today of Neville Chamberlain's speech of last night at annual conference of National Union of Conservative and Unionist Associations at Margate:

"For ourselves we only wish to be allowed to carry on our occupations in peaceful and friendly relations with all

and

U -2- #964, Oct. 3, 11 a.m. Sec. 2, from Paris

and at the same time we recognize our duty to try to understand the difficulties of others and to help them to a solution which will serve the interests of all. Only last week when the French Government decided to propose to their Parliament the readjustment of the exchange value of the franc I was very glad to be able to cooperate with them.

CSB

BULLITT

U

GRAY

Paris

Dated October 3, 1936

Rec'd 10 a.m.

Secretary of State

Washington

964, October 3, 11 a.m. (SECTION THREE)

and with the Government of the United States in minimizing the disturbing effects of that operation and I am hopeful that the declarations issued by the three Governments will prove to be a step towards the restoration of more stable conditions in the international monetary system."

An editorial in the same paper upon Mr. Chamberlain's speech said in part.

"He was able to call in evidence of the Government's aims his instant readiness to cooperate with the Governments of the United States and of France in order to prevent economic disturbances following the devaluation of the franc. He showed that this action was a deliberate attempt to seize an opportunity of organizing greater stability in the international monetary system and thus to find a new starting point for the improvement of international trade".

In a leading article entitled "Gold bloc falls" today's LONDON ECONOMIST concludes:

"for

U -2- #964, Oct. 3, 11 a.m. (Sec. 3) from Paris

"for the moment the task of the world's statesmen is to make the most of the opportunities which the events of the past week have placed before them. Devaluation of the franc even when it is coupled with an agreement between the three western democracies does not automatically
(END SECTION THREE)

BULLITT

MJD

Paris

A portion of this telegram must be closely paraphrased before being communicated to anyone. (C)

Dated October 3, 1936.

Rec'd. 10:40 a. m.

Secretary of State,
Washington.

964, October 3, 11 a. m. (Section Four) (Gray)

solve the problems that are still plaguing the world. But it does present manifold opportunities of moving forward along paths that were blocked so long as a group of the world's most important currencies were still stubbornly deflating. There is now a better prospect than at any time in the past 7 years of true exchange stability corresponding to a genuine equilibrium between the different national economies and not merely to the rigid imposition of an arbitrarily "stabilization" rate of exchange. There is now an excellent prospect of the movement of domestic recovery spreading to the countries which have hitherto experienced nothing but a steady restriction of employment. Finally there is the possibility of a real beginning being made at long last with the task of removing the barbed wire entanglements which still cumber international trade."

With the dollar at 21.42 to 21.44 and sterling at 105.62 to 105.64 there was important conversion into francs this forenoon. (End Gray)

Paraphrase of part of section four, and section five of No. 964 of October 3, 1936, from Paris.

I had a telephone call from Cariguel at 12:30 p.m. in which he told me in extreme confidence that his operations for the morning totaled around 200 million francs, as compared with yesterday's billion. There was almost an equal deviation of totals against sterling and dollars. According to Cariguel everything was running smoothly at the time.

I was informed by Pennachio at one o'clock that he had been told by the foreign section of the Bank of Italy that a variety of plans for Italian monetary action would be submitted on Monday for the Cabinet's consideration. The plans to be put forward cover possibility for action in almost every direction, and no one knows in advance what policy will be followed. The Bank of Italy itself is uncertain of the future, having asked for an extension on a certain operation which yesterday reached maturity here. I was given a promise by Pennachio that any news which he might receive over the week-end would be transmitted to me. I called Pennachio's attention to the speech of Chamberlain quoted above, and the action of the French Government as evidence of the good faith of our allies in the three power agreement just announced.

It is reported in the press that today the Czechoslovak currency will be devalued 16 - 2/3 percent.

END MESSAGE.

EA:LWW

BULLITT.

Saturday, October 3, 1936

Shortly before noon today the Federal Reserve Bank of New York notified us that the Bank of Canada was in the market to purchase 50,000 pounds cable transfer London. The market was very small, the rate being quoted at 4.93 1/8 - 4.93 1/4 and it did not seem desirable to have the market disturbed by a last minute inquiry for sterling.

In the circumstances the Secretary authorized the Federal Reserve to sell 50,000 pounds to the Bank of Canada out of our sterling balances, which was done at the rate of 4.93 3/16.

(Lochhead)

TREASURY TO RULE ON NEW GERMAN MARKS
WASHN- THE TREASURY IS EXPECTED TO ISSUE
TWO RULES SOON ON GERMAN TRADE CLEARING UP
PROBLEMS THAT AROSE AFTER THE RECENT REVOCATION
OF COUNTERVAILING DUTIES ON CERTAIN GERMAN
PRODUCTS

ONE RULING WILL STATE THAT THE ORIGINAL
HOLDER OF A BLOCKED MARK ACCOUNT IN GERMANY
WILL BE PERMITTED TO USE IT TO ACQUIRE AND
IMPORT GERMAN GOODS PROVIDED THAT THE GOODS
ARE NOT SOLD OR UNDER AGREEMENT TO BE SOLD AT
THE TIME OF IMPORTATION- HERETOFORE COUNTER-
VAILING DUTIES HAVE BEEN ASSESSED ON ALL
IMPORTS ARISING OUT OF BLOCKED MARKT ACCOUNTS
DATED BEFORE THE END OF JULY

THE OTHER RULING IS EXPECTED TO CLEAR THE
WAY FOR DIRECT BARTER TRANSACTIONS IN WHICH NO
CURRENCY IS INVOLVED

-0-

WCNS44

NEW YORK.--STOCKS TODAY SOARED TO NEW HIGHS SINCE EARLY 1931 IN ONE OF THE MOST ACTIVE SESSIONS SINCE FEBRUARY 1, LAST.

OPENING ON BLOCKS OF 1,000 TO 10,000 SHARES, THE TRADING INCREASED SHARPLY UNTIL TICKERS WERE AS MUCH AS 4 MINUTES BEHIND. THEY CAUGHT UP AROUND 11 OCLOCK AND THEN FELL BEHIND AGAIN JUST BEFORE THE CLOSE.

SCENES ON THE FLOOR RESEMBLED THOSE OF THE BULL MARKET DAYS BEFORE THE 1929 CRASH. FLOOR ATTENDANCE APPEARED LARGER THAN AT ANY TIME IN RECENT MONTHS. HEAVY DEALINGS IN U.S. STEEL AND CHRYSLER BROUGHT CONGESTION AROUND POST 2 WHERE BOTH ARE TRADED. CHRYSLER REACHED A NEW TOP SINCE 1929, WHILE STEEL COMMON WAS THE BEST SINCE 1931.

INFLUX OF HEAVY FOREIGN BUYING WAS A FACTOR IN THE ACTIVITY. THEN, TOO, THERE WAS A LARGE AMOUNT OF SHORT COVERING AND SOME INCREASE IN NEW BUYING. WORD WENT AROUND THAT THE FEDERAL RESERVE SOON WOULD MODIFY MARGIN RULES WHICH NOW ARE SET AT 55 PER CENT ON THE COST OF A STOCK FOR A NEW TRANSACTION. LOWER MARGIN REQUIREMENTS, BROKERS SAID, WOULD RESULT IN A TREMENDOUS INCREASE IN MARKET ACTIVITY.

10/3--R1202P

WCNS12

PARIS.--POLICE WERE RUSHED INTO THE PRINCIPAL BOULEVARDS TODAY WHEN PARIS' 60,000 WAITERS WENT ON STRIKE.

EMERGENCY SQUADS PATROLLED IN TRUCKS TO SUPPRESS DEMONSTRATIONS AND TO PROTECT ESTABLISHMENTS WHOSE WAITERS WANTED TO WORK.

THE STRIKE WAS CALLED WHILE GOVERNMENT OFFICIALS WERE ANXIOUS OVER THE THREAT OF A SERIOUS COMMUNIST-FASCIST CLASH TOMORROW.

RESTAURANTS, CAFES AND HOTEL BARS THROUGH THE CITY CLOSED. AT SOME PREMISES, THE WORKERS REMAINED IN OCCUPATION. AT OTHERS, THE PROPRIETORS SUCCEEDED IN LOCKING THE DOORS BEFORE THE STRIKE TOOK EFFECT.

WHILE POLICE WATCHED THE THOUSANDS OF ESTABLISHMENTS AFFECTED, FASCIST LEADERS MET TO PLAN A PHYSICAL BREAKUP OF A GIGANTIC COMMUNIST DEMONSTRATION PLANNED FOR TOMORROW. THEY CALLED A GENERAL MEETING OF FASCISTS OF THE CROIX DE FEU ORGANIZATION FOR 3 P.M. TO PLAN MEANS OF BREAKING UP THE DEMONSTRATION, APPARENTLY INTENDING TO DEFY GOVERNMENT ORDINANCES.

UNION LEADERS ASSERTED THAT 90 PER CENT OF PARIS' WAITERS WERE ON STRIKE BY 10 A.M.

10/3--R852A

OCT 3 1936

FRENCH DEVELOPMENTS

9661 8 100
OCT 3 1936

1215

PARIS- WITH DEVALUATION OF FRANC

ACCOMPLISHED THE EFFORTS OF FRENCH GOVERNMENT NOW ARE CONCENTRATED UPON CHECKING AN INTERNAL PRICE RISE AND PROMOTING INTERNATIONAL ACTION TOWARD REDUCTION OF TRADE BARRIERS

HENCE THE PRESENCE AT GENEVA OF MINISTER OF PUBLIC ECONOMY SPINASSE WHO PLAYED A LEADING ROLE IN EFFECTING DEVALUATION OF WHICH IT WAS LONG KNOWN THAT HE WAS AN ADVOCATE

HENCE ALSO THE DECREES PUBLISHED THIS MORNING REDUCING DUTIES ON IMPORTS OF RAW MATERIALS BY 20 PC ON SEMI MANUFACTURED GOODS BY 17 PC AND ON MANUFACTURED GOODS BY 15 PC EXCEPT IN THE CASES WHERE QUOTAS ARE IN EFFECT IN WHICH CASES A REDUCTION OF 20 PC WILL BECOME EFFECTIVE FROM OCTOBER 10

THE ACTUAL FRANC RATE IS EQUIVALENT TO ALMOST A 30 PC DEVALUATION- THIS DEVALUATION OF COURSE IN EFFECT REALLY AUGMENTS THE IMPORT DUTIES EXCEPT FOR GOODS FROM SWITZERLAND AND OTHER IMITATORS OF FRANCE- FURTHER IMMEDIATE REDUCTION IN TARIFFS AND QUOTAS HOWEVER WOULD BE IMPRUDENT SINCE THE NEW FRANC EXCHANGE RATES ARE LIABLE TO MODIFICATION WITHIN THE GOLD LIMITS ESTABLISHED BY LAW AND ALSO BECAUSE MONETARY PLANS OF OTHER COUNTRIES ARE STILL UNCERTAIN

EXCHANGE SURTAXES HAVE BEEN ABOLISHED ON GOODS FROM THE BRITISH DOMINIONS WITH EXCEPTION OF CANADA AND HAVE BEEN REDUCED TO 10 PC FOR JAPAN AND CHINA

A SPECIAL COMMISSION HAS BEEN APPOINTED TO REVISE THE ENTIRE TARIFF SYSTEM IN PREPARATION FOR THE TIME WHEN INTERNATIONAL TRADE BARRIERS WILL BE LOWERED GENERALLY

EXCHANGE RATES WERE STEADY TODAY AT ABOUT FRIDAY-S LEVELS EXCEPT FOR THE GUILDER WHICH WAS SOMEWHAT WEAKER- THE FRENCH CONTROL IS UNDERSTOOD TO BE ANXIOUS TO EQUIP ITSELF WITH FOREIGN EXCHANGE OR GOLD AGAINST POSSIBLE FUTURE PRESSURE ON THE FRANC- AT THE MOMENT IT WOULD BE UNABLE TO OFFSET PRESSURE ON THE FRANC INASMUCH AS IT IS STARTING WITH FRANCS ONLY

EXCHANGE TRADERS IN PARIS BELIEVE THAT THE DOLLARS AND STERLING WHICH THE FRENCH CONTROL MAY OBTAIN WILL BE CONVERTED INTO GOLD IN LONDON AND NEW YORK FOLLOWING THE PRACTISE OF THE BRITISH CONTROL IN PARIS IN RECENT YEARS BUT THIS METAL PROBABLY WILL REMAIN UNDER EARMARK IN THOSE CENTERS

CURRENT RETURNS OF THE SWISS NATIONAL BANK SHOWS A GOLD RESERVE OF 1 553 000 000 SWISS FRANCS AND RESERVE RATIO OF GOLD TO TOTAL SIGHT LIABILITIES OF 84 96 PC- AN ADDITIONAL 538 000 000 SWISS FRANCS SHOULD BE SHOWN IN THE GOLD RESERVES IN THE NEXT STATEMENT THROUGH REVALUATION OF THE GOLD RESERVE

DECREES HAVE BEEN ISSUED IN SWITZERLAND CALLING FOR A DRASTIC REDUCTION IN CUSTOMS DUTIES AND THE OBLIGATORY POSTING OF RETAIL PRICES - THE GENEVA CANTON HAS FORBIDDEN ALL INCREASES IN RETAIL PRICES UNLESS INCREASES HAVE RECEIVED OFFICIAL AUTHORIZATION

841 OCT 3 1936

WAITERS STRIKE IN FRANCE

PARIS- COPYRIGHT U P- POLICE PATROLS WERE RUSHED INTO THE PRINCIPAL BOULEVARDS TODAY WHEN PARIS 60 000 WAITERS WENT ON STRIKE

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9881 8 100

8.50

FRENCH GOVERNMENT DECREES

PARIS-U P-THE GOVERNMENT ISSUED A SERIES OF DECREES DESIGNED TO PREVENT INCREASE IN PRICES

FIRST WAS A DECREE REDUCING IMPORT DUTIES- DUTY ON RAW MATERIALS WAS LOWERED 20 PC AS A MEANS OF PROTECTING WORKERS AGAINST INCREASES REDUCTIONS OF 17 PC WERE MADE AS REGARDS PARTLY MANUFACTURED ARTICLES AND 15 PC ON FINISHED ARTICLES

A SECOND DECREE FORMED A PRICE CONTROL COMMISSION WHICH IS TO RECOMMEND TO THE CABINET REDUCTION OF DUTIES AND CHANGES IN IMPORT QUOTAS TO CHECK PRICE RISES

A THIRD REDUCES THE IMPORT LICENSES ON MERCHANDISE RESTRICTED BY QUOTA BY 20 PC- A FOURTH SUPPRESSES SURTAXES APPLIED TO EQUALIZE CURRENCY EXCHANGE DIFFERENCES- A FIFTH ESTABLISHED A TARIFF COMMISSION TO WORK OUT A CONSISTENT TARIFF POLICY- A SIXTH LISTS SPECIAL REDUCTIONS IN COFFEE TEA PEPPER AND OIL DUTIES AND SUSPENDS THE QUOTAS ON A LONG LIST OF PRODUCTS

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LONDON EXCHANGE

847
OCT 3 1936

LONDON- FOREIGN EXCHANGE MARKET WAS QUIET WITH ONLY A SMALL VOLUME OF BUSINESS BEING TRAN-
ACTED- AMERICAN CONTROL IS UNDERSTOOD TO HAVE
SUPPLIED DOLLARS WHEN NECESSARY AND FRENCH
CONTROL BOUGHT STERLING AND DOLLARS BUT THERE
WAS NO INTERVENTION BY BRITISH CONTROL- HOWEVER
THE BRITISH EQUALIZATION FUND IS BELIEVED TO
HAVE BOUGHT A MAJORITY OF THE GOLD OFFERED
GUILDERS ARE STILL UNCERTAIN WITH THE MARKET
FLUCTUATING ON EACH TRANSACTION AND VARYING
BETWEEN THE OPENING RATE OF 9 24 AND THE CLOSE
OF 9 30 1-2

SWISS FRANCS WERE STEADY OPENING AT 21 44
1-2 AND CLOSING AT 21 43 3-4

GERMAN MARKS WERE STEADY AROUND 12 25
CLOSING FORWARD RATES FOR THREE MONTHS
DOLLARS WERE 7-8 PREMIUM- PARIS 75 CENTIMES
DISCOUNT- AMSTERDAM 9 1-2 DUTCH CENTS DISCOUNT-
GENEVA 2 CENTIMES PREMIUM AND BRUSSELS 9 1-2
DISCOUNT

-0-

WCNS42

LONDON.--PRESIDENT ROOSEVELT AND HIS ADMINISTRATION WERE PRAISED IN THE ECONOMIST IN A 24-PAGE SUPPLEMENT TODAY ANALYZING AND APPRAISING THE NEW DEAL.

IN AN EDITORIAL, THE FINANCIAL PUBLICATION CONCLUDED: ZIF T E NEW DEAL BE COMPARED NO

IN AN EDITORIAL, THE FINANCIAL PUBLICATION CONCLUDED: "IF THE NEW DEAL BE COMPARED NOT WITH THE ABSOLUTE STANDARD OF A UTOPIA BUT WITH THE ACHIEVEMENTS, AN ADVERSE JUDGMENT MUST BE MODIFIED.

"IF IT BE COMPARED WITH EITHER THE PERFORMANCE OR PROMISES OF ITS RIVALS, IT COMES OUT WELL. IF ITS ACHIEVEMENTS BE COMPARED WITH THE SITUATION WHICH CONFRONTED IT IN MARCH OF 1933, IT IS A STRIKING SUCCESS.

"PRESIDENT ROOSEVELT MAY HAVE GIVEN THE WRONG ANSWERS TO MANY OF HIS PROBLEMS, BUT HE AT LEAST IS THE FIRST PRESIDENT OF MODERN AMERICA WHO HAS ASKED THE RIGHT QUESTIONS."

10/3--R1147A

M
MONACO.--MONACO, WHICH FOR YEARS HAS USED FRENCH MONEY, INCLUDING THAT WAGERED AT THE GAMING TABLES IN MONTE CARLO, IS NOW TO HAVE ITS OWN CURRENCY.

PRINCE LOUIS II, IN VIEW OF DEVALUATION OF THE FRENCH FRANC, DECREED THE CREATION OF MONACON MONEY. THE NATIONAL BANK WILL ISSUE THE MONEY.

10/3--R1027A 4EF

849
 SWISS GOLD STOCKS UP OCT 3 1936

FIRST STATEMENT OF CONDITION PUBLISHED BY NATIONAL BANK OF SWITZERLAND SINCE DECISION TO DEVALUE SWISS FRANC SHOWS AN INCREASE IN GOLD RESERVES OF 21 000 000 SWISS FRANCS

THUS NATIONAL BANK OF SWITZERLAND WAS RELIEVED OF NECESSITY OF PAYING OUT GOLD WHEN ITS GOLD RESERVES ACTUALLY WERE INCREASING RATHER THAN BEING DEPLETED BY AN EXTENSIVE DRAIN - DESPITE THE FACT THAT GOLD RESERVES WERE INCREASING HOWEVER THE RESERVE RATIO DECLINED DUE TO A SHARP INCREASE IN NOTE CIRCULATION PROBABLY AS RESULT OF END OF THE QUARTER REQUIREMENTS- EXACT EXTENT OF SWISS FRANC DEVALUATION HAS NOT YET BEEN DECIDED AND GOLD RESERVES ARE STILL CARRIED AT THE FORMER LEGAL RATE FOR GOLD

PRINCIPAL ITEMS IN THE BANK-S STATEMENT AS REPORTED BY UNITED PRESS FOLLOW IN SWISS FRANCS 000 OMITTED

	SEPT 30	SEPT 24
GOLD	1 553 700	1 532 700
FOREIGN BALANCES	23 400	3 600
NOTE CIRCULATION	1 369 300	1 267 300
OTHER SIGHT LIAB	459 000	509 800
RATIO GOLD TO NOTES	113 46 PC	120 94 PC
RATIO GOLD TO SIGHT		
LIABILITIES	84 96 PC	86 44 PC

October 5, 1936

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The following were present in the Secretary's office: Mr. White, Dr. Viner, Dr. Haas, Mr. Lochhead, Mr. Taylor, Mr. Knoke, Dr. Williams, Mr. Oliphant. Dr. Feis arrived a little later.

The Secretary said to Mr. Knoke, "Professor Knoke, will you please state the problem for the class this morning?"

Mr. Knoke answered, "You know, the French have asked us whether they would be at liberty from now on to convert dollar balances in this market into gold. My understanding was that there were two points that the Treasury wanted to be satisfied on. First of all, the question of reciprocity and, secondly, to make sure that the rate was satisfactory. As far as reciprocity is concerned, it seems to me that the French are answering to the best of their ability by declaring themselves willing to quote a daily price at which they will buy gold in terms of francs, or sell gold in terms of francs. I think that is all that a nation can do that is not definitely tied up on gold -- tentative gold, if you like; second, the rate is satisfactory, it seems to me. When the three governments issued their joint declaration, this declaration would not have been issued if the range chosen by the French was not at least workable -- that range the French chose, from between 25 to 35% devaluation. Today they are working on a figure that is based half-way between the lower and the higher. From a technical point of view, it seems to me the only thing they can do. The rates they have quoted for buying and selling gold are based on this middle rate and are nothing more than the parity plus or minus shipping charges of gold from, or to, New York. So, it seems to me that the French are today justified in making the request.

"I might add -- whether or not they will take advantage of it, I don't know -- they have accumulated something like \$25,000,000 with us. It is quite possible they won't. I shouldn't imagine they would convert the whole \$25,000,000 into gold. I should rather think they will give us an order for part of it in order to establish a precedent and assure themselves that the arrangements are on a working basis. As a practical matter, it would not pay them to take gold from us here. They could get it cheaper in London, but I don't think that should enter into it."

The Secretary asked, "Do you know what arrangements they have made with London?" Mr. Knoke answered, "Yes. Cariguel told me on Saturday morning when he referred to the arrangement with the British -- which gave me a chance to say, What is the Arrangement you have? He said, The British have yesterday and today quoted us a price for gold in sterling at which we could convert our sterling balances into gold and we have done so on

Friday and Saturday. The price was 141 shillings, price fixed in London on Saturday and on Friday."

The Secretary said, "Archie told me that this is on a minute-to-minute basis with the British." Knoke answered, "Yes, it is an arrangement by which the prices can even change during the day but any business done at the old prices will be put through and the new rates would apply only to business coming through subsequent to the change, so the fellow who works on the old basis in the morning is protected for everything he does."

The Secretary said, "I repeated this to the President and the President's comment was, he was glad to see the British had come to our 24-hour basis. So I said, They say they are on a minute-to-minute basis. He said, Fine. We will be on a second-to-second basis."

Mr. Knoke then said to the Secretary, "As a matter of fact, as I interpret the arrangement, the way the French want to suggest it for us is really, they bind themselves longer than we do, for this reason -- that, if we buy francs today, on Monday, which will not be delivered until Wednesday night under customary procedure, in accordance with usance, it is understood that those francs will be converted into gold on Wednesday at today's rate. Which is really more than we do, because under our 24-hour arrangement, the Secretary can say today 'No more gold' and if anybody was unfortunate to buy dollars on a Monday and this arrangement was abrogated on Tuesday, he can't use those dollars any more."

The Secretary said, "But we don't have a 48-hour basis." Knoke explained, "But if you buy your dollars on Monday, you won't get them delivered until Wednesday." Mr. Lochhead added, "It takes two days on a franc transaction anyway but I don't think there is anything to stop the Secretary from selling francs two days hence."

The Secretary said to the group, "Please, somebody tell me what arrangements we are on now with Belgium. How do we handle the Belgian thing?"

Knoke answered, "The Belgians are on the gold standard. There is no question. So they would qualify under your statement of January 30, 1934. In other words, if the belga rate should go to the upper gold point, I think -- and it was decided some months ago -- that we would give them gold. Mr. Oliphant, you will remember we had lengthy discussions over this? It so happened that the rate dropped away from us and no gold moved. The Belgians let gold go; Cariguel told me on Saturday that they had bought gold in Brussels on Saturday."

Mr. Morgenthau inquired, "But they have never made use of this?" Knoke said, "That's right."

The Secretary then said, "I am a little bit surprised that the British have not told us about this French arrangement. I am just wondering. Should we send for Mallet and say, 'Look here, old fellow, we understand you have an arrangement with France.'" Taylor interrupted, and said, "It's a Bank of France arrangement," and Viner said, "And it's a small arrangement." Oliphant disagreed with Viner, saying, "It's the whole mechanism." Viner replied, "But there are no commitments on either side."

The Secretary then stated, "But I am building up to something else. I don't agree with Viner that it is a small matter." Viner explained, "I don't mean that this is unimportant. I didn't mean that we ought not to do anything or take it as unimportant, but I wouldn't go at it that way. I wouldn't let them know that I attached importance to this arrangement. Instead of our asking the British, 'What are you doing?' we create a situation where they will have to come to us."

The Secretary then said, "But the point I am making is, after all, we are tied between points; sterling isn't. The fact that sterling is willing to tie themselves within any points is of tremendous importance. That leads me to the next point. And that is this: are we giving up anything here? I thought of inviting Dr. Warren here and I decided we would not. You know his school of thought. When we go into this thing with France, and we will, because I have given them my word -- as soon as what's-his-name comes back here, Bewley, I have told Bewley if this thing happens I would do this very thing we are talking about, so all they have to do is ask for it and I will do it. I kept saying I wouldn't move until we got this tri-partite agreement."

Viner inquired, "You say you have agreed to give up gold?" H.M.Jr. answered, "Oh, yes, on a reciprocal basis. They asked for it a couple of times prior to July." Viner asked, "You mean informally or formally?" And H.M.Jr. answered, "Sufficiently formally."

Dr. Feis joined the meeting at this point and the Secretary said to him, "Let me tell you, Herbert, what we are doing. We are reviewing this question of giving up gold to the French, and so forth. As Mr. Oliphant put it, we have only reached a point where everybody is talking, so I asked them to come in here. I have just raised this point -- to answer your question, Jake (Viner) -- the day before Bewley called, I told Bewley if we could get a three-cornered agreement that I would give up gold, provided the British Government would guarantee that we could get gold, but the British Government must guarantee. In other

words, reciprocal. He had that message on the 14th or 15th of July."

Dr. Viner asked, "Do you mean to guarantee to give up gold at some specific rates?" The Secretary answered, "Oh, yes. I said, to use an arbitrary figure, I said 4.95. He was dumb-founded when I asked for a reciprocal arrangement. But I have given my word. About asking Dr. Warren and that old school down here -- and, when we get with the French on a reciprocal basis and the British and everybody else that wants it, are we in any way giving up something that we shouldn't? I just want to raise that point at this time." Viner asked, "Is your question referring to our agreeing with the French, or agreeing simultaneously with the French and British?"

At this point, Oliphant said, "May I suggest that Haas make his statement about the buggy and the automobile?" The Secretary said, "In just a moment. This is the time to raise it. Are we giving up something which a year from now, or two years from now we may be sorry for?" To Haas he said, "What about the buggy and the automobile, George?"

Haas answered, "One of the points I made in the discussion was that I hoped that out of this will come an improved monetary system. But, as you go ahead and devise steps of progress, the mind is apt to think in terms of the old pattern and the pattern in this case is the old automatic gold standard. An illustration of that is, when we think in points of gold, we think of gold points. And that might not be an altogether satisfactory way of handling this gold movement. And I said the manufacturer of the automobile is one illustration. When it was first made, they tried to put a motor into a buggy and when we are improving the monetary gold system, our tendency is to use the old automatic gold standard and try to fit something new into that mechanism, which might not be the proper thing to do."

The Secretary asked, "Well, what suggestion have you?"

Haas answered, "In our discussion, we have had three or four possibilities, and one that occurred is the question of gold points and I wanted to get the discussion off into some other lines, to challenge the thinking completely away from the old gold standard mechanism. One alternative was: I have a memorandum which outlines three of them. Harry White and I worked at that. I would say nobody knows the answer. We ought not to sit down and establish it as the principle that we are going to operate on. I would leave it very tentative on a day-to-day basis until we get a better fund of experience. One suggestion was made that we give them so much gold and we have a call on an equal amount. Partly, that was your idea originally. One of the reasons for doing that -- we haven't come to any

agreements about this -- but one of the reasons was, we were exploring the point, if gold moved from us couldn't it move from France into England and England wouldn't be concerned? If they did ask us, we would ask them about the position of dollar and sterling. We haven't gotten down to any definite conclusions."

The Secretary said, "If you want to use the comparison -- the automobile as it is today could not have been born back in 1891 or 1892, whenever the thing was first invented. They had to put a horizontal, two-cycle engine in it and gradually out of that came the modern machine, which is as different as the 1891 or 1892 model could be, but if a fellow had waited to get a 1936 Buick, we wouldn't have had anything."

Haas explained, "They thought in terms of something that moved and the horse pulled it, so they took some device that people sat in and put whatever propelling force they could."

The Secretary said, "The way I am working, certainly if we go into France on a 24-hour basis the way the British have, we are not giving up more than anybody else is. The first thing I looked at this morning was Fisher's commodity index for the last week. It's all right. I just am so tickled and the President is so thrilled, and so particularly pleased with the press yesterday -- I had a long talk with him last night; I wanted to tell him what we were doing, and he is so thoroughly happy over the whole thing, considers it one of the achievements of his administration, and the fact that Mussolini has also devalued the Italian lira removes any question of an outside bloc being formed, headed by England and Germany, which would build up a controlled system of exchange." (See Ticker Tape attached).

Viner said, "But the market will find out today what the mistake is; evidently there is some mistake between Phillips' cables and the decree."

Fels said, "What just came in before I left was of interest. Mussolini has issued a second decree cutting tariffs on wheat, beef, and other things and instructing a commission to study the problem immediately of enlarging quotas." The Secretary said, "This thing is going so fast we don't know just how fast. It's the most thrilling thing that has happened."

Fels remarked, "I would not want to exaggerate this thing yet. It's going to mean a lot to Great Britain; how much to us, I don't know." The Secretary's answer to this was, "Herbert, I don't even think that way. I have said all along that the American businessman will get his share." Viner added, "And the reductions are coming on agricultural commodities, which is very useful at this time, psychologically." And Mr. Morgen-

October 5, 1936
11:20 a.m.

H.M.Jr: Hello.
Our
Operator: Do you want me to put him on.
H.M.Jr: Yes.
Our
Operator: All right. Go ahead.
Overseas
Operator: Mr. Morgenthau.
H.M.Jr: Hello.
Overseas
Operator: All right, thank you. We're ready.
H.M.Jr: Hello. (Pause)
H.M.Jr: Hello.
Our
Operator: She said she was ready. She'll put him on in just a second, I think. (Pause)
H.M.Jr: Well, look -
Our
Operator: Yes, do you want to hang up?
H.M.Jr: - I'm right here.
Our
Operator: Right. (Pause)
H.M.Jr: Hello.
Cochran: Hello, Mr. Morgenthau.
H.M.Jr: Hello, Cochran.
C: Yes - hello -
H.M.Jr: Yes.
C: I tried to get you this noon. I thought I might get the first word to you about Italy.
H.M.Jr: Yes.
C: But I presume you have the details now.
H.M.Jr: Well, we have some of it, and - but you might repeat it and see whether you've got anything that we don't have.

- C: Oh - what - what they did was issue a decree law, devaluing the lira exactly the same as the American devaluation, so the rate now is -
- H.M.Jr: Yes.
- C: - nineteen to the dollar -
- H.M.Jr: Yes.
- C: - as it was fixed in the law of 1927.
- H.M.Jr: Yes.
- C: And the People's State, Mussolini, retains authority to devalue another 10% if necessary.
- H.M.Jr: Yes.
- C: The same as - as our own.
- H.M.Jr: Yes.
- C: And there's no stabilization fund set up.
- H.M.Jr: Yes.
- C: But that exchange control office under Guarneri continues to function.
- H.M.Jr: Yes.
- C: They don't anticipate that they can suspend their various control restrictions at present.
- H.M.Jr: Yes.
- C: They - they will endeavor, however, to keep the lira rate steady against the dollar; that is, 19 to the dollar.
- H.M.Jr: (Aside: 'I sent for all those people.')
- C: Hello.
- H.M.Jr: Hello.
- C: Hello.
- H.M.Jr: Go ahead.

C: It would fluctuate, of course, vis-a-vis the European currencies which compels fluctuation.

H.M.Jr: Yes. Well, now, there's something here that I want - just hold the wire a minute.

C: All right.

H.M.Jr: (Aside: 'Archie - hello, gentlemen. I've got Cochran here. Hello - sit down. Explain this thing but be kind of careful.'))

H.M.Jr: Just a moment.

C: All right.
(H.M.Jr. carries on a conversation with some one in the office.)

H.M.Jr: I'll let Lochhead explain something to you.

Lochhead: Hello. Hello. Hello, Cochran?

C: Hello.

L: Mr. Cochran, Lochhead talking.

C: Oh, yes - hello, Lochhead. Yes.

L: The Council of Ministers in Italy decided to devalue the lira, and they gave the figure to 92.46 to the pound.

C: I see.

L: And 19 to the dollar.

C: Yes.

L: Now, the rate this morning on lire in New York was 5.26-1/4 to 1/2.

C: Yes.

L: That would make a cross rate on sterling dollars of 4.86 and a fraction.

C: Yes.

L: Now, there - the point is there where they say, did they actually fix those figures, 92.46 and 19,

or is there any leeway on those?

- C: What - what they said they fixed a value in gold for the lira, you see?
- L: Yes.
- C: Have you those figures?
- L: Yes, the value in gold is reduced to 4.677 grams per one hundred lire.
- C: Let's see - yes, 4.677 grams per hundred lire.
- L: Right.
- C: Instead of 7.919.
- L: That's right.
- C: And so, this rate of - just a minute (Pause).
- L: (Aside:) I think I'm all right - yes. He's not - he's checking up something.)
- C: Well, I - I have the figures here on the French equivalent.
- L: Yes, but I mean here's just the whole point, Cochran -
- C: Yes.
- L: They can't keep -
- C: - dollars -
- L: Yes.
- C: - and on the trend they figure this at the rate of 21.40, which would make the rate here 112.63.
- L: Yes.
- C: They - they didn't figure anything on sterling for me.
- L: Well, that's - I think it would be interesting to have them check it with the sterling for you.
- C: Yes.

L: There may be just something that hasn't worked through yet, but on - they can't, of course, keep these two rates of 19 to the dollar and 92.46 to the pound.

C: No. In - in the press - in the story, it says 90 to the pound.

L: Says 90 to the pound? Well, then you might check up these figures that Phillips sent over.

C: All right. Fine.

L: Fine. I think that would be much better. Now just a second - the Secretary wishes to continue speaking to you.

C: All right - fine.

H.M.Jr: Ah -

C: And -

H.M.Jr: Cochran?

C: It's good, Mr. Secretary.

H.M.Jr: Take it up with the representative there of the Bank of Italy. I can't remember his name. What's his name?

C: Azzolini.

H.M.Jr: Who?

C: Azzolini is the Governor of the Bank.

H.M.Jr: No, no, no, no - the man in Paris.

C: Pennachio.

H.M.Jr: Pennachio - yes.

C: Yes.

H.M.Jr: Can't you get it from him?

C: But - but what I'll ask - yes, I can get that information which Lochhead asked me -

H.M.Jr: Yes.

C: - for you. But, I say, I also have the statement

which Mussolini made.

H.M.Jr: Yes.

C: Have you that?

H.M.Jr: Well, we've got it here on the ticker. I just got in. I haven't had time to read it.

C: I mean, he says - he declares in - in making this devaluation -

H.M.Jr: Yes.

C: - that after having examined the Anglo-Franco-American declaration -

H.M.Jr: Yes.

C: - the Italian Government is in agreement recognizing that world economic stability and general business recovery can only be acquired from close collaboration between all peoples desiring peace.

H.M.Jr: Well, that's a good statement.

C: Yes. Yes.

H.M.Jr: Well, now, the point is this - (Paris Operator interrupts) Hello - hello.

C: Hello.

H.M.Jr: Check up on this difference between the cable we got from Phillips in Rome and what's actually happening, will you?

C: Yes.

H.M.Jr: Now just a minute (Aside: 'See if we got anything else.') Just a moment.

H.M.Jr: Well, you telephone, if necessary, to - we want this thing - France's explanation because either Mr. Phillips has made a mistake or somebody else has made a mistake.

C: Yes.

H.M.Jr: Because we wouldn't want them to work on a basis of 4.86.

C: Gold rates are - are given there - the gold equivalent of -

H.M.Jr: Well, you - you get busy and- phone me back, will you?

C: All right.

H.M.Jr: And -

C: They've - they've - hello.

H.M.Jr: Hello.

C: They've lowered the customs duties, too, you see.

H.M.Jr: Yes.

C: And I talked to Basle 10 minutes ago. The people there thought it was a very wise move -

H.M.Jr: Yes.

C: - and they all think that Schacht made a great mistake in not falling in line.

H.M.Jr: Yes.

C: That Germany is going to be more isolated than ever -

H.M.Jr: Yes.

C: - and that Schacht's stocks will go down a little bit so that if he wants to get on this three-cornered arrangement -

H.M.Jr: Yes.

C: Evidently what they would call 'Hitlering' would take place.

H.M.Jr: Yes.

C: Here the stock market is going up again today. They've had to restrict operations to hold it within bounds.

H.M.Jr: Yes.

C: They had a waiters' strike on Saturday. They had a little trouble yesterday with the Communists -

H.M.Jr: Yes.

C: But it didn't affect the market -

H.M.Jr: Yes.

C: - and they're quiet today.

H.M.Jr: Yes. Well, I'm sure if we - I could find some place that we had a strike in the United States, too.

D: Yes.

H.M.Jr: But -

C: The papers say that we must have peace here and all this -

H.M.Jr: Yes.

C: - but still the market goes very well.

H.M.Jr: Well, now, did Blum go to Geneva or didn't he?

C: He went to Geneva and came back again.

H.M.Jr: Well, I didn't get that in the papers.

C: Yes, he came back today.

H.M.Jr: Well, all right. Now, I've got a whole crowd here, and we're going to go to work on this question of gold for France, see?

C: Yes.

H.M.Jr: And the President gets back tomorrow morning, and I hope to have something ready for him then.

C: I see.

H.M.Jr: So if that - I wouldn't raise it, but if they raise it with you, I'm actually working on it, and the President gets back tomorrow morning, and we hope to get it clear^{ed} sometime tomorrow.

C: I see.

H.M.Jr: See?

C: Two or three of the people who cabled from the State, like Willis, and so on -

H.M.Jr: Yes.

C: - said that it was an urgent problem and all this.

H.M.Jr: Yes, well it's not.

C: Yes, well, I mean, they may think it urgent.

H.M.Jr: Yes. Well, we - we ought to be able to get this thing cleared by tomorrow.

C: Yes.

H.M.Jr: If - I wouldn't say anything unless they raise it.

C: No, no, no. I shall not.

H.M.Jr: All right.

Overseas Operator: It's nine minutes.

H.M.Jr: ' Just a minute.

C: Do you want me to call you back then -

H.M.Jr: Yes.

C: - on this Italian business.

H.M.Jr: Yes, but hold the wire a minute, please.

C: All right.

(H.M.Jr: carries on conversation with some one in the office.)

H.M.Jr: Hello.

C: Hello.

H.M.Jr: Yes, as soon as you get this thing you let me know, and you don't contact the British financial attache in Paris, do you?

C: I - I can. I don't very often.

H.M.Jr: Well - all right. All right.
C: - see him for months, but -
H.M.Jr: Well, you get this thing, will you?
C: Yes - this Italian business.
H.M.Jr: Yes.
C: Surely.
H.M.Jr: Thank you.
C: All right.
H.M.Jr: Goodbye.
C: Goodbye.

thau said, "From an economic standpoint, this is the most important thing that has happened. And it's moving so fast."

"Let me get this thing," said the Secretary. "I would like to have this thing ironed out so I could put it on the President's table tomorrow morning. I don't see where we have an awful lot to worry about with France. It seems to me it is a very simple thing." Viner disagreed. He said, "I don't think so." Haas agreed with Viner, and said, "I think you can let this thing get all involved."

Viner expressed his opinion as follows: "I think we ought to give you the ideas we have."

The Secretary said, "I will let you alone until 3:00 o'clock and I would like you all to be back at 3:00 o'clock." Viner said, "I have to leave at 4:00. Absolutely. I have to start my classes tomorrow morning. I would like to see if we can't move a little faster than that schedule." The Secretary said, "Well, when would you like to come back?" Viner answered, "2:00 o'clock." H.M.Jr. said, "I will split the difference with you. We will make it 2:30. But I would like Archie and Knoke to stay a minute."

To Dr. Feis he said, "Can you stay and sit with the men?" Feis said, "Let me start with them but I am planning definitely to be back at 2:30."

After the group left, H.M.Jr. said to Knoke and Lochhead: "Sterling is down to 4.92 and I want to do something." Knoke said, "The Italian situation might have caused this." H.M.Jr. said, "We take over the London market at 12:00 and I want to buy some sterling." Lochhead: "We should show some signs of strengthening the market." Knoke: "You will not regret it if sterling goes down?" H.M.Jr.: "I have a beautiful profit in our stabilization fund and I can afford to take some loss. If I should buy 1,000,000 pounds sterling and if it goes down 10 points I would have a loss of \$100,000. I want to do it. I give you an order to buy up to 1,000,000 pounds sterling and let us see what the market will do."

Knoke and Lochhead left the room and started the buying. (During the course of the day, total purchases amounted to 712,500 pounds sterling).

At ten minutes past 12:00, H.M.Jr. called the President. He said, "Have you heard the latest news that Italy devalued? There is a swell statement from Mussolini in which he said he accepted in principle the idea that economic restoration of the world is one of the necessary conditions for collaboration amongst peoples for maintenance of peace, and he immediately

announced cuts in import duties on live cattle, 65%; wheat from 75 lira to 45 lira; and on fresh and frozen meats, 50%. Yes, we started something. It is the most important economic thing that has happened in the world. There is a technical mistake somewhere in their announcement as to how much they devalued because the interpretation that has been given here is that they have tied the lira to sterling at 4.86. That does not check with the cable that Phillips sent us and therefore the market is confused and sterling has gone down below 4.92."

(Cable from Ambassador Phillips referred to is as follows:)

"Council of Ministers this morning decided to devalue lira to 92.46 to the pound and 19 to the dollar the gold content of the lira being reduced from 7.919 to 4.677 grams per 100 lire nominal. Provision also made for optional further devaluation up to ten per cent. Summary of communique issued after meeting of Council of Ministers including other measures follows."

Continuing his conversation with the President, H.M.Jr. said, "I have given the Federal Reserve an order to buy up to 1,000,000 pounds sterling and I figure that today is the day that we should step in. We may lose \$100,000, but against that we have a profit of \$8,000,000. I do not think that we ought to pussy-foot on a day like this. Our own markets here are fine. Commodities are up. Stocks and bonds are up. I do not want to let sterling slip below 4.90.

"China agreed to keep all of her money here for stabilization purposes and she has drawn down all of her balances in commercial banks and has asked us to let her have \$7,000,000 over the week-end. (Memorandum from Mr. Lochhead explaining this in detail is attached). We said Yes, but reminded her that she must replace it as soon as she can because that is from the stabilization fund. Within the next three or four days the Japanese-Chinese thing is going to be settled. I think Japan is going to back down and I feel that everything we can do at this time to help China with her own money is a great gesture. If China loses, what good is her money? So I again took a chance and figured that you would back me up. I do not think that the Japanese have the nerve to jump China if things are quieting down in Europe. My guess is that Japan is going to back down. I have done all of these things and they are so important that I wanted to tell you."

At 12:20 Mr. Lochhead came in and said that they are bidding 4.92 and that they have not bought any sterling yet. H.M.Jr. said to him, "Bring Knoke in here. I want to tell him something." To Knoke he said, "Two things. I have told

the President what I was going to do and that we might lose \$100,000 and he approved my action. The other thing. Until we get this thing, can your man in New York -- Cameron -- do this?" Knoke answered, "Yes, he can."

At 12:23 H.M. Jr. called Cameron on the telephone and Cameron reported that up to that minute he had bought 200,000 pounds sterling. Record of their conversation follows:

October 5, 1936
12:23 p.m.

O: Operator.

H.M.Jr: Get me Mr. Cameron, Foreign Exchange Department,
Federal Reserve, N. Y.

O: Right.
(Very long pause)

H.M.Jr: Hello.

O: Mr. Cameron.

H.M.Jr: Hello.

C: Hello.

H.M.Jr: Cameron.

C: Good morning.

H.M.Jr: Secretary speaking.

C: Yes, sir.

H.M.Jr: I have Mr. Knoke and Lochhead in the room with me.
How are you getting along on this buying of sterling?

C: Well, we bought 200,000 pounds. I just reported to
Dietrich this minute.

H.M.Jr: Yes.

C: And the market is now offering sterling at 4.91-3/4.

H.M.Jr: What did you pay for it?

C: 4.92.

H.M.Jr: You paid 4.92?

C: Yes. We bought 200,000 pounds at 4.92 and now the
market is offering at 4.91-3/4. London is offering
sterling at 4.91-5/8s.

H.M.Jr: Who is?

C: London.

H.M.Jr: Well, why do you pay 4.92 when the market is 4.91-5/8s?

C: Well, it dropped after we bought it.

H.M.Jr: What?

C: It dropped after we bought it.

H.M.Jr: Wait a minute. Yes, but I have it here - my sheet shows that at 12:15 it was 4.91-5/8s.

C: Well at 11:50 it was 4.91-7/8s to 4.92, and Mr. Knoke called me from Washington -

H.M.Jr: - Yes.

C: And told me to bid 4.92.

H.M.Jr: Well, wait a minute. (Pause) (Knoke is explaining it to the Secretary)

K: Hello - hello Cameron?

C: Yes.

K: You said 2-3/4s - 1-3/4s offered from London?

C: 1-5/8s offered from London.

K: Where do you get that?

C: From Guaranty.

K: Guaranty.

C: And 4.91-3/4s offered here now at the moment.

K: All right, then I think you'll have to bid one and seven - 1-5/8s for another 100 and let me know how that works.

C: 4.91-5/8s.

K: Yes.

C: Another hundred.

K: Yes.

C: O.K.

K: All right then. I'll hold on for a moment. See how that works, will you? (Cameron misunderstood Mr. Knoke and hung up.)

(Pause)

O: Hello.

H.M.Jr: Tell Mr. Cameron's office there that as soon as he's carried out this order of Mr. Knoke to call Mr. Knoke back. He's sitting here in my room.

O: All right.

To Lochhead and Knoke, H.M.Jr. said, "Let's say that I have 1,000,000 pounds sterling. Is there any way of getting rid of it except through the purchase of gold? Is there any way of converting paper sterling into gold? I have 1,000,000 pounds sterling. Is there any way that I can convert that by buying gold in London?" Knoke answered, "You can get rid of sterling by buying all kinds of things." Lochhead added, "You can buy silver." H.M.Jr. then asked, "What about our silver?" Lochhead answered, "The silver market in London at the present time is very small and it would not be practical to dispose of any large amount of our sterling balances by purchases of silver in London."

H.M.Jr. asked, "Then silver is out. Why can't I buy gold in London? Why can't I say to the British, 'I have sterling that cost me an average of 4.92 and any morning that you can, convert it into gold so that landed in New York it will not cost me more than \$35.00'". Knoke answered, "You will have to give them the same right." Lochhead remarked, "Instead of waiting, you want to take the bull by the horns." H.M.Jr. asked, "Will this not come out when we agree to give up gold to each other?" Lochhead replied, "Yes." The Secretary then said, "No country wants to sit and hold paper."

Cameron called at 12:35 P. M. Record of their conversation follows:

October 5, 1936
12:35 p.m.

H.M.Jr: Hello.

O: Mr. Cameron.

C: Hello.

H.M.Jr: Cameron.

C: Yes.

H.M.Jr: Just a minute Mr. Knoke will talk to you.

K: Yes, Cameron, anything new?

C: No, we haven't done anything on that 5/8s. It's still offered at 3/4s.

K: Still offered at 3/4s?

C: Yes.

K: Well, I tell you. Leave the bid for awhile. If you don't get it take the offer at 2-3/4s for 100,000 pounds.

C: Yes. O.K.

K: And then let me know.

C: Right.

U

PLAIN

ROME

Dated October 5, 1936

Rec'd 9:15 a.m.

Secretary of State

Washington

400. Fifth.

Council of Ministers this morning decided to devalue lira to 92.46 to the pound and 19 to the dollar the gold content of the lira being reduced from 7.919 to 4.677 grams per 100 lire nominal. Provision also made for optional further devaluation up to ten per cent. Summary of communique issued after meeting of Council of Ministers including other measures follows.

PHILLIPS

HPD

LMS

GRAY

Rome

Dated October 6, 1936

Rec'd 1:15 p. m.

Secretary of State,
Washington.

402, October 6, 5 p. m.

My 394, September 30, 6 p. m.

It is officially announced that the Italian stock exchanges are reopening tomorrow, October 7th. It is also announced that the tourist lira is to be continued but at the rate of \$4.91 per 100 lire or 20.40 lire to the dollar.

PHILLIPS

KLP

Italy Devalues

WCNS3

ROME.--THE CABINET HAS APPROVED A PLAN TO DEVALUE THE LIRA BY APPROXIMATELY 40 PER CENT, IT WAS ANNOUNCED OFFICIALLY TODAY.

UNDER THE PLAN, IT WAS ANNOUNCED, THE RATE FOR THE LIRA WILL BE 90 TO THE POUND STERLING AND 19 TO THE AMERICAN DOLLAR (5.263 CENTS A LIRA).

10/5--R835A

DECREES WERE APPROVED REDUCING IMPORT DUTIES ON FOODS AND RAW MATERIALS AND ABOLISHING THE AD VALOREM TAXES ON THEM.

IT WAS ANNOUNCED THAT THE GOLD WEIGHT OF THE NEW LIRA WOULD BE 4.677 GRAMMES OF FINE GOLD PER 100 LIRE, INSTEAD OF 7.919.

FROM THE DECREES ISSUED, SOME QUARTERS DEDUCED THAT THE LIRA IN FUTURE WOULD BE ATTACHED TO THE DOLLAR INSTEAD OF THE POUND STERLING.

AS PART OF ITS PLAN THE CABINET APPROVED THE FLOTATION OF AN "ETHIOPIAN VICTORY" LOAN, TO EXPLOIT THE "EMPIRE" AND TO "ENSURE" THE NECESSARY NATIONAL DEFENSE.

IT WAS DECIDED TO AUTHORIZE THE COMPETENT DEPARTMENTS TO MODIFY THE VOLUME OF QUOTA RESTRICTIONS FOR IMPORTATION OF COMMODITIES OF WHICH LARGE QUANTITIES ARE CONSUMED IN ITALY.

IT WAS ANNOUNCED THAT AT THIS MORNING'S CABINET MEETING, AT WHICH DEVALUATION WAS APPROVED, PREMIER MUSSOLINI REFERRED TO THE RECENT FRENCH-BRITISH-AMERICAN AGREEMENT. HE SAID HE ACCEPTED IN PRINCIPLE THE IDEA THAT ECONOMIC RESTORATION OF THE WORLD "IS ONE OF THE NECESSARY CONDITIONS FOR COLLABORATION AMONGST PEOPLES FOR MAINTENANCE OF PEACE."

"IT IS NECESSARY, HOWEVER," HE ADDED, "TO ABANDON TEMPORARY SETTLEMENTS AND ENTER THE FIELD OF PERMANENT ADJUSTMENT."

10/5--R855A

ADD LIRA, ROME

AS PART OF THE DEVALUATION PLAN, IT WAS ANNOUNCED, THE CABINET APPROVED DRASTIC REDUCTIONS IN IMPORT DUTIES, IN ORDER TO PREVENT INCREASE IN THE COST OF LIVING.

THE IMPORT DUTY ON WHEAT WAS REDUCED FROM 75 LIRE TO 45 LIRE A QUINTAL (FROM \$3.947 TO \$2.368 PER 220 POUNDS AT THE NEW LIRA RATE).

THE IMPORT DUTY ON FRESH AND FROZEN MEATS WAS REDUCED 60 PER CENT.

THE IMPORT DUTY ON LIVE CATTLE WAS REDUCED 65 PER CENT AND THE IMPORT DUTY ON COAL WAS REDUCED FROM 10 LIRE TO 5 LIRE (52.63 CENTS TO 26.3 CENTS) A TON. THE DUTY ON COKE WAS REDUCED FROM 42.5 LIRE TO 30 LIRE (\$2.236 TO \$1.578) A TON.

DECREES WERE APPROVED REDUCING IMPORT DUTIES ON FOODS AND RAW MATERIALS AND ABOLISHING THE AD VALOREM TAXES ON THEM.

IT WAS ANNOUNCED THAT THE GOLD WEIGHT OF THE NEW LIRA WOULD BE 4.677 GRAMMES OF FINE GOLD PER 100 LIRE, INSTEAD OF 7.919.

FROM THE DECREES ISSUED, SOME QUARTERS DEDUCED THAT THE LIRA IN FUTURE WOULD BE ATTACHED TO THE DOLLAR INSTEAD OF THE POUND STERLING.

AS PART OF ITS PLAN THE CABINET APPROVED THE FLOTATION OF AN "ETHIOPIAN VICTORY" LOAN, TO EXPLOIT THE "EMPIRE" AND TO "ENSURE" THE NECESSARY NATIONAL DEFENSE.

IT WAS DECIDED TO AUTHORIZE THE COMPETENT DEPARTMENTS TO MODIFY THE VOLUME OF QUOTA RESTRICTIONS FOR IMPORTATION OF COMMODITIES OF WHICH LARGE QUANTITIES ARE CONSUMED IN ITALY.

IT WAS ANNOUNCED THAT AT THIS MORNING'S CABINET MEETING, AT WHICH DEVALUATION WAS APPROVED, PREMIER MUSSOLINI REFERRED TO THE RECENT FRENCH-BRITISH-AMERICAN AGREEMENT. HE SAID HE ACCEPTED IN PRINCIPLE THE IDEA THAT ECONOMIC RESTORATION OF THE WORLD "IS ONE OF THE NECESSARY CONDITIONS FOR COLLABORATION AMONGST PEOPLES FOR MAINTENANCE OF PEACE."

"IT IS NECESSARY, HOWEVER," HE ADDED, "TO ABANDON TEMPORARY SETTLEMENTS AND ENTER THE FIELD OF PERMANENT ADJUSTMENT."

ZHC

WCNS12

ADD LIRA, ROME

A DECREE WAS APPROVED FORBIDDING THE SALE OF GOODS AT PRICES ABOVE THOSE FIXED FOR SEPTEMBER. IN INSTANCES WHERE PRICES HAD NOT BEEN DETERMINED, IT WAS DECIDED THAT PRICES SHOULD BE FIXED TODAY.

THE QUOTATION FOR THE NEW LIRA WAS FIXED ON THE PRESENT VALUE OF THE DOLLAR. THE RIGHT WAS RESERVED TO VARY THE RATE WITHIN A LIMIT OF 10 PER CENT, AS PROVIDED IN AMERICAN DEVALUATION LEGISLATION.

NEITHER AMOUNT NOR INTEREST RATE WAS ANNOUNCED FOR THE ETHIOPIAN "VICTORY" LOAN.

PRICES FOR GAS AND ELECTRICITY FOR BOTH PRIVATE AND PUBLIC PURPOSES WERE RESTRICTED LIKEWISE FOR TWO YEARS.

IDENTICAL MEASURES WERE ADOPTED FOR PUBLIC SERVICES SUCH AS STREET CAR AND BUS LINES.

THE NEW LIRA RATE WILL BE 40.93 PER CENT BELOW THE OLD RATE BUT IT MAY GO LOWER UNDER THE 10 PER CENT AUTHORIZATION.

AD VALOREM TARIFF DUTIES WHICH WERE WIPED OUT WERE ABOUT 15 PER CENT ON THE MAJORITY OF PRODUCTS AND 10 PER CENT ON COAL.

IT WAS ANNOUNCED THAT THE CABINET WOULD MEET AGAIN SATURDAY.

10/5--R903A

211 D
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WCNS41ADD LIRA, ROME

THE CABINET FIXED THE RATE FOR THE LIRA AT 19 FOR THE DOLLAR---
5.263 CENTS TO THE LIRA COMPARED WITH THE PREVIOUS RATE OF AROUND 7.65
CENTS AND THERE WERE INDICATIONS THE LIRA MIGHT BE ATTACHED TO THE
DOLLAR INSTEAD OF STERLING. THE NEW LIRA-STERLING RATE IS 90 LIRA TO
THE DOLLAR INSTEAD OF 7.919 GRAMMES.

THE NEW LIRA-DOLLAR RATE RESTORES THE LIRA TO THE LEVAL PREVAILING
BEFORE THE U.S. DOLLAR WAS DEVALUED. WHILE THE LIRA WAS
REDUCED TO THE PRESENT DOLLAR, THE CABINET MAINTAINED THE RIGHT TO
DEVALUE BY ANOTHER 10 PER CENT IN KEEPING WITH THE U.S. POLICY.

THE MOVEMENT WAS ITALY'S ANSWER TO THE RUSH OF EUROPEAN NATIONS TO
ADJUST THEIR MONIES IN ACCORDANCE WITH THE FRENCH DEVALUATION PROGRAM
AND THE INTERNATIONAL MONEY ACCORD. THERE HAD BEEN MUCH CONJECTURE
BOTH IN EUROPE AND THE U.S. OVER ITALY'S POSITION. MANY
FELT THE LIRA WOULD NOT BE DEVALUED. IT HAS BEEN MORE OR LESS QUIET
IN FOREIGN EXCHANGE TRADING SINCE THE START OF THE ETHIOPIAN WAR.
STATEMENTS OF THE BANK OF ITALY WERE SUSPENDED DURING THE WAR.

IN DEVALUING, ITALY MOVED RAPIDLY. THE CABINET HAS HAD SEVERAL
RECENT SESSIONS.

10/5--R1048A

311F
~~200~~

ADD LIRA, ROME

CONSEQUENTLY WHEN ANNOUNCEMENT OF THE PLAN WAS MADE THERE WAS ALSO A SCHEDULE OF PROTECTIVE MEASURES--BANS AGAINST RENT INCREASES AND CUTS IN IMPORT DUTIES--IN ORDER TO PREVENT ECONOMIC DISORDER.

IMPORT DUTIES ON LIVE CATTLE REDUCED 65 PER CENT.

IMPORT DUTIES ON COAL REDUCED FROM 10 LIRE TO 5 LIRE (52.63 CENTS TO 26.3 CENT) A TON.

IMPORT DUTIES ON COKE REDUCED FROM 42.5 LIRE TO 30 LIRE (\$2.236 TO \$1.578) A TON.

IMPORT DUTY ON WHEAT REDUCED FROM 75 LIRE TO 45 LIRE A QUINTAL (FROM \$3.947 TO \$2.368 PER 220 POUNDS.)

IMPORT DUTY ON FRESH AND FROZEN MEATS REDUCED 60 PER CENT.

ABROGATED PREVIOUS DECREE WHICH LIMITED DIVIDENDS ON STOCK COMPANIES TO 6 PER CENT--A DECREE NECESSITATED BY RAISING FUNDS DURING THE ETHIOPIAN CONQUEST--AND ANNOUNCED ALL FUTURE PROFITS ABOVE 6 PER CENT WILL BE TAXED EXCEPT THOSE COMPANIES OPERATING IN THE COLONIES.

APPROVED A DECREE PROHIBITING THE SALE OF GOODS AT PRICES ABOVE THOSE FIXED IN SEPTEMBER. ITEMS NOT YET SETTLED WILL BE FIXED TODAY.

AGREED FOR TWO CONSECUTIVE YEARS THAT RENTS MUST NOT BE INCREASED. THIS INCLUDES HOMES, OFFICE SPACE AND THE LEAST OF CULTIVATABLE LAND.

PRICES ON GAS AND ELECTRICITY BOTH FOR PRIVATE AND PUBLIC, MAY NOT BE INCREASED FOR TWO YEARS. THE SAME APPLIES TO PUBLIC SERVICES SUCH AS STREET CARS AND BUSES.

10/5--R1052A

Knoke said, "This is just like turning a wheel. You have to do something, right or wrong. Now, if we get that arrangement, I think we are on a sound basis. We tell the British, You can convert your dollar balances into gold as you accumulate dollar balances, as the result of selling sterling in order to keep it from going too high. That is the problem we will face in the next few days because the tendency is the other way. What we will face is probably a weakening sterling, in which case an arrangement which enables us to convert sterling balances into gold is what we need. We need that arrangement particularly. We need it just now in a weak sterling market just as much as the British will need the arrangement in a strong sterling market. Nobody can guarantee. Nobody is wise enough to say how this will work."

H.M.Jr.: "But the point I don't get, you say gold is 141 shillings. Then you made a statement, knowing that gold was 141, we could buy any amount of sterling we wanted." Mr. Lochhead explained, "The price of gold in London would be 141 shillings. The British would tell us they would sell us gold today at 141 shillings under the proposed arrangement. You figure that you can pay as high as 4.92 3/4 for sterling, and still bring gold over here at \$35.00. Therefore, whenever sterling goes down to 4.92 3/4, you can keep buying; the cheaper the sterling, the cheaper gold. If we decided this morning that sterling was 4.92 3/4 and that we could buy sterling if it went down below 4.92, you must realize that we would have to sell gold to the British at \$35.00 for as much dollars as they bought to keep it up to 4.93. It works both ways. But we can change the rate. The rate would be changed every day according to the tendency."

H.M.Jr. asked, "The only thing is -- \$35.00 is fixed." Knoke said, "The whole thing pivots around \$35.00 -- that's the pivot. That's what they have to work on."

The Secretary said, "The quicker we get the French thing settled, the quicker we can take up sterling." Mr. Lochhead said, "I have sat in a couple of times on this discussion. The point, from what I gather, is that everybody is trying to discuss it -- if we go into this thing at some future time, or next week, or two weeks from now, are we going to be criticized? We can go into this on the theory that everybody is acting in good faith and we are only acting for 24 hours."

The Secretary said, "I think the British behaved beautifully. They showed every tendency -- and I want to tell you something, when you get down to doing business, when it is all through and done, they are hard traders. They have taken care of themselves, and we have taken care of ourselves. But when you get down to doing business with people, I would rather do

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business with the British. They have taken good care of themselves." Knoke said, "That is what they are elected to office for." The Secretary repeated, "And we have taken care of our people."

At this point, Dr. Feis telephoned the Secretary from the State Department, and the following is a record of their conversation:

October 5, 1936.
12:40 p.m.

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H.M.Jr: Hello

O: Dr. Feis calling you.

H.M.Jr: All right.

O: Go ahead.

H.M.Jr: Hello

F: Henry.

H.M.Jr: Yes.

F: I interrupted you just because I think you'd be interested to know we've heard from Switzerland.

H.M.Jr: Yes.

F: They've ordered reductions in their duties on all American foods and some other agricultural products.

H.M.Jr: Apples included in that?

F: Apples, pears, prunes, appricots --

H.M.Jr: But apples - you're sure about apples?

F: Absolutely sure about apples.

H.M.Jr: You're going to make a Democrat out of Harry Byrd yet.

F: (Laughter) And some other foodstuffs that I forget. I mean other things besides fruit but I've just forgotten what they were.

H.M.Jr: You mean you've got that officially?

F: Oh yes quite officially.

H.M.Jr: And you people are going to give that out?

F: If - if it's not already in the press. I imagine it will be in the newspapers. We've just gotten the flash this minute.

H.M.Jr: Yes - well

- 2 -

F: I mean it's an action already taken. It's not a proposal.

H.M.Jr: Well I'm glad I got it. Right now we're operating on the Stabilization Fund and we're taking some long chances.

F: Well don't take too long chances, Henry.

H.M.Jr: Well why?

F: Well - watch your step.

H.M.Jr: Well to-day's all right.

F: Well I don't know what you mean by long chances of course.

H.M.Jr: Well listen young fellow. Sometime when we've got time I'll tell you some of the chances I took in '33 and '34.

F: All right - I'll --

H.M.Jr: I took them when nobody else would. I once bought five million bushels of wheat in four minutes.

F: (Laughter)

H.M.Jr: I did.

F: (Still laughing) Yes I - of course I know you did, Henry.

H.M.Jr: Well I mean the time to take chances is to show confidence when nobody else has got it and that is confidence, that's the answer. Well anyway thanks for calling and ---

F: I'll bring you further details ---

H.M.Jr: But what I do wish is - I mean God I do wish that somebody in Rome could straighten out this rate business. Have you had a chance on that?

F: Well -

H.M.Jr: Well Coch - Archie's sitting here. He says let Cochran work it out in Paris.

F: I think that's best.

H.M.Jr: Right.

F: Right.

H.M.Jr: Thank you very much.

Knoke resumed his remarks, and said, "I would like to say just one thing. The great difficulty that I find in these arguments comes from the fellow who is pessimistic about the good faith of the people who signed the agreement."

The Secretary said, "Have you seen that last message that I got from Chamberlain?"

H.M.Jr.: "This is the time to have courage." Knoke answered, "This is the time to make or break the whole arrangement."

The Secretary read to Mr. Knoke and Mr. Lochhead the oral message of the Chancellor which was delivered to the Secretary Monday, September 28, by Mallet. He said to them, "That's a beautiful statement."

Lochhead's comment was, "On the basis of that, how could they justify some under-hand method? I think it is White more than anybody else and I think there is some talk about general cooperation, which I think we all realize if we give it to France that Great Britain could draw gold from France."

The Secretary said, "You can all talk it out and I am going to settle it today. I am going to give France gold on a reciprocal basis. It's only a question of what the points are and as soon as I conclude that, I am going to let the British know. I have given my word."

Knoke said, "The points are something that will change from day-to-day. All we can go by is two days' experience and those two days' experience have proven, at least to my satisfaction, that the approach is the correct approach and that, under the circumstances, as long as they are not final but a temporary gold range selected by them today, it is one that nobody can find fault with, and that only applies for Friday and Saturday, but I have no reason to assume that tomorrow they will throw the whole thing out of the window." Lochhead said, "If they started something tomorrow, we would say it is all off."

Knoke said, "Saying they must agree to give us back ounce for ounce doesn't go with me because those fellows could say, You have already received 2 million ounces of gold." Lochhead added, "So why insist on getting it back again?"

The Secretary remarked, "The minute we announce we have done this thing for France, it is a very constructive move."

Knoke spoke to Cameron again on the telephone. Record of their conversation follows:

October 5, 1936.
12:50 p.m.

217

O: Operator.

H.M.Jr: Try Cameron again.

O: All right.

H.M.Jr: Please.

H.M.Jr: Hello

O: Mr. Cameron.

C: Mr. Knoke.

K: Hello

C: Cameron.

K: Yes.

C: The 3/4s offer is out of the market now.

K: Ah-ha.

C: Our bid is still in at 1-5/8s and we've only gotten 10,000 pounds.

K: Well then you'd better raise your bid to 3/4s.

C: And he said he had a cable from London. They were offering sterling at $1\frac{1}{2}$ in London.

K: Who's that?

C: The London Banks.

K: Offering sterling at $1\frac{1}{2}$?

C: Yes. They're bidding for dollars at $1\frac{1}{2}$.

K: Well what else is there - that doesn't tally with our rates here.

C: No.

K: Well all right. You bid 3/4s for a hundred anyhow.

C: All right.

- 2 -

H.M.Jr: Just a minute - just a minute - wait a minute.
(H.M.Jr. talks aside to Knoke in his office)

H.M.Jr: You mean the Bank of England? Hello?

C: Hello.

H.M.Jr: Well you say - who's bidding in England.

C: The London Banks.

H.M.Jr: You don't mean the Bank of England?

C: Oh no - no.

H.M.Jr: Well what - what - where is the difference? Do you understand how they can be offering here at $1\frac{1}{2}$ and the market here is $3/4s$?

C: Well - they're - they're pretty nearly closed over there.

H.M.Jr: I see.

C: They're just closing up for the day.

H.M.Jr: I see.
(Knoke talking aside to the Secretary)

H.M.Jr: Mr. Knoke says $1-3/4s$ - a hundred thousand pounds.

C: Yes, I'll put it right in.

H.M.Jr: All right.

October 5, 1936.
12:55 p.m.

Operator: Operator.

H.M.Jr: Get me Gordon Rentschler - outside wire - official -
National City Bank.

O: Right.

H.M.Jr: Please.
(Pause)

O: Mr. Rentschler is away until next Tuesday.

H.M.Jr: Where is he?

O: Out on the Pacific Coast.

H.M.Jr: Well find out if they can locate him.

O: Do you want to locate him? All right.

H.M.Jr: What?

O: Do you want to locate him?

H.M.Jr: Is he on business or pleasure?

O: I don't know. I'll find out.

H.M.Jr: Find out.

O: Thanks.

H.M.Jr: Hello.

O: Mr. Rentschler's on a business trip and he's
traveling at the present time. She's not sure -
she'll try to locate him though.

H.M.Jr: He's doing what?

O: He's traveling.

H.M.Jr: Well never mind - forget it.

O: Yes.

The Secretary said, "We will have this thing licked in another hour but I am going to do something." To Mr. Knoke he said, "I am awfully glad you are in on this. It's a big help." Knoke answered, "It would be easier for me to handle it in New York but I think it works out all right." The Secretary's reply to this statement was, "It's all right for you to be there but here I can look you in the eye and you can look me in the eye and that's better."

Knoke said, "But perhaps I would have a better feel of the market there." He added, "What is in your mind -- a public statement?"

The Secretary answered, "I would do it, and then say so. We would make a statement just for France. We make the arrangement, and then we announce it." Knoke asked, "So far, it would only apply to France?" The Secretary answered, "That's all. I have an idea -- it would be a beautiful gesture if we announce that the United States, Great Britain and France had entered into this arrangement. We would do this thing again as a simultaneous announcement." Knoke's comment was, "Fine."

Continuing, the Secretary said, "If we do this thing for France, England will say why don't we do it for her? This is the next move in the game." Knoke remarked, "And it's the logical move." The Secretary said, "That's the way to do it -- the three countries." Lochhead agreed, saying, "I think it is much better if we get it for the three countries. As long as it is a 24-hour basis, we have nothing to lose."

Mr. Knoke talked to Cameron again at 2 minutes of 1:00 o'clock. (Record of the conversation follows:)

October 5, 1936.
1 p.m.

H.M.Jr: Get me Cameron again.
O: All right.
H.M.Jr: Hello
O: Mr. Cameron
H.M.Jr: All right (H.M.Jr. turns telephone over to Knoke)
K: Hello.
C: Hello
K: Yes.
C: We bought 30,000 at 4.91-5/8s all together and just got another thirty at 3/4s.
K: Yes.
C: And the bid is in now at 4.91-3/4s.
H.M.Jr: How much does that make we bought all together?
C: 190 - 250.
H.M.Jr: How much?
C: Two hundred fifty.
H.M.Jr: And what are you bidding now?
C: 4.91-3/4s.
H.M.Jr: 4.91-3/4s.
C: Yes.
H.M.Jr: Ah-ha. (Conversation aside to those in his office)
K: You keep on that 1-3/4s^{for} another hundred.
C: Another hundred. That's seventy more or another hundred?
K: Another hundred.
C: O.K.
K: All right.

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At the conclusion of Knoke's conversation with Cameron, the Secretary asked, "Don't you think it is going to straighten out?" Knoke answered, "I don't know, but this is the right thing to do. If we get some gold arrangement, we can do it tomorrow. It doesn't apply to old balances. We are on a 24-hour basis not because you wouldn't like to be on a longer basis, but it is impossible."

The Secretary said, "This is the way to handle this thing -- the thing to do is to do it simultaneously. That's the way to do this thing. Because, if I made arrangements with the French and didn't make them with the English, they would feel badly. I think as long as I have given them my word, I think the thing to do is to do it this way. I think we have the answer."

To Mr. Knoke he said, "Will you do something for me? From now until 3:00 o'clock, will you contact this matter every ten minutes?" Knoke answered, "Surely. Positively."

Mr. Lochhead and Mr. Knoke left the Secretary's office and H.M.Jr. called the President before going to lunch.

He said to the Secretary: "I want to see whether you think I am thinking clearly. What we are working on here is to enter into an agreement with France whereby we would each give up gold to the other on the 24-hour basis. Saturday, France and England entered into such an agreement and France told us about it. It seems to me that it would be a grand feature if when we did this, that we again do it simultaneously, publicly announcing that it is on a 24-hour basis. Am I thinking straight?" The President said, "Absolutely." H.M.Jr. then said to him, "It is not the cross-rate that is bothering us now. It is the sterling rate. It went down to 4.91 5/8 this morning. Let's say today we buy \$5,000,000 worth of sterling; that is 1,000,000 pounds. If we went to England, they would give us a chance to convert it into England in London. If, on the other hand, they bought \$5,000,000 in London, we would give them the right. As a matter of fact, France has spent about \$25,000,000 and they have paper dollars here in New York that they would like to convert into gold and we would give them that right. Each country, as it protects its own currency, could convert it into gold. If we find our internal prices are going, we can change it. In July, I told Bewley that if we could get together we would be ready to exchange gold on a reciprocal basis. Then, you see, we would do it with England and France and then when Italy comes in, she would have to make some kind of an arrangement. Then Switzerland and Holland, etc. We would set the example with these three countries. Feis called me from the State Department that Switzerland would cut out quotas on fresh fruit. My answer was that we would make a Democrat out of Byrd yet. This thing will not happen before you get back

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tomorrow morning, but I wanted to start the thing working if you agreed."

H.M.Jr. called Cochran at 10 minutes past 2:00. Record of their conversation follows:

October 5, 1936
2:05 p.m.

H.M.Jr: Hello.
Our Operator: I'll have Paris for you in a couple minutes.
H.M.Jr: My God - you told me that before, Mrs. Spangler. You're slipping.
Our Operator: Go ahead.
H.M.Jr: Hello - hello. What?
Overseas Operator: Hello, Secretary Morgenthau.
H.M.Jr: Yes.
Our Operator: He's on the line, Operator. Hello, Mr. Cochran.
Cochran: Hello.
H.M.Jr: Hello, Cochran.
C: Hello, Mr. Morgenthau.
H.M.Jr: Can you hear me?
C: Yes, very well.
H.M.Jr: Now (Coughs) just before you start, have you gone back to standard time or not?
C: Here now I have ten past seven.
H.M.Jr: Ten past seven - that's five hours difference. It's ten past two here. All right - now go ahead.
C: Pennachio -
H.M.Jr: Yes.
C: - after speaking with you, and he in turn telephoned Governor Azzolini at the Bank of Italy in Rome.
H.M.Jr: Yes.
C: - just to be sure there was no misunderstanding -
H.M.Jr: Yes.
C: - because we have here neither the text of the law nor of the communique which was given out -

- 2 -

H.M.Jr: Yes.

C: It - the law revalues the lira in terms of gold, giving it a weight which works out to just one-nineteenth of the gold weight of the dollar.

H.M.Jr: It does what?

C: It - it is just one-nineteenth of the gold weight of the dollar.

H.M.Jr: One-nineteenth of the gold weight of the dollar?

C: Yes, that's the new lira.

H.M.Jr: Yes - one-nineteenth -

C: - of the gold weight of the dollar.

H.M.Jr: Of the dollar at \$35.00?

C: (Squealing Noise) No, it's - it's specified in semi-grams, you see?

H.M.Jr: Yes.

C: It makes no reference to the dollar.

H.M.Jr: Wait a minute. I'll - I'll let Knoke - let Lochhead talk to you direct.

C: All right. All right.

(H.M.Jr. carries on conversation with some one in office.)

Lochhead: Hello, Cochran?

C: Hello, Lochhead?

L: Yes. Now as I understand it, the Italians have worked out their - their revaluation on the basis of the gold weight of the lira.

C: Yes.

L: - On the basis of the gold weight?

C: Yes.

L: Now then - then these other two rates -

- 3 -

- C: One-nineteenth of the gold weight of the dollar.
- L: That's right.
- C: Yes. But there's nothing in the law about tying with the dollar or with sterling.
- L: There's nothing in the law tying the rate against sterling or against the dollar?
- C: That's right.
- L: Oh, I see. Well, then these other figures that were cabled over are apparently just some figures that somebody is trying to work out.
- C: Well, when - when they gave out the communique -
- L: Yes.
- C: - they did say, as we understand it here, that they had returned to the old rate of 19 lire to the dollar -
- L: Right.
- C: - which was about 90 to the pound.
- L: Oh, I see. They were speaking in approximate terms.
- C: Yes, and the reason for that is this: Way back in 1925 when the lira was fluctuating wildly, Mussolini made that famous - that Faro (Spells) F-a-r-o - do you remember it?
- L: No, I don't remember it offhand.
- C: He gave a speech there saying that he would never devalue the lira beyond 90 to the pound.
- L: Oh, yes, I remember that - the speech - I didn't remember at first.
- C: In fact, the devaluation which took place in December, 1927, did go beyond that - it went to that figure which you had -
- L: Yes.
- C: 92.46 -

- L: Right.
- C: - against a pound of 4.86.
- L: Right.
- C: But this was never made plain to - that is, to the rabble. They - they went on thinking that they had just - had 90 francs - 90 lire to the pound arrangement.
- L: I see.
- C: So that when they gave the communique today, they used the terms as before.
- L: Well, in other words, they're just talking to - talking for effect to their own population?
- C: Internal effect and intricacy.
- L: I see. Well, of course, it does have some effect apparently on the markets here because everybody looked for a lower sterling rate.
- C: Yes. Because on - on your market, you have a quotation of 5.25 to 5.26 -
- L: Right.
- C: - this afternoon for the lira.
- L: That's right.
- C: Which works out to just 19 to the dollar.
- L: 19 to the dollar - that's right.
- C: They - they state that - that their only - the only rate which they will tie steady will be that against the dollar, which is interpreted I suppose, as that they do devalue in terms of the dollar.
- L: Right. As I understand it, they have simply given a new gold valuation to the lira.
- C: That's right.
- L: That's right, and then the - the external relationship between other currencies must be figured out independently.

- C: And the sterling rate is dependable upon what the dollar-sterling rate is.
- L: That's right. O.K. then.
- C: O.K.
- L: Now just a second - the Secretary wants to speak to you again.
- H.M.Jr: Hello.
- C: Hello.
- H.M.Jr: The United Press has interpreted that as saying that the lira was tying to the dollar.
- C: I - I didn't hear your first part of the sentence.
- H.M.Jr: The interpretation that the United Press here has given is that the lira is tying to the dollar.
- C: I see.
- H.M.Jr: Is that correct?
- C: No, it's not. It's tying to gold.
- H.M.Jr: What?
- C: It's - it's tying to - to the dollar just as much as it was tied to the dollar in 1927.
- H.M.Jr: Well, what was it tied to in between? Since 1927 until yesterday -
- C: They've - they've been stabilizing it here in Paris through sending gold here.
- H.M.Jr: I see. But now it's one-nineteenth of \$35.00, is that right?
- C: They - they chose - no - they chose a gold point -
- H.M.Jr: Well, wait a minute - just a minute (Aside: 'Did you fellows ever say anything?') All right. Knoke is sitting here with Coch- - with Lochhead, and he understands it, so they can explain it to me.
- C: All right.

H.M.Jr: I have both Knoke and Williams here.

C: Yes - fine.

H.M.Jr: Now, very confidentially, I am going to take a chance on this on the telephone, see?

C: Yes.

H.M.Jr: And this is what I'm thinking of doing - where are you now?

C: I'm at the Embassy now.

H.M.Jr: All right. I am thinking, instead of answering the French, alone I am thinking, and I'm going to make up my mind in the next hour -

C: Yes.

H.M.Jr: Of sending for the British here and telling them that the French have approached us on this question of giving up gold.

C: Yes.

H.M.Jr: Now, we have two partners in this transaction - the French and the British -

C: Yes.

H.M.Jr: - and if we do anything with the French, we want to give the same opportunity to the British.

C: Yes, yes.

H.M.Jr: Because we consider we're partners -

C: Yes.

H.M.Jr: And then I'm going to suggest to them that we again arrange this thing first and then give out a simultaneous statement, making it a three-cornered arrangement.

C: I see.

H.M.Jr: See?

C: Yes.

- H.M.Jr: Now what do you think of that? (Pause) I - I mean that we'll give up gold to France, they to us, France to England, England to France, and we'll give up gold to England, and England will give up gold to us under certain conditions.
- C: Yes, yes.
- H.M.Jr: But work it all out and then come out with a simultaneous statement, the three countries.
- C: I see. (Gulp)
- H.M.Jr: Hello -
- C: That would limit your giving it to other countries later?
- H.M.Jr: No - no -
- C: No.
- H.M.Jr: But, on the other hand, I don't feel it's right to make this agreement with France without giving England the same opportunity.
- C: No, no, no. They - they'll need it, too.
- H.M.Jr: And then if Italy or Holland or Switzerland wants it, they can approach the three countries. They say they want to come in.
- C: Yes.
- H.M.Jr: And if they come in on a reciprocal basis, why we'll let them come in and join the company.
- C: Yes.
- H.M.Jr: But it seems to me the effect on the world of doing this thing, the three countries simultaneously, will be almost as good as the original agreement.
- C: Well, of course, the technical point is they're - they're not on the gold standard yet the same way that we are. They haven't the same obligations to meet.
- H.M.Jr: No, but - but they've - you tell me they've done this - France and England

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C: You mean there's - there's an agreement between them?

H.M.Jr: Yes.

C: There is?

H.M.Jr: Well, I mean if England doesn't want to do it, it's all right, but I want to give her the opportunity.

C: I see.

H.M.Jr: After all, she approached us two or three times on this.

C: I see.

H.M.Jr: See?

C: Yes. Oh, no, no, no - you certainly want an arrangement which will give England gold.

H.M.Jr: Well, and - and - and my feeling is we should not offer to do this for France without also offering to do it for England.

C: Yes. Well, I - I agree there. I think the more generous we can make it - I - I'm talking now, from a natural European standpoint - I don't know.

H.M.Jr: Well, no. No, I can see - I - I - I just feel that here are three people - they're in a partnership -

C: Yes.

H.M.Jr: Now I don't want any signed agreements with one without offering it to the other.

C: No.

H.M.Jr: If - if the other country doesn't want it - well, we've made the offer.

C: Yes, yes.

H.M.Jr: You see?

C: Yes.

H.M.Jr: Then I'm keeping good faith.

C: Yes. I mean it's just a reciprocal offer that they will yield gold to your stabilization fund -

H.M.Jr: Yes.

C: And you to theirs.

H.M.Jr: Yes - between stabilization funds.

C: Hello.

H.M.Jr: Yes.

C: I say you just want the - an understanding that reciprocity must work.

H.M.Jr: That's right.

C: If you yield gold to their stabilization fund, they'll yield it to you.

H.M.Jr: That's right.

C: Yes.

H.M.Jr: What do you think about it?

C: I - I don't like to give snap judgment. My - my whole feeling has been since we worked this out that we shouldn't be too tight now.

H.M.Jr: Too what?

C: Should not be.

H.M.Jr: Too what?

C: Too - too penurious with our gold.

H.M.Jr: Well -

C: I - I think we could afford to give it to about any one who wants it.

H.M.Jr: Yes.

C: I mean that - that is the rather extreme view I take.

H.M.Jr: That's all right.

C: I - I'd say give it to Italy tomorrow.

H.M.Jr: If she could give us gold when we needed it?

C: Yes. Well, she - she has no embargo on gold.

H.M.Jr: Yes.

C: And they - they made the point to me without any reference to this -

H.M.Jr: Yes.

C: - that they agreed not to put an embargo on gold and that the place to which their Central Bank gold is most likely to flow -

H.M.Jr: Yes.

C: - in its - now after this revaluation is New York.

H.M.Jr: Yes. Now - well, where are you going to be for the next hour or two?

C: Well I was - I was going home now.

H.M.Jr: Well, that's all right. I'll get you at your home. Are you going to stay there?

C: Yes, yes. I'll stay there.

H.M.Jr: If - you're going to stay there?

C: Yes.

H.M.Jr: Well, you go home and have your supper and I'll call you there a little later.

C: You don't want me then to take this - you don't want me to talk to Cariguel and -

H.M.Jr: Oh, no, no, no, no, no, no.

C: No - you want to work it out first?

H.M.Jr: No, but I - I'll - I'll - I'll have an answer on this. I will want you to talk most likely in an hour or two.

C: I see.

H.M.Jr: Yes.

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C: Well, all right. Then I'll go home and you call me then at my home number.

H.M.Jr: Yes. Now just hold the wire a minute. They've got something. Just a minute.

C: All right.

H.M.Jr: (Talks to some one in his office.) Just hold the wire.

C: All right.

(Pause)

H.M.Jr: Just hold the wire a minute.

C: All right - I'm holding.

(Pause--conversation in office.)

H.M.Jr: All right - now look -

C: Yes.

H.M.Jr: At just this minute the boys came in and the Socony-Vacuum wants to buy from 3 to 5 million francs.

C: Yes.

H.M.Jr: And there are no francs for sale. We have no order today from the Bank of France.

C: I see.

H.M.Jr: Will you tell Cariguel that right away?

C: They want to buy 3 to 5 million francs?

H.M.Jr: Francs - francs.

C: 3 to 5 million?

H.M.Jr: Yes - the Socony-Vacuum.

C: Yes, I was just getting the number.

H.M.Jr: From 3 to 5 million francs, Socony -

C: And you have none?

H.M.Jr: What?

C: And you have none?

H.M.Jr: No - wait a minute. (Pause) The - the Bank of France has given Knoke no order today.

C: I see.

H.M.Jr: He has no order to sell.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: Take it up with Cariguel -

C: All right.

H.M.Jr: And tell him if he wants to do something to let the Federal Reserve know in New York.

C: All right.

H.M.Jr: Will you please?

C: Surely. He was complaining a while ago that he could find no dollars.

H.M.Jr: Well -

C: In - In - In the market today, he said that sterling was weak against the dollar, and that neither he nor London could find any dollars.

H.M.Jr: Now -

C: He found a few dollars against gold in London today.

H.M.Jr: Now wait a minute - let's get the answer on that - wait a minute. We've got everybody here so just wait a minute.

C: Yes.

(Pause during which conversation is carried on in H.M.Jr.'s office.)

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Knoke: Hello, Mr. Cochran?

C: Yes.

K: This is Knoke.

C: Oh, hello, Knoke - how are you?

K: Tell me (Squealing noise) what was your -
(Squealing noise) what was your comment on
dollars?

C: I - I just said that Cariguel had phoned me
at 6 o'clock -

K: Yes.

C: - and said that his dealings today had been very
satisfactory from the French point of view -

K: Yes.

C: - but the operations had been (Squealing noise)
in half - (Squealing Noise) -

K: Pardon me -

C: - on Friday..

K: Pardon me - that the operations what?

C: - amounted to approximately one-half -

K: Yes.

C: - of the total on Friday.

K: Yes.

C: You remember it was around one billion? And he
said that today sterling was weak, offered against
dollars.

K: Yes.

C: - and that both Paris and London had difficulty
in finding dollars.

K: In finding dollars?

C: That's what he says.

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(Pause)

C: He added that he had - had sold some dollars in London against gold.

K: Yes.

C: So he had obtained some gold there which would reduce, of course, by that amount, the gold which he must seek from us -

K: Yes.

C: In order to get started.

K: Yes. Yes.

C: That - that's all I had.

K: I see.

C: They're having a meeting of the French Cabinet just now at which they are going to study that question of designation of the 50% tax on soap box transactions on the period just prior to devaluation.

Overseas
Operator: 12 minutes.

C: Knoke, did you hear?

K: Yes, I got that. There's a Cabinet meeting on just now you said.

C: - be over that just -

K: Yes, yes.

C: - just prior to devaluation.

K: Yes. Now, Mr. Cochran?

C: Yes.

K: On this demand for francs that the Secretary spoke to you about, if you'll ask Cariguel - if you'll just tell Cariguel that and ask - does he want to give us an order in New York?

C: I see.

- K: I think he's vitally interested in it; otherwise, he might see a franc rate that's running away here.
- C: Yes.
- K: The last few days he has been giving us an order. So far, I understand we have received none.
- C: Yes. Do you want him to give me an answer so that I can telephone it back, or do you want an order directly to your New York Bank.
- K: Oh, yes - direct to New York.
- C: Surely - surely.
- K: If he wants to give one, he should give it to New York.
- C: I'll phone him either at his house or at home, wherever I can find him now.
- K: Yes. All right, sir.
- C: All right.
- K: (Aside: 'Is there anything else?') All right - thanks very much. Goodbye.

October 5, 1938
2:35 P. M.

The same group again met in the Secretary's office: Mr. White, Dr. Viner, Mr. Haas, Mr. Lochhead, Mr. Taylor, Mr. Knoke, Mr. Williams, Mr. Oliphant, Dr. Feis.

The Secretary asked, "Have you decided on anything?" Dr. Viner answered, "Yes. Tell the French from day to day we will sell them gold at \$35.00 an ounce."

Speaking to the group, the Secretary said, "I would have moved just an hour ago. I told you fellows I asked your advice but I don't move without you. I think I have the answer but inasmuch as you were not here, I did not do it. I tried to keep the wire open but you fellows were eating so long, I could not. This is my thought and I checked it with the President at 1:00 o'clock and I have been waiting."

H.M.Jr. continued: "There were three people who made the gentlemen's agreement. I don't think we ought to make any side agreements with one of the two without telling the other and my thought is to send for Mr. Mallet this afternoon and say, 'Now listen, Mr. Mallet, the French have asked us for a reciprocal agreement on gold. We are working on it. Anything we do for the French, we are willing to do for you. The three of us are in this thing together. Now I think the thing would be three times more effective if we could repeat what we did before and have a simultaneous agreement, each to the other that on a 24-hour basis we agree to give up gold. If you don't want to do it, all right, we will go ahead with France. But we are in this thing together and furthermore, I told Mr. Bewley the middle of July if this came around I was willing to do this. That was in good faith. I am not willing to do it with one partner and not with the other. My suggestion is we work this out with the three Secretaries of the Treasury and make a simultaneous announcement.'"

Viner's comment was, "You will get the answer, No. You will have made another overture and you will have another rebuff." Feis asked, "Why do you say 'another', Jake?" Viner answered, "We have been sort of pushing them into an arrangement on the exchange rate and they have repeatedly said they will not tie themselves up." Knoke said, "But this is a day-to-day basis."

The Secretary remarked, "The day before Bewley sailed -- Mr. Bewley approached me on this thing -- and before he sailed, I said 'Bewley, you asked me about gold and let me tell you how I feel.' And I said to him, 'Mr. Bewley, I am going to wait until the three countries have an agreement. If we have an agreement, I am ready to give up gold provided the Government

of Great Britain will guarantee the United States Government that we can get gold also.' He said, 'You can get it in the open market'. I said, 'No, I want the Government of Great Britain to guarantee it. However, if we are faced with disaster pending an agreement, I will not stand on the letter, but will enter into an agreement with Great Britain.' I have told them I would do this, how can I go ahead with France and not let Great Britain have the same arrangement?"

Viner said, "They have not asked you."

The Secretary said, "I would rather have them say, No, thank you. When we know they have entered into this agreement on Saturday with France....."

Feis interrupted, and said, "A possible compromise is to call in Mr. Mallet; tell him that the French have again brought up the subject of gold sales; that in view of the fact that the gentlemen's agreement has three parties it appears desirable that the gold arrangements might be discussed between the three of them and then just put the question to them. Ask them what ideas they have on how they propose to handle it."

Viner's answer was, "They don't want to talk with you about it. They want to handle it through Paris; Paris getting the opening through our market, and they operating in Paris. That's my impression from the whole course of events. Certain amount of 'face', of prestige, involved there." Feis' comment was, "We are dealing with the facts, not merely supposition."

The Secretary said, "I have been not only slapped on both cheeks during the past two weeks but kicked soundly where I sit and I have gone back and gone back and finally broke this thing down. I am perfectly willing to take this risk because I feel that, if again we could do this thing simultaneously, it is a wonderful step forward and I will tell you why England will do it. It makes every other country in Europe come in and see us on the same basis."

Viner remarked, "Except the sterling bloc." To which Mr. Morgenthau replied, "And the sterling bloc will come in."

Feis suggested this: "It might be better to put it to them in the form of a question rather than a proposal, in which they can read the idea that we are trying to hold them down to a fixed price for gold."

The Secretary said, "I say to Mr. Mallet -- the French are pressing us for a reciprocal agreement on gold. I don't know whether this will interest you or not, but may I refresh you on

my last talk with Bewley? I am ready to do the same thing for your country. If it doesn't interest you, there will be no hard feelings, but I can't go ahead and do this with France, after telling Mr. Bewley that if this happened I would do it; therefore, if this interests you, will you be kind enough to let me know the first thing tomorrow morning, because we have to move very fast."

Williams asked, "And then go ahead and do it for the French anyway?" The Secretary replied, "I would do it for the French anyway, but I would say to Mallet, You and I have just entered into a gentlemen's agreement. We are going to operate in the market. We agreed, but let's do a little something on the side. No, no. What happens, especially as I told you in July that if this happened I would give you gold and told you it would be on a reciprocal basis. And I told them between points at that time."

Williams expressed his reaction as follows: "I like your suggestion very well, assuming we go ahead with France in any case. I think it is very good." The Secretary said, "We will go ahead with the French anyway. What I want to do, after talking this thing over with you people, is to call up Cochran and tell him what I am going to do; tell him I am going to put the same thing up to the British; that we are working on it. I have to give the British until tomorrow to let me know, but I feel -- just what I have said, I won't repeat it all over. And I will tell Cochran that by tomorrow noon I expect to hear from the British."

Professor Williams said, "It seems to me you are building a very good case. In event sometime in the future you should have to put some pressure on the British, you can point to a perfect record. At every stage of these proceedings you have called them in and made a suggestion. If they haven't accepted, that's on them."

The Secretary stated, "If we didn't say anything to the British, they could say, You told this to Mr. Bewley in July. I don't think you have treated us right, just because Mr. Bewley isn't here. If he were here, you would be seeing him." Viner's comment was, "You aren't telling them they can't have it. The French asked you and if the British do, you will tell them the same thing."

Mr. Morgenthau said, "But if this thing goes through, it would make it necessary for every country in the world to see the other two countries to get gold and we would agree that we would not give up gold unless we consulted with the others. And England still has to hear from Germany. And this is the most

powerful argument with which England, who says she is afraid of Germany, could fix the German thing. It would be the most powerful argument for England; not for us."

Oliphant inquired, "When you assume this, that you want to see a three-sided agreement, you would not assume that you want it at the points?" Mr. Morgenthau's reply was, "As I understand it, it's a day-to-day basis and as I understand it, as Knoke explained it to me, if gold is fixed at 141 shillings this morning in sterling, we buy; we can convert into gold today at 141 shillings."

Knoke said, "That's the way it works with the French."

Continuing, the Secretary said, "And they can't buy any dollars here and for today we permit them to convert that into gold at \$35.00 and that's good from day-to-day. And each day we chop it off and it's from day-to-day. Dollars bought today are converted in 48 hours." Knoke's comment was, "You can't possibly be hurt on it."

Resuming his remarks, the Secretary said, "We are buying sterling right now and if we had this agreement, we could convert it at 141. I am buying sterling and I can't convert the damn stuff. The French have the same thing. They have 125 million paper dollars and they can't convert. And the cussed thing is, the reason why sterling is going down is because England is buying dollars. The money they want today is going to the New York stock brokers to pay for stocks which are being bought today by English investors, and that's why sterling is way down."

Fels inquired, "If they are buying stocks, why can't you sell them the sterling you are buying?" Knoke replied, "They are selling sterling."

Viner asked, "Why can't you buy gold in the open market?" Mr. Knoke's answer was, "You can, but what you do, you push the sterling price for gold up and as you do that, you lower the gold price."

The Secretary said, "Exactly 25 minutes ago I called Cochran to tell Cariguel that the Standard Vacuum Oil Company wanted 35 million francs. At 10 minutes to 3:00 they gave it to them." Knoke remarked, "That's Central Bank cooperation." To which the Secretary replied, "With the impetus given by the Secretary of the Treasury."

"I am going to tell one on Knoke. The word came that South America was selling 50,000 sterling at best, which is the Russian word. So, in my innocence, I simply said, What country? And

Knoke said, "No, no, don't call a press conference -- which is a slight exaggeration." Viner remarked, "And the joke is supposed to be on Knoke?" To which the Secretary replied, "The joke is still on the Russians."

Dr. Feis then asked, "Just what are we going to arrange with the French? Could you summarize that again, Mr. Knoke?" Mr. Knoke replied, "Yes. The French will quote us from day-to-day a gold price in terms of francs -- two prices, one at which they will sell gold to us and one at which they will get gold from us."

Feis inquired, "Close together?" And Mr. Knoke answered, "Very close together, 1% of the theoretical gold parity -- the temporary gold parity. It will be 1% up or 1% down. With that arrangement, if francs go weak here in the market, we are in position to support the franc. We don't have to leave it to the Frenchmen to operate. We have the fixed price from them at which we can convert francs, which we may want to buy here, into gold. We take a hand in the management. The same with the British. The British would, presumably, quote us a price, as they have done to the French in the last two days, which enables the French to operate in sterling, not leaving it to the discretion of the British, but after the one market for London is closed we can operate here. We are in position again to successfully, I think, support sterling without running the risk of having to sit on paper balances afterwards. Because, as we buy sterling, we have assurance from the British that that sterling can be converted into gold."

Dr. Feis asked, "And we can buy and sell gold at the fixed rate of \$35.00?" Knoke answered, "We have a gold price of \$35.00 around which the whole thing pivots."

The Secretary said, "I am willing to take the risk. If I am successful and they come in -- I have to decide. If I want to take the risk, is it a big step forward?" Viner answered, "It is a necessary step forward -- big in that sense."

The Secretary then inquired, "Eliminating the risk, is it a constructive step?" Viner replied, "Yes." The Secretary then asked, "Is it a proper step?" And Viner answered, "Yes. The only point I have is you might save yourself the risk if the French ask you and you are sure."

The Secretary's comment was: "I have thought that thing through and in view of my conversation with Bewley, I would not feel happy if I did not make a simultaneous offer to the British." Viner said, "I wouldn't ask necessarily for a reply. I would call Mallet over and say, At the request of the French, I have made this agreement. Mr. Bewley and I had this conversation,

at which time I told him we were prepared to make an arrangement with England. My situation is just the same. Don't ask for a reply." The Secretary's answer to Dr. Viner was, "But that loses the appeal again of a simultaneous announcement on the question of reciprocal exchange of gold." Viner said, "But the French don't have to announce it to the public." Mr. Morgenthau replied, "I do." And Viner said, "You can wait a day or two."

To this, the Secretary answered, "But I have said, and I am going to stick to it, that there are no side agreements; that there is nothing that I have done on this thing that I haven't told the public, and, as soon as this is consummated, within 24 hours I feel I want to tell the American public that I have done this. I feel that that is good public relations." Viner remarked, "I would also tell Mallet that you feel you have to tell the American public of the arrangement you have made with France and give that as your reason."

Mr. Morgenthau then said, "I have the confidence of the newspapermen here. I have told them, and they believe me, that there is no arrangement which I have not explained, and when I enter into this I want to tell the American public." Viner's comment was, "If you tell that to Mr. Mallet it explains it more clearly -- that you are not pressing them but want to give them the opportunity."

Mr. Knoke said, "One more point. I can conceive of the British being hesitant to make that statement, which would not be necessary anyhow, as long as you tell them that you will announce a reciprocal basis of buying gold from the British and from the French, which I think eliminates the whole thing."

Taylor said, "That would be indicated in the Secretary's statement -- entirely on a reciprocal basis. Under our law, we have to get out certain changes in regulations, so we have to announce it." Mr. Haas remarked, "There is one thing about a public announcement -- I think it would be unfortunate if the statement carried this inference: that you are now going back to the old gold standard."

Speaking to the group, the Secretary said: "In view of this turn which I have given this thing, now the thing to do is to call up Cochran and explain it on the phone, because the cabinet is meeting and I think they are getting a little nervous. I would, too. After all, I get nervous when I begin to get a chunk of paper money over and they are getting in a lot of dollars and they are getting nervous. And I think I will tell them."

At 3:12 the Secretary placed a call for Cochran, and said

to the group, "I had a telephone put in his home. Can't we begin to put the French thing into shape now? Don't we understand this thing? Can't we begin to whip this French thing into shape?"

Knoke said, "All we have to do is to have them quote to us tomorrow their gold price and we will let them know that we will let them have gold at \$35.00 per ounce, with the understanding that the whole arrangement is on a reciprocal basis, which is perfectly clear. Cariguel made this statement to me over the phone when I emphasized it as one of the pre-requisites. He said he had never done any gold business, except on a reciprocal basis, which is a correct statement."

The Secretary asked "At what price are we going to give up gold to them?" Knoke answered, "Our price is always \$35.00 in New York. The price at which we buy gold from them is on a franc basis." The Secretary asked, "Which they fix?" And Knoke replied, "On an exchange basis, and at no time can we pay more than the equivalent of \$35.00 delivered in New York. In other words, the price we pay in Paris must be sufficiently low for us to ship it over here and, upon sale to the Treasury, to realize not less than \$35.00."

Oliphant asked, "They will offer to sell but at a quoted price?" Knoke's response was, "But we won't buy it unless it nets us \$35.00."

Mr. White inquired, "Do I understand the price at which they offered to sell us is \$35.00 landed here or there will be a variety of prices and we will only buy when it is \$35.00?" Knoke answered, "We will only buy when the cost in terms of the dollar is less than \$35.00." White then asked, "In other words, they can set any price within that range? In other words, it may cost them more than \$35.00?" Mr. Knoke's answer to Mr. White was, "But, listen, you can buy at any time if you want to pay the price; that's your privilege."

Oliphant stated, "They are both day-to-day prices in terms of francs and we will only buy them when they can lay the gold down in New York at \$35.00." Knoke said, "We buy the francs in order to pay for the gold and we won't buy the francs unless we can get them." Viner remarked at this point, "Buying francs is not part of this agreement."

"I am talking about the agreement now", Mr. Feis said. "I want to see where this leaves the rate question. If, first, having been informed of the price at which we can get gold; secondly, having been informed of the price of francs we see that we can't buy francs, convert it into gold and get that gold here at \$35.00, then we are facing the choice either of not buying francs and letting the dollar go down or taking a

loss on the gold. That's what you would be faced with unless the French fund stepped in in order to prevent francs from going down and bought dollars."

The Secretary explained to Dr. Feis, "I think I can give you a practical example if I 'fudge' my figures a little. Today sterling opened at 192 7/8 on the other side and they fixed the price of gold at 141 shilling half-penny. If this arrangement was in existence, as sterling went down, which it did yesterday, until it reached 191 5/8, we could have been buying gold as sterling went down all day because we could have converted. The gold price, if England would sell it, was 141 1/2 and therefore, as we bought sterling, as it fell, we knew all the time that we could convert it into gold at 141 1/2."

Viner asked, "Why didn't the market do that?" And Knoke explained, "Because the market had what the quotation is. The Bank of England, under this arrangement, agrees to hold still and continue to furnish gold. Cariguel gave me this example on Friday. He said, 'The price was 141 shillings, although the market price went up to 141 shillings, 5 pence. I continued to draw gold from the British at 141 shillings all day long.' That doesn't mean that the British will always do that. If this continued for too long a time, they would follow the market but all operations closed prior to any change would be done at the old rates."

The Secretary inquired, "Did the French tell the Bank of England how much they were going to draw?" Viner answered, "They told them how much sterling they held."

The Secretary then asked Mr. Knoke, "But, Knoke, am I not correct that this thing works on that side when the exchange is falling. If the franc was falling and they had to buy here, they would want to buy on a falling market and convert into gold -- the same way we operate on the other side, if the dollar was falling. This is the mechanics, as I understand it, which works in the country where the exchange is working, where they have to buy the currency in that country and then it gives them a chance to convert into gold. But we wouldn't work this thing if sterling was rising. They would be buying dollars in London on a falling market and then they would want to convert into dollars. England will be buying dollars on a falling market to keep sterling from rising." Knoke answered, "That's right."

Continuing, the Secretary said, "We buy sterling in this market to keep sterling from falling, and each country gives each other an opportunity to convert in this country, to keep sterling from falling, and England would want our gold when sterling is rising and that gives you equilibrium." Viner disagreed, saying, "It doesn't give you equilibrium." The Secretary answered, "It acts as a level for one day."

Feis said, "Let me follow your suggestion one day forward. Sterling is really trying to go down and let's do it, say, tomorrow morning. Instead of setting 141 shillings as the price, tomorrow they set 143. Then the pound is the same percentage, so the whole thing becomes completely a matter of good faith in the setting of that gold price every day." Knoke explained, "The gold price should be set and is being set every morning on the basis of our \$35.00 to the ounce, converted at the then prevailing New York-London exchange rate."

Feis remarked, "But there is a possible manipulation play in there if they wanted to play the game that way." Knoke said, "There is no reason to assume that they would." And the Secretary added, "But he can only do it for one day."

The Secretary then said, "What we have now is an incomplete mechanics and each country is piling up paper currency of another country and the reason we want to do this is that this is another step. We are learning to walk. France has \$25,000,000 here which she is very anxious to convert into gold. We take this next step and in three or four days we will seek another step. We have taken one and now we will take another. We have had this for a week. Our commodity prices have not been injured. Our stock prices have gone up; our bonds have gone up. We take this thing. It looks all right. We think there is a sound foundation under it and we wait and see what happens. We don't know -- no one can tell what it means. France devalues and these various barriers dropping; France, Switzerland and Italy -- here this thing is all happening in six days. How can I tell what the price of commodities will be Wednesday or Thursday or Friday or next Monday, but it looks to me as though we have taken another step and we have an incomplete mechanics." Knoke added, "It will continue to be incomplete until we have some definitive arrangement the world over."

Continuing, the Secretary said, "And no one is smart enough to say what the ultimate step will be."

At this point, Dr. Feis said: "That is the perspective that should be put before the public. They will not realize the full explanatory note unless you bring it home in a public declaration." Taylor added, "If the Secretary described it just as he does here."

The Secretary asked Professor Williams for his opinion and Professor Williams said, "I am all for it. I think your answer is exactly right. You have entered into this thing informally; it's indefinite, but we are all in favor of it and you are obviously having good results all around. And now the French make this request. I think we should accede to it and we can do it without any loss. It's perfectly true that we

have no defense in this mechanics against unfair depreciation of currency if they wanted to do it, but we always have our hedge. We want to go ahead on that, having the thought in our minds that if the other fellow doesn't play ball, it's on a 24-hour basis."

The Secretary said, "Once having entered into the agreement -- certainly the last six or seven days nobody could have acted better than they have. I don't blame them for having fought to do this thing -- after all, we have done the same thing and if England went against us we would be one of the first to kick over the traces and they know it. And that was so every time. But the only way you can gain confidence is by showing it. Certainly Feis knows, if anybody knows, what I have gone through here. And the President knows since 1933. But nobody could have acted more honorably than the British or the French during the past week. What they will do tomorrow I don't know. I think they will be all right. But it is like so many of these things. Suddenly the curtain draws aside and you see a little bit ahead and the ship can go another league and the next step -- we will take it. But we had to learn how to walk. It gradually put the price down. We took this terrific licking. As you look back, we jumped from \$20.87 to \$35.00 and we didn't know what was the price until we got there. We sweated blood until we got there, and it's worked."

Professor Williams said, "Of course, it could be offered that under this arrangement there is nothing to prevent the French from taking the full range." And Dr. Feis added, "You might as well anticipate that they will, because course of events will almost require it." Knoke asked, "But why? Look at Belgium. Belgium had a range from 25 to 30% and Belgium hit at 28%."

The Secretary asked the group, "Couldn't you go now, some of you, and begin to put something down on paper for me? Even if it is going to be a verbal agreement -- something so that we could begin to get a note off tonight and the French will have it tomorrow. And when Mr. Mallet comes in at 4:30 he will say, What shall I say to my government? This is my thought -- that I would say, the way they did to me -- I would say, 'Mr. Mallet I am telling you verbally what we are proposing to do for the French. You can write it down.' But I have to have something to read from. And I want to tell Cochran over the telephone, 'This is about what I want you to tell the Bank of France. You take it down and walk over and see them. I am not going to send anything, but this is about what we propose to do.' But I know how meticulous these English are. He will want something to take down."

The group left, with the exception of Dr. Feis, whom the Secretary asked to remain.

The Secretary asked Dr. Feis, "What do you know about the Japanese-Chinese situation?" Feis immediately called the State Department. (Record of the conversation follows:)

October 5, 1936
3:10 p.m.

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Our
Operator: All right. (Pause)
Our
Operator: Operator.

Feis: State please.
Our
Operator: Thanks. (Pause)
Far Eastern
Operator: Far Eastern Division.

F: Mr. Hornbeck back?
F.E.
Operator: Yes, who's calling?

F: Mr. Feis.
F.E.
Operator: He's having his Monday meeting right now.

F: Is Max Hamilton in there, too?
F.E.
Operator: No, he's in his office.

F: All right, switch me in to Max Hamilton.
F.E.
Operator: All right. (Pause)
State
Operator: Operator.
F.E.
Operator: Put this call on 278.

Hamilton: Mr. Hamilton

F: Max - Herbert Feis.

H: Yes, Herbert.

F: Max, give me in about three minutes a picture,
would you, of the present situation between the
Japs and the -

H: And the Chinese?

F: - and the Chinese for the Secretary of the Treasury.

H: Well, I told the Secretary - I told the Secretary
of the Treasury about 4 days ago or 5 days ago some
telegrams from Peck in Nanking and Johnston in
Peking, which brought the situation up to date
as of that time. Since then, we've had one

telegram from Johnston, written about last Friday, in which he says the situation continues to grow increasingly alarming, but subsequent to that telegram, we've had no reports from China or Japan which add to the alarm. The situation in Shanghai has quieted down somewhat, and the Embassy in Tokyo is of the opinion that the Japanese Government as such still has control of the situation, and it isn't just a runaway procedure on the part of the military, and with the - with the whole weight of evidence today, the situation looks somewhat less acute than it did at the time - 4 or 5 days ago. The Japanese have presented certain measures to the Chinese, and the Chinese have made certain counter proposals, and between the measures advanced by the Japanese and the measures - the counter measures proposed by the Chinese, there - there is some room for negotiation, I think.

F: Have you any opinion as to the disposition of the Japs to move if they can't get any substantial parts of their demands?

H: Well, the only indication we have is the statement of the Vice Minister to one of our people to the effect that they'd cross that bridge when they got to it, but that they had every intention now to - to try and adjust the thing by diplomat - diplomacy, and not armed forces. I don't think we want to quote that to the Secretary of the Treasury but it could be said that we have information to that general effect.

F: Yes. Who's - is Gene Dooman still handling the Japanese desk?

H: Yes.

F: I think I might talk a minute or two with him, too.

H: All right.

F: Will you switch me over?

H: Sure.

F: All right.

State Operator: Operator.

H: Will you push this call on Mr. Dooman.
State Operator: All right.

F: I'm now -
Dooman: Dooman.

F: Gene - (Squealing Noise) Gene, would you try to give me in about two or three minutes -

D: Yes.

F: - a - your judgment as to the present state of Jap.-Chinese relations for the Secretary of the Treasury.

D: Oh - ah - look - hasn't Max Hamilton been inside -

F: Yes. I - I've just spoken with Max and I told him I was going on and talk with you, too.

D: I see. Well now, look, Herbert, should I come over to your office?

F: No, I'm - I'm over at the Treasury now, Max.

D: Oh, you're -

F: - Gene - yes, I'm over at the Treasury now.

D: Yes. And what did Max say?

F: Oh, come on, stop hedging.

D: Well -

F: No - no one is going to hurt you.

D: Ah - well - ah. Max - well, I just didn't want the wires crossed. Max has so far been talking with the Secretary of the Treasury, and I just wanted to know how Max felt about my talking to -

F: I told you I told - I just told him I was going to speak to you and he said, 'Fine'. I will take all blame.

D: Yes. Well, Herbert, I should say this. - that this - let's see, when was it that Max spoke to him - some time last week, wasn't it? Do you remember when he spoke to him?

- F: Ah, it's - it's no use, Gene - never mind.
- D: Well, no, but I just wanted to - to know how far he had - had brought the Secretary of the Treasury.
- F: Within the last three, four days.
- D: Well, at that time I think the indications were that - that things were promising to look badly. The view, generally speaking, was pessimistic, and since then -
- F: Yes.
- D: - we have - we have the general feeling from press reports as well as our own dispatches that things are going to pick up, that we can take a more optimistic view than we could last week.
- F: Right you are.
- D: Well, now -
- F: That corresponds to Max's estimate.
- D: Well, that - that's generally the way we feel.
- F: Yes.
- D: It's very hard to put - to put our fingers on everything. For example, we heard yesterday that the Prime Minister had gone up to the north of Japan to see - to report to the Emperor. Well, it's our view that that does have considerable significance. He would not be leaving Tokyo if things were very dangerous, and it's - we can be sure he's gone up there from Tokyo to report to the Emperor, in all probability, that he has cooked up some arrangements agreeable to the Chinese in one final intention before the thing is consummated. Well, that - that's more than a straw in the wind - a straw indicating which way the wind is going.
- F: Well, we haven't got any cable stuff in from Japan today?
- D: Yes. We got a report from the Embassy saying that the Prime Minister had gone up north.
- F: Oh.

- D: And we think that's a matter of considerable significance, indicating that things are promising to work out quietly.
- F: Yes. Thank you, Gene.
- D: Not at all, Herbert

October 5, 1936
3:30 p.m.

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H.M.Jr: Henry Morgenthau, Jr.
Stanley
High: Oh, yes, sir.

H.M.Jr: How are you?

H: I'm first rate - thank you. I - I decided I wouldn't bother you today because we've been - this afternoon, I thought that we might postpone that Business Men's Dinner. Tom Morton and Mr. Gerard both think it might do better about the last thing in the campaign.

H.M.Jr: I see.

H: Now, if we do set it up on that later basis, I'd like to talk to you on the date so that we could have a time which you could be there.

H.M.Jr: I see. Well, when you make up your mind, you let me know.

H: Yes. I'm awfully sorry we've bothered you about this at all today.

H.M.Jr: Ah -

H: I didn't intend to interrupt you.

H.M.Jr: That's all right.

H: All right, sir. Thank you very much.

H.M.Jr: That's all right.

H: Goodbye.

H.M.Jr: Goodbye.

October 5, 1936

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H.M.Jr. spoke to Cochran at quarter to four and had Knoke and Lochhead present. Record of their conversation follows:

October 5, 1936
3:45 p.m.

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Cochran: Hello - hello.

H.M.Jr: Just a minute.

Operator: Yes, sir.

H.M.Jr: Tell Knoke - Knoke and Lochhead to come in.

Operator: Right.

H.M.Jr: Hello.

Cochran: Hello.

H.M.Jr: (Aside: 'Cochran') Hello.

C: Hello, Mr. Morgenthau.

H.M.Jr: Now, Cochran?

C: Yes.

H.M.Jr: This is what I'm going to do.

C: Yes.

H.M.Jr: I am willing to have you tell the French that we are working right now on an agreement so that we can have a reciprocal agreement with them as to giving up gold, see?

C: Yes.

H.M.Jr: We hope to have something very shortly. However, just a minute - there - there are three parties to this agreement; there's England, France, and ourselves.

C: Yes.

H.M.Jr: - And we feel that inasmuch as we are partners, we ought to give England the same opportunity if she wants it -

C: Yes.

H.M.Jr: - that we're giving to France -

C: Yes.

H.M.Jr: - and in about 40 minutes, I'm seeing Mr. Mallet, the Charge of the British Embassy, and telling him -

C: Yes.

H.M.Jr: - that we're going to do this for the French.

C: I see.

H.M.Jr: -and that we'd like him to cable tonight, and let us know tomorrow whether they'd be interested.

C: I see.

H.M.Jr: And whether they - if they are interested, whether they'd care to do it on a simultaneous basis.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: Now, that is the situation, see?

C: Yes.

H.M.Jr: And I'd be glad to have you tell this to the Finance Minister tonight.

C: I see.

H.M.Jr: Hello.

C: You - you want me to take it up with him rather than with Cariguel?

H.M.Jr: Yes, I'd take it up with both.

C: I see.

H.M.Jr: I think you ought to - I think you ought to keep our lines clear. I'd take it up with the Finance Minister first.

C: I see.

H.M.Jr: And then ask - have him say - I'd ask him whether he wants you to take it up with Cariguel.

C: Yes, yes.

H.M.Jr: But I'd take it up with the Finance Minister first.

C: See if he would care to join in this three-cornered declaration again?

H.M.Jr: Pardon me?

C: I mean it would be -

H.M.Jr: No declara- - it wouldn't exactly be a declaration, but we feel here that if we enter into any agreement of this kind -

C: Yes.

H.M.Jr: - that we must make it public.

C: Yes, yes.

H.M.Jr: - because I have said at my press conferences that any agreement that we have, we'll - we'll announce it to the public -

C: Yes.

H.M.Jr: And if we here agree to give up gold on a reciprocal basis on a 24-hour basis -

C: Yes.

H.M.Jr: - why we must announce it, you see?

C: Yes.

H.M.Jr: But we simply feel that we have two partners with ourselves making three, and we should make the same offer to the English. They may want it - they may not.

C: Yes.

H.M.Jr: As a matter of fact, I agreed to do just this with the English last July if we didn't have a three-cornered agreement.

C: Yes, yes.

H.M.Jr: Now, I want to keep my word.

C: Yes.

H.M.Jr: And I - I want to give the English a chance to answer me.

C: I - I didn't hear that.

H.M.Jr: I'm going to tell the English that this afternoon, and I want to give them a chance to tell me whether they'd like to enter into this, or whether they'd like us just to go ahead with the French.

C: I see. (Pause)

H.M.Jr: Helb -

C: Yes.

H.M.Jr: Have you got it all right?

C: I - I have it, but I don't see yet how the Finance Minister can say much on this.

H.M.Jr: Well, except that I - I - I - I'm talking as the Secretary of the Treasury, and I want you to tell him. (Pause)

C: Give him the idea of this three-cornered declaration - yes. I mean, a new declaration is coming from three sides.

H.M.Jr: Wait a minute. (H.M.Jr. speaks to some one in his office.) It doesn't necessarily have to be a declaration. We'll simply announce here that we've entered - we've agreed to it. Now if they want to announce it the same time, it's all right, but we're not going to hold out and say that they've got to say the same thing that we do, see?

C: I see.

H.M.Jr: But I've just taken the position that if I enter into such an agreement with the French and with the British, I'm going to tell the - I'm going to tell the world that I've done it.

C: Yes, yes.

H.M.Jr: I can't do it in secret.

C: Yes.

H.M.Jr: Now, the French may not want to announce it or they may, but if we do it, we're going to say so.

C: Yes. Yes. And you only do it on a reciprocal basis?

H.M.Jr: Only on a reciprocal basis and only on a 24-hour basis.

C: Yes.

H.M.Jr: See?

C: Yes. Well, that's - that's the point I wanted.

H.M.Jr: Well, that's the point - only on a reciprocal basis and only on a 24-hour basis.

C: Yes.

H.M.Jr: And - but we feel here that we'd have to announce it - whether they want to announce or not, that's up to them.

C: Yes. Yes.

H.M.Jr: But I should think, with the other countries coming along, that it would be a distinctly advantageous thing for the - the - the original three to stick together on this thing.

C: Yes. Yes.

H.M.Jr: And then as each country comes along and wants to stabilize and devalue, they'd have to consult us.

C: Yes.

H.M.Jr: Just a minute - Knoke wants to say something.

C: Yes.
(Pause)

C: Hello.
(Pause)

H.M.Jr: Hello -

C: Hello.

H.M.Jr: Knoke is saying that our statement would simply be an amplification of the statement that I made in January, 1934.

C: Yes.

H.M.Jr: See? Explaining to whom and how we would sell gold.

C: Yes - I - I have that before me.

H.M.Jr: See?

C: Yes.

H.M.Jr: The way I feel - (Pause). Well, Lochhead said it's principally what - the draft that we sent you.

C: - Yes.

H.M.Jr: See?

C:; But I mean you might begin it - if - if they want a three-cornered declaration -

H.M.Jr: Well, we don't hold out for that. If they'd like it, that's all right, but we don't care.

C: Yes - yes.

H.M.Jr: I'm simply taking the position that if I do it I've got to say so publicly.

C: Yes - yes.

H.M.Jr: Now if they want to join us and make it simultaneous, all right, but I'm not going to stand out for it.

C: I mean while - while I was eating dinner I scribbled down something. May I read it to you?

H.M.Jr: Yes.

C: Hello.

H.M.Jr: Hello.

C: Hello.

H.M.Jr: Yes.

C: May I read you a memorandum I drew up while I was eating dinner?

H.M.Jr: Go ahead.

C: 'The Government of the United States enjoys with the Government of France a common desire to fix such measures with respect to the movement of gold as may be necessary to achieve the complete consummation of the aims for greater monetary stability set forth in their recent simultaneous declarations of monetary policy. To this end the Government of the United States declares the readiness of the Secretary of the Treasury, hereafter and until further notice, to buy gold for immediate export to or earmarked for the account of exchange or stabilization funds or central banks of those countries whose corresponding institutions likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates, upon such terms and conditions as the Secretary thinks is to the public good -

H.M.Jr: Now, Cochran, wait a minute. I'm going to ask Lochhead and Knoke to go into their room and let them talk to you there, see?

C: I see.

H.M.Jr: Let - I'm going to ask them to go into their room and let them talk to you directly from Lochhead's room.

C: I see - all right. I'm not sure that I can get the Secretary - the Minister tonight. I'll try it.

H.M.Jr: Well that - that's all right. Now just - just hold on

C: I'll be with him at 9:30 in the morning.

H.M.Jr: Yes, that would be all right. Now just a moment -

C: Yes.

H.M.Jr: Just hold the wire.

C: All right.
(Pause)

H.M.Jr: Hello.

C: Hello.

H.M.Jr: Just a moment please.

C: All right.

Operator: Hello.

H.M.Jr: Put Mr. Cochran on the phone with Mr. Lochhead in Mr. Lochhead's room.

Operator: Right.

In accordance with the Secretary's suggestion, Mr. Lochhead and Mr. Knoke went into Mr. Lochhead's room to talk to Cochran on the phone. Mr. Lochhead spoke to Cochran to make sure that he thoroughly understood the ideas the Secretary had in mind and reviewed those ideas with Mr. Cochran to make sure there was no mistake. Mr. Cochran told Mr. Lochhead that he fully understood what the Secretary had said and would act in accordance with his instructions.

October 5, 1938
4:30 P. M.

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Present in the Secretary's office were Dr. Feis, Mr. Knoke, Mr. Lochhead and Mr. Taylor.

The Secretary asked, "When is that note going to be ready?" Taylor answered, "It has been dictated. I can get Knoke in to tell you what he dictated."

Mr. Knoke came in with draft of the statement and the Secretary read it as follows:

"The Secretary of the Treasury is willing to enter into a day-to-day reciprocal agreement with the French Government whereby the Treasury will offer to buy from and sell gold to the French stabilization fund at \$35.00 per ounce (plus or minus 1/4%), provided the French fund will offer to buy and sell gold from and to the United States Government at prices to be determined from day to day on the basis of the prevailing franc-dollar rate in relation to the dollar price for gold in the United States, allowance being made for the cost of shipping gold between the two countries." (See Exhibit A).

The Secretary said, "The British are outside. Did you tell this to Cochran?" Knoke answered, "Cochran had in mind a repetition of the lengthy thing that was cabled to him the other day."

The Secretary said to the group: "We will have to educate these people because we are going to have to start from zero."

Mr. Mallet and Mr. Chalkley arrived at 4:40.

The Secretary said to them, "The French have approached us on the question of giving up reciprocal gold, giving up gold on a reciprocal basis. When I saw Mr. Bewley for the last time before he sailed -- I don't know whether he sent this back or not -- I told him -- I will just review it; I haven't looked up my notes -- that what I was hoping for was a tripartite agreement and on this question of giving up gold, I wanted to reserve that right pending an agreement between Great Britain, France and ourselves; however, in case of a disaster, I wasn't going to stand on the letter."

Mr. Chalkley said, "I have seen something like that in Bewley's notes."

Continuing, the Secretary said, "That's the gist of it. This has come about. Mr. Bewley talked to me several times concerning under what conditions we would give up gold. Now the French have been very anxious for this, even prior to our announcement, and I kept saying that until this was through I

The Secretary of the Treasury is willing to enter into a day to day reciprocal agreement with the French Government whereby the Treasury will offer to buy from and sell gold to the French stabilization fund at \$35.00 per ounce (plus or minus 1/4%), provided the French fund will offer to buy and sell gold from and to the United States Government at prices to be determined from day to day on the basis of the prevailing franc-dollar rate in relation to the dollar price for gold in the United States, allowance being made for the cost of shipping gold between the two countries.

didn't want to answer that question. Now the question is up -- we have called this a gentlemen's agreement. I think when gentlemen do business with each other, you don't make a side agreement with one partner and therefore we are about to offer this to the French and, in view of the conversations I have had with Mr. Bewley, I want to offer the same arrangement to the British. We feel here that if we do enter into such an arrangement, which will be between the central banks, that we would wish to make a public announcement that we have done so, because I have said there are no agreements other than those which have been announced -- no secret agreements.

"I just had a press conference and they keep pounding me, 'Isn't the thing that is holding it up is that the English want a \$4.50 pound and you want a \$4.98 pound?' And my answer is, 'I have no comment'. I keep saying there is no trouble between us." Mr. Mallet remarked, "I saw something in the New York Herald-Tribune."

Resuming his remarks, the Secretary said, "They asked me again. I could not say it had not been discussed. I simply said I had no comment. But they keep pecking away there. I simply feel that if, for instance, we do this with the French and if we do come to an understanding with the French, I will want to say so."

Mr. Mallet inquired, "You want a public announcement?" And Mr. Morgenthau answered, "Yes, I want to announce it publicly, because if we don't announce it publicly it will get out anyway. Just the way the French supplied francs in the New York market -- it was out in a couple of hours. You can't do those things without them getting known. And I think it is much better as public policy when you are doing it to announce it. If your Government wishes to enter into such an arrangement, they may want with the French to announce the arrangement simultaneously, but I don't feel at all strongly about that." Mr. Mallet said, "Yes."

The Secretary then said, "But if we did do it, and we did enter into it, it would be just another step. The way I see this thing, we are learning to walk. We have made one step and I can see that in the mechanics of working this out, there is an advantage to the countries involved to be able to convert their paper currencies, which they buy, into gold. What I would like to do is this. We have all been going to school here, and it's a terribly complicated thing. And I would like Mr. Knoke and Mr. Lochhead to explain. You ask them any questions and let them explain just how this thing would work if we did it with the French."

Mr. Mallet said to the Secretary, "May I just say that

Bewley is due back here in New York tomorrow morning on the Isle de France and I can send him a message to get here at the earliest possible time." Mr. Morgenthau replied, "I am delighted that Bewley is coming back. But I think that we could explain so that you can get off a dispatch tonight." And Mr. Mallet said, "Oh, certainly, yes."

Mr. Morgenthau then said, "All I can say is, everybody in this room has gone to school with these foreign exchange experts. I started early in the morning, so I was two hours ahead of them. It's a very complicated thing so I just thought we would explain what we propose to do. I'm not an expert and don't pretend to be and I think if Bewley is coming, on this particular technical thing, he would be very useful. Let's have Mr. Knoke explain it."

Dr. Feis suggested letting them read a draft of the statement first.

Chalkley asked, "That is the proposal which you are about to offer the French and it is proposed to offer a similar arrangement to the British?" The Secretary answered, "We are now offering."

Mr. Chalkley then asked, "And may we have a technical explanation?"

Mr. Knoke explained: "Under this arrangement, this Treasury is ready to trade in gold with the French although, according to the Secretary's statement of January, 1934, gold would be made available only to countries on the gold standard, and France is not and would not qualify under that original statement. The purpose now is to make gold available to the French at our price of \$35.00 plus charges, provided the French are willing to quote us from day to day, in francs, for an ounce of kilo gold at which they will buy or sell to us gold. This price, of course, must be in some relationship to our fixed price of \$35.00 and should be figured at the prevailing exchange rate between Paris and New York at the time the price is established in New York and it should make allowance for cost of shipping charges. If this arrangement goes through, it will mean that it is not necessary either for us to accumulate large franc balances or for the French to accumulate large dollar balances, such balances being convertible into gold, provided operations have been based on the current rate. Take for instance, the exchange rate today is \$4.67 and on the basis of \$4.37 the price would be fixed at which the Bank of France would sell us gold. Which means that....."

Mr. Chalkley interrupted and said, "Might I interrupt there? Does that mean that you previously acquired francs and with those francs you wish to buy gold?"

Mr. Knoke explained, "No, we are starting without anything. Today the French quote a figure of about \$4.67. If the franc dips below that, we step into the market and support the franc at the lower rate, turn the francs which we purchased into gold and have held to support the franc rate, without taking the exchange risk. On the other hand, if the franc goes up from \$4.67 to \$4.68, with the result that the French feel it necessary to accumulate dollar balances in order to hold the franc rate down, they can convert these dollar balances into gold. In other words, they don't have to carry dollar balances which they might be afraid they would have to convert. We don't have to carry franc balances which we might be afraid we could not convert."

Mr. Chalkley inquired, "Are those rates hypothetical or are there limits?" Mr. Knoke answered, "There can be no limits because the price which the Bank of France will quote every day will depend upon the prevailing dollar-franc rate."

Mr. Chalkley then inquired, "But if it goes too high, you purchase dollars?" And Knoke explained, "You hold the franc rate down by means of dollar purchases."

H.M.Jr. explained, "It is a day-to-day arrangement. What we have been doing here is -- your people carry the ball up to 12:00 o'clock and then we carry it. You started out today with a pound of \$4.92 7/8 and you turned it over to us at about 4.91 5/8. Since then we have been carrying it. Your fund operated this morning and we operated this afternoon."

Chalkley asked, "Both of us supporting the pound?" And Mr. Morgenthau answered, "Yes. Both of supporting the pound and this is the first time we have had an operation since our Russian friends got in."

Chalkley asked, "Is that because of the rumors that you were aiming at a \$4.86 pound?" The Secretary answered, "No -- two things. Complete misunderstanding of what the Italians did. People thought the Italians had devalued and based it on \$4.86. We got a direct cable from the Bank of Italy. What they did, they devalued 90 lira to the pound sterling and 19 to the dollar." Mr. Lochhead added, "They put a fixed gold weight to the lira."

Continuing, Mr. Morgenthau said, "It was 1/10th of the gold content of the dollar. They got people very much confused. I imagine by tomorrow we will understand it. That drove the pound down, plus the fact -- we are talking in strict confidence -- that Great Britain was quite a large buyer of our stocks, and when they buy our stocks, they buy dollars and sell sterling and push sterling down."

"This memo I give you informally and unofficially and what I suggest is that you get off a dispatch tonight telling them just what we have said. I just feel we are in this agreement and if this were a private partnership and we three were in business, I would not be making a side agreement with one partner that I would not with the other." Mr. Mallet said, "I appreciate that."

And Mr. Morgenthau added, "Plus the fact that I very definitely told Mr. Bewley in July that we would be willing to do this. The best way I can describe it is that we have taken one step; the curtains have parted and we can see enough through the fog to take another step. In the mechanics, as Mr. Knoke explained this thing, of each country stabilizing, we would find ourselves with paper currency without being able to convert into gold unless we go into such an agreement. But this is publicly a day-to-day agreement. We don't want to make it more than 24 hours and I am quite sure you don't want to make it more than 24 hours." Chalkley remarked, "Necessarily."

Mr. Morgenthau said, "The French, for example, have 20 to 25 millions of dollars which they have bought here in the last ten days supplying francs. They want to convert that into gold."

Fels remarked, "We say we would always have \$35.00. We have set that point. With you, you have not set any set price. Therefore, you would have to set a price each day reciprocally in order to acquire gold from us. Each day you would set a price at which, if we had acquired any sterling, we could turn to you and get gold."

Mr. Morgenthau said, "For instance, we bought sterling today quite freely. If this arrangement were in effect, we would immediately -- tonight -- turn it into gold. Tonight I feel a little tired, so I would want to convert it into gold. Tomorrow, maybe I would not. But tonight I am a little bit weary. But tomorrow I might want to keep it. It gives you another means of perfecting this machine which we have set up. It's another mechanical means for perfecting this machine which we have just started. This seems to me as though it should be the next step."

Chalkley asked, "When you have those pounds and you are a little tired, you would want to convert into gold. You would buy in the open market?"

The Secretary said, "The point I made clear to Mr. Bewley is this -- that I want the guarantee of the British Government that I can get gold. Mr. Bewley said, 'You can get it in the open market'. That's true today but maybe not tomorrow. I want the word of the British Government that we can get gold just as you have our word that you can get it. Mr. Knoke can call up

the Bank of England and tell them, 'I have so many pounds sterling. I would like to convert'. Whether they buy that in the open market or whether they take it out of their vaults, or their stabilization fund, is none of our business and we don't care. All we want to know is the British Government says to us that until further notice, we, the British Government, say that today we will give you as much gold as you want at the price which was fixed. And we say to you that your Bank of England can call up our agent, the Federal Reserve Bank of New York, and for that day you can have as much gold. The Bank of France says the same to us."

Mallet inquired, "The mechanism would be between the Bank of England and the Federal Reserve Bank of New York?" Mr. Morgenthau said, "Right. But the thing I want to make clear is that I, on behalf of the President of the United States, give my word and I want the Chancellor of the Exchequer to give his word in behalf of his Government."

Mr. Chalkley asked, "Would it be feasible for him to give that guarantee when the United States might want to take huge amounts of gold in supporting pressure on the franc?" H.M.Jr. explained, "They could place a limit." Feis added, "It would be a day-to-day arrangement." And Knoke stated, "They could change the price continuously during the day, as long as it is understood, and it is clearly understood, that all business done up to the moment comes through at the old rate. The Bank of England is thoroughly familiar with the details."

Mr. Morgenthau then said, "They can put a limit. Whatever they do, we do. It's an hourly arrangement. And if we find it isn't what we want, that it doesn't work, we can always change it. It seems to all of us that it is a wise step, as the next step. To show you how fast these things work, a bank called up the Federal Reserve today -- a commercial concern needed 3 to 5 million francs and there were no francs in the market. I happened to be talking to Paris and I said, 'Do you mind telling the Bank of France we need 3 to 5 million francs?' In 35 minutes they supplied the francs. That's just to show you how quickly the banks can work. Mr. Taylor pointed out to me that another reason we have to make this thing public is that this is a decree which the President signs, and as such, we have to make it public."

Mr. Chalkley asked, "It has been signed already?" Mr. Morgenthau said, "No." Taylor said, "In order to change those regulations."

Chalkley inquired, "Under those regulations you could not supply gold, so it is a question of changing those regulations?" Mr. Morgenthau answered, "That's done by regulations. The Secretary of the Treasury recommends to the President, and he

signs. It's purely between the President and myself."

Mr. Mallet asked the Secretary, "If I am not asking an improper or impertinent question, when are you going to give assurance to the French government?" Mr. Morgenthau replied, "At 4:00 o'clock, at a quarter to 4:00, between 3:30 and 4:00, I called up our Mr. Cochran of the American Embassy in Paris and gave him this message and told him to give it to the Minister of Finance tomorrow. I also told him that you gentlemen were calling on me at 4:30 and that I was acquainting you with the facts and that I hoped you would get this message off tonight, and I would like to have an answer tomorrow if possible."

Mr. Mallet asked, "The French Minister of Finance will get this tomorrow morning and you will be publishing it as soon as you hear from him?" Mr. Morgenthau answered, "No, no. I am not going to enter into this agreement with the French until you have had a chance to agree. You may say that you don't feel that this is necessary or you may say that you would like very much to do it and if you are going to do it, let's do it together. But I could not go ahead and do this with the French without first offering it to you."

Mr. Knoke explained, "This is not the form of any statement. It was prepared entirely for an informal description of the arrangement for Cochran."

The Secretary then said, "And if we had somebody in London who was as good as you people are, we would rather do it there. I can't help it, Herbert (Feis). Why do we do it here? That was very informal and indiscreet." And Mr. Chalkley added, "And completely off the record." Mr. Morgenthau added, "But we like to do business with you here."

Mr. Mallet inquired, "The other thing is, how soon would you be likely to be making the declaration?" Mr. Morgenthau replied, "I would say it would be a matter of a day or two. We make it when it becomes effective. The French are very keen for this and I think it is something that should be done within the next two days."

Chalkley asked, "Suppose the French accept this tomorrow. Is there any particular reason why this should not be announced, pending the further announcement of the British?" Mr. Morgenthau replied, "I think it would be a very nice follow-up to the original thing. Personally, I think it would be an awfully nice thing. I don't have to point out to you people that if this was done jointly, that when these other countries who are devaluing and going off gold -- it puts them in the position that they will have to come to the three of us before

we would give up gold. France doesn't make so much difference to us because we don't have European complications. But if any of these other countries want to come, they would have to come to one of the three of us."

Chalkley remarked, "I am rather thinking we would like a little more time than the French." Mr. Morgenthau's response to this was, "From our standpoint, your people know all about this. Because, after all, I went through this with Bewley." Chalkley added, "And he put it down." Mr. Morgenthau said, "This isn't something new. I don't feel that there is any pressure on you." Chalkley said, "On the contrary, it is opportunity, rather than pressure." Mr. Morgenthau's reaction to this was, "That's the way I feel. You cable it over and see what sort of an answer you get. And you can phone me back if they are interested or not interested."

Mr. Mallet asked, "If Bewley gets in, would it be advantageous for him to come right here? Or are there some Federal Reserve men here?" Mr. Morgenthau answered, "I think he had better come straight here."

Mr. Lochhead said, "If there are any details they want to thrash out, the Bank of England can take it up with the Federal Reserve Bank." Feis added, "The Bank of England probably originated this plan so they will be familiar with it." Mr. Morgenthau said, "They thoroughly understand what we are driving at. If they wanted to ask any questions, they should feel free to call up the Federal Reserve in New York on the details and discuss it perfectly freely, because Mr. Knoke has been working all day with us and he will be going back." Mr. Knoke said, "I talk with them every day."

Mr. Mallet asked, "So it is not necessary to suggest that?" Mr. Morgenthau answered, "Except on the other arrangement they did not talk until the last moment, so I think you might say that they should feel perfectly free to discuss this. We kept the other thing so secret that all the discussions were between your Embassy and ourselves, but on this the two banks should feel perfectly free to discuss it." Mr. Mallet inquired, "You say the Bank of England will feel free to discuss the details direct with the Federal Reserve Bank?" Mr. Morgenthau answered, "If you please."

Mr. Chalkley said, "I think the sooner we get this off to London, the better," and Dr. Feis' comment was, "I may be missing my guess but I think you will get a 'Yes' answer. You are on a day-to-day basis."

After the British left, the Secretary called in the rest of the group.

He said to them, "What else is there that we have to do tonight besides go home? We had this talk with the British and Chalkley said he thought it was a privilege and they are going to wire. I asked them to let us know in a day or two. I don't see what else we can do." Feis said, "The only point of substance they raised was possible limits of amounts." Knoke said, "I am quite sure it is not the desire of the Bank of France nor the Bank of England to put a limit on that. They would not regulate it that way. If the demand is too heavy, they might raise the gold price but the arrangement calls for no limit as to amount. It would be a very serious handicap if you had a limit." Williams added, "You don't need a limitation on the amount if you have a fluctuating price of gold."

The Secretary said to the group, "I think we are all right for today. We have told Cochran and he sees Auriol tomorrow. We have told these people and sometime tomorrow we will begin to hear from them. In the meantime, let's sit tight." Mr. Lochhead's comment was, "I don't doubt the French will be in touch with you tomorrow but you can tell them the thing is all set up except we are waiting to hear from the British."

Mr. White said to the Secretary, "We were discussing the point that you suggested as to the possibility of a tri-partite agreement. We had such different views on that but that is not pertinent unless you contemplate it." The Secretary's answer was, "Well, let's let it go."

He asked Professor Williams, "Professor Williams, can you think of anything?" Professor Williams answered by asking, "You don't want to discuss this particular point?" And the Secretary replied, "No." Mr. Williams then said, "I think the thing has gone perfectly."

The Secretary said to the group, "Sometime tomorrow afternoon or Wednesday morning we will hear from these fellows." Professor Williams inquired, "You are going to hold up on the French until you hear from the British?" Mr. Morgenthau replied, "I didn't say we wouldn't do it with the French. But I said we would wait. And I told them they could discuss this thing freely with the Bank in New York. They liked it very much." Knoke commented, "That was my feeling." And Feis agreed with him, saying, "Yes."

REPORT ON SECRETARY MORGENTHAU'S
PRESS CONFERENCE, OCTOBER 5, 1956.

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H. M. Jr: At your service.

Q. Mr. Secretary, have you any comment to make on the devaluation of the lira?

A. No.

Q. They also slashed import duties, Mr. Secretary.

A. Well, all I can say is that on this question of stabilization everything seems to be going along exceedingly well; I guess that's about all I can say.

Q. Was the percentage of devaluation acceptable to you?

A. I'd rather not say.

Q. Would you or the Administration recommend a slash in the American tariff duties?

A. Well, that's not in this office here.

Q. In the statement you gave out the other day you said you hoped other quotas would be reduced.

A. I don't remember the word 'tariff'.

Q. You said 'quotas'. We have some quotas, too.

A. Well, that question of quotas--all that's over in the State Department; that's up to them. We simply handle the monetary end here.

Q. Would you care to comment on the action of the French Government in cutting the quotas?

A. That first statement I made still holds--everything is going along exceedingly well.

Q. Mr. Secretary, there's a story around that you've written a letter to the Red Cross recommending the purchase of Government bonds rather than any other types of securities; could you clear up the story about that?

A. That's very easy. Shall I give them the letter?

Mr. Gaston: Yes, I think so, or just tell them what your position is.

H. M. Jr: My position is simply this: As Secretary of the Treasury, I oughtn't to be connected with any organization; that's been my position--in the first place, that I oughtn't to be on any boards, but I do find myself connected with the Red Cross and with the RFC. But when, as a member of their investment committee, the Red Cross asks my advice on how to invest their money, as Secretary of the Treasury, there's only one answer, and that's Government bonds. I can't be put in the position--here's a list of securities that the Red Cross owns (exhibits huge list); I can't be put in the position, as Secretary of the Treasury, of passing on any commercial securities. And if I was Henry Morgenthau, Jr., I would adopt the same policy that Mr. Henry P. Davison adopted when he was head of the Red Cross and that is that the principal thing for the Red Cross is to make sure that their principal is intact. And that is the policy, as I understand it, that he pursued when he was head of the Red Cross and he certainly had a magnificent record, during the War as head of the Red Cross, and he was one of the outstanding financiers in this country. But certainly, as Secretary of the Treasury, I can't pass on commercial investments. That's the whole story. They are free to invest their money any way they want to, but I am not free to run an investment advisory council bureau here. Does that about clear that up?

Q. How much is involved?

A. Oh, I think that--I don't know exactly. Dan, do you know how much money they've got altogether?

Mr. Bell: They've got an investment portfolio of somewhere in the neighborhood of twelve million dollars--in this particular fund--the endowment; but I don't know that we should give that out.

Q. About fourteen million in the reserve fund?

Mr. Gaston: About twenty-six altogether.

Q. Could you paraphrase the letter or give us the sentence in the letter which is your recommendation?

H. M. Jr.: This is what I say: "I feel I can not indicate my approval for the purchase of any securities other than the direct obligation of the U. S. Government or obligations of governmental organizations guaranteed by the U. S. Government as to both principal and interest."

Q. What's the date of that letter, Mr. Secretary?

A. It's dated here May 29th.

Q. Would you say to whom it is addressed, Mr. Secretary?

A. Mr. Howard J. Simons, secretary of the board of trustees, endowment fund.

Q. Has that been the attitude of other Secretaries of the Treasury who have been on the board? Do you know?

A. Do you know, Dan?

Mr. Bell: I don't know.

H. M. Jr.: All I know is that when I came in here first as under secretary—the under secretary has always been on this thing—and I was presented with a list of securities and I told them, "Gentlemen, I can't pass on these commercial securities as under secretary, and the only thing I can tell you is to buy one kind of security, and that's either securities of the Government or securities guaranteed by the Government." If I started to go through that list and tried to analyze each security, in the first place, I haven't got the time to do it, and, in the second place, that's not my job. They can buy anything they want. But I may say this, that every dollar they have put into Governments shows them a profit, and so do the other trust funds for which I am responsible here, which exceed two billion dollars. Isn't that about right, without Postal Savings?

Mr. Bell: Yes.

H. M. Jr.: I run trust funds with the help of Mr. Bell and the staff of the Treasury in the neighborhood of two billion dollars, and every single trust fund we manage here shows an increase over the purchase price, and somebody has taken the trouble to look up this thing. As a matter of fact, I am rather proud of the position that I've taken.

Q. It's correct then that the reason you wouldn't recommend others is not so much you believe Government bonds are a better investment but you don't have the time to analyze private securities?

A. No, I would consider it improper for me, as Secretary of the Treasury, to recommend.

Q. What I'm trying to get at, the implication shouldn't be drawn you believe Government securities are a better investment than private bonds?

A. There's no implication at all; I'll try to answer it the best I know how. I'll repeat. I simply say that, as Secretary of the Treasury, I can't recommend to any Governmental trust fund or quasi Governmental trust fund that they invest in anything but Government securities or Government-guaranteed securities. Now that doesn't say that I'm drawing any comparison between the securities of the United States Government and any private company. That would be silly. Does that answer you?

Q. Yes.

A. Bob (Kintner)?

Mr. Kintner: Yes.

A. I'm not drawing any comparisons.

Q. Could you tell us, Mr. Secretary, whether they have increased the number of Government bonds in the past two years?

Mr. Bell: Materially.

A. From zero to thirty-four per cent; isn't that right, Dan?

Mr. Bell: About thirty-eight per cent.

H. M. Jr.: From nothing. When I came here they had no Government securities. They had no Government securities and it has gradually increased—as our securities matured or were called. The suggestion I made was that as the various bonds, or whatever they had, matured, they invest them so they started from zero and now they have thirty-eight per cent in Governments.

Q. Was that the endowment fund?

Mr. Bell: Just endowment.

H. M. Jr.: Just endowment.

Q. That would be thirty-eight per cent of the twelve million dollars as in Government bonds?

Mr. Bell: Yes.

Q. Is that since 1954?

H. M. Jr.: Since I came here, and then I dropped out and Mr. Coolidge took my place for the two years he was here and he followed exactly the same policy, and, I might say, that the regular staff of the Red Cross are in complete accord with the position I take. I have had a conference with them and they are in complete accord with the position I take.

Q. Is it true that they have had a decrease in income in this endowment as a result of lower interest rates upon their investments?

A. So does everybody else--if they put their money in Governments, and the average interest rate in Governments has gone from about three and one-half to about two and one-half, naturally their income would decrease, but that isn't any news. Anybody who has been running a trust fund and has his money in Governments, as they mature why, the rates go down, but also, anybody who owns any Governments since 1932 or 1933 have seen an appreciation.

Mr. Gaston: That decrease is also true of commercial securities.

H. M. Jr.: Also commercial securities--pick up any newspaper and see news about refunding; why did they refund? Because they can call their five, six and seven per cent issues and finance them at three and four per cent.

Q. Mr. Secretary, will you comment about the story citing the British want a four-forty pound and you want a four-eighty-six pound--that that was discussed during negotiations?

A. I'm going to say off the record, against the advice of Herbert Gaston, off the record--this whole thing has just been started up and I hate to see it because what I've done I think is highly honorable and highly creditable; this whole thing has been started up by a certain member who is a very partisan Republican banker in New York; he's just been itching to break this story and he has; it's all right, but I think it's most unfortunate that one of the finest organizations in this country, the American Red Cross--that a thing like this should be interjected into this thing because there isn't a finer organization and it's done a fine piece of work; but certainly the position I've taken has been very honorable and has been to the interest of the Red Cross and the Red Cross staff agrees that my position is right. That's what happened, and I know the gentleman and I know all about it. But that's in the family; that's the story. I'm terribly sorry to see this thing happen, but some people take their politics pretty seriously.

- Q. How about this matter of the four-forty pound? I was asking about a published report in the newspapers?
- A. I know, but I was trying to tell you people absolutely off the record all that's happened. Now I am at your service.
- Q. There have been reports that during the negotiations between yourself and the British Ministry the British indicated they wanted a pound at four-forty to four-fifty while the U. S. attitude was a pre-war exchange pound of around four-eight-six and that's supposed to be one of the reasons why no fixed ratio between the pound and the dollar was established.
- A. I have no comment. What else have we got today?
- Q. Mr. Secretary, what's your official capacity in the Red Cross Corporation?
- A. Dan, what's my official capacity; how did I sign this letter?
- Mr. Bell: I think, Chairman of Board of Trustees of the Endowment Fund.
- Q. Is there any explanation as to why they didn't have Government securities in their portfolio before, Mr. Secretary?
- A. I don't know.

Devaluation of the Lira

WAGNER

MR. MORGENHAU

... HAS DECLINED COMMENT ON DEVALUATION OF THE LIRA BUT ADDED:
"ON THE QUESTION OF STABILIZATION GENERALLY EVERYTHING SEEMS TO BE
GOING ALONG EXTREMELY WELL."

(DJ 10:26 A.M., 10/5/36)

TREAS. WITHHOLDS COMMENT ON LIRA DEVALUATION:

WASHN. - PENDING THE RETURN THIS AFTERNOON OF SECY. MORGENTHAU, TREAS. OFFICIALS WITHHELD COMMENT ON DEVALUATION OF THE LIRA ANNOUNCED IN ROME THIS MORNING.

INDICATIONS WERE, HOWEVER, THAT THE TREAS. WAS NOT DISTURBED BY THE ITALIAN MOVE, REGARDING IT AS THE RECOGNITION OF THE DEPRECIATION WHICH HAS ALREADY BEEN ALLOWED TO TAKE PLACE FROM THE OLD NOMINAL GOLD VALUE.

ONE UNUSUAL FACT WAS POINTED OUT: IF THE ITALIANS MAINTAIN THE LIRA AT 90 TO THE POUND AND 19 TO THE DOLLAR, SUCH A RELATIONSHIP WOULD INFER THAT THE POUND WAS WORTH ONLY \$4.75. ALTHOUGH THEY ANNOUNCED THESE RATIOS WOULD BE MAINTAINED THIS MORNING THE ITALIANS ALSO ANNOUNCED THAT ON THE NEW GOLD VALUE OF THE LIRA IT WOULD BE APPROX. 92.5 TO THE POUND INFERRING A POUND OF \$4.86.

Secy Hull on Lira

WCNS84

SECRETARY HULL TODAY HAILED DEVALUATION OF THE ITALIAN LIRA AS A FURTHER STEP TOWARD "REBUILDING OF INTERNATIONAL COMMERCE."

IN A 40-WORD STATEMENT ISSUED AS THE RESULT OF REQUESTS FOR COMMENT ON ACTION OF FRANCE, SWITZERLAND AND ITALY IN DEVALUING THEIR CURRENCY AND REDUCING IMPORT DUTIES, HULL SAID:

"IT SHOWS THAT THE OTHER COUNTRIES RECOGNIZE THAT THE EXTREME RESTRICTIONS IMPOSED UPON TRADE THROUGHOUT THE WORLD HAS CREATED COMMON INJURY, AND THAT THEY ARE READY TO MOVE TOWARDS THE REBUILDING OF INTERNATIONAL COMMERCE."

10/5--R438P

WCNS69

Pittman

NEW YORK.--SEN. KEY PITTMAN OF NEVADA BELIEVES PRESIDENT ROOSEVELT IS CERTAIN OF CARRYING EVERY STATE WEST OF THE MISSISSIPPI EXCEPT FOUR IN WHICH THE ELECTION IS A TOSSUP.

"I SEE CONTESTS IN ONLY FOUR STATES IN THE WEST--WYOMING, NEBRASKA, KANSAS AND NORTH DAKOTA," HE SAID TODAY DURING A VISIT AT DEMOCRATIC NATIONAL HEADQUARTERS. "I WOULDN'T WANT TO VENTURE AN OPINION ON THESE FOUR STATES BECAUSE THE RACE SEEMS SO CLOSE."

HE PROFESSED TO SEE A DEMOCRATIC VICTORY IN NORTH DAKOTA "IF THE VOTE FOR CONGRESSMAN LEMKE IN THAT STATE PROVES BELOW THAT OF THE FIGURE EXPECTED."

SEN. JOSEPH O'MAHONEY OF WYOMING, CAMPAIGN ASSISTANT TO CHAIRMAN FARLEY, DISPUTED PITTMAN'S VIEWS ON WYOMING.

"WHY I CANT SEE A CONTEST THERE," HE SAID. "ROOSEVELT WILL WIN BY ABOUT 10,000."

PITTMAN TOOK ISSUE WITH REPUBLICANS WHO HAVE CHARGED THAT ADMINISTRATION WAS "MEDDLING" IN INTERNATIONAL AFFAIRS BY ENTERING INTO THE TRI-PARTITE MONETARY AGREEMENT WITH FRANCE AND GREAT BRITAIN.

"I THINK THE AGREEMENT IS ONE OF THE MAJOR ACCOMPLISHMENTS OF THE ROOSEVELT ADMINISTRATION," HE SAID. "IF YOU ASSUME THAT AN ATTEMPT TOWARD STABILIZING INTERNATIONAL CURRENCY IS MEDDLING IN INTERNATIONAL AFFAIRS, THEN THE ADMINISTRATION HAS BEEN MEDDLING SINCE 1933. WE TRIED INTERNATIONAL MONETARY STABILIZATION IN 1933 BUT COULDN'T EFFECT IT BECAUSE OF THE POLITICAL RELATIONSHIP AT THAT TIME BETWEEN FRANCE AND BRITAIN."

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DOW JONES MORNING GOSSIP

WITH ITALY DEVALUING ITS CURRENCY AND MAKING SOME SHARP REDUCTION IN IMPORT TARIFFS TOGETHER WITH OTHER COUNTRIES SEEKING IMMEDIATE MEANS TO PROTECT TRADE IN VIEW OF EFFECTS OF CURRENCY DEVALUATING WALL STREET IS INTERESTED IN WHAT RESULT THIS WILL HAVE ON TARIFFS AND TRADE THE WORLD OVER - LEAGUE OF NATIONS IS ALREADY ACTIVELY CONSIDERING THIS PHASE OF THE SITUATION AND SOME INTERNATIONAL BROKERS SAY THAT MANY FAVOR A TRADE CONFERENCE - STREET IS FAVORABLY IMPRESSED WITH MANNER IN WHICH FRENCH GOVERNMENT HAS THUS FAR HANDLED ATTEMPTED RIOTS RAPIDLY SETTLED SEVERAL STRIKES - LONDON MARKETS ARE FIRM BUT NATURALLY RESTRICTED - DUTCH GUILDERS CONTINUE WEAK - IN MEANWHILE WALL STREET REPORTED FAIRLY SUBSTANTIAL BUYING OF OUR SECURITIES FROM LONDON - 3RD LINE 4TH WORD SHOULD READ -COUNTRIES-

DOMESTIC BUSINESS NEWS CONTINUES SATISFACTORY WITH FURTHER ADVANCE IN STEEL INGOT PRODUCTION SEEN IN COMING WEEKS - SUSTAINED AUTOMOBILE PRODUCTION AND ORDERS FOR FINISHED MATERIAL ARE BEING BOOKED AT NEW STEEL PRICES -PITTSBURGH REPORTS 77 PC OF CAPACITY THIS WEEK HIGHEST SINCE RECOVERY BEGAN - STREET ALSO EXPECTS BETTER AUTOMOBILE PRODUCTION FIGURES FROM NOW ON AS COMPANIES SWING INTO MANUFACTURE OF 1937 MODELS - BULLISHNESS ON AUTOMOTIVE GROUP IS INCREASING WITH APPROACH OF AUTOMOBILE SHOW

THE ITALIAN ACTION HAS FAR-REACHING
POLITICAL IMPLICATIONS WHICH PROBABLY ARE AS
IMPORTANT AS THE COMMERCIAL AND FINANCIAL
RESULTS AS ITALY AND GERMANY WERE THE TWO
POWERFUL FASCIST STATES LEADING THE MOVEMENT
TOWARD EXTREME NATIONALISM- WITH ITALY
THROWING IN ITS COMMERCIAL AND ECONOMIC LOT
WITH THE MEMBERS OF THE TRI-PARTITE AGREEMENT
AND THEIR FOLLOWERS THE ECONOMIC ISOLATION OF
GERMANY IS MADE MORE COMPLETE THAN EVER
BEFORE WHICH SHOULD ULTIMATELY BRING GROWING
PRESSURE UPON GERMANY AND MAKE THE POSITION
OF THAT COUNTRY MORE UNTENABLE LEADING
EVENTUALLY TO SOME CHANGE IN GERMAN ECONOMIC POL-
-ICY DESPITE RECENT OFFICIAL UTTERANCES TO
THE CONTRARY
-0-

285

OCT 5 1936

LIRE IN NEW YORK

10:03
FOLLOWING THE DEVALUATION ANNOUNCEMENT
IN ROME THIS MORNING ITALIAN LIRE ARE QUOTED
IN THE LOCAL MARKETS 5 26 CENTS BID AND 5 26
1-2 CENTS OFFERED - THIS CORRESPONDS TO THE
FORMER PARITY BEFORE THE AMERICAN DOLLAR WAS DE-
-VALUED

UP TO THIS MORNING THE OFFICIAL PARITY OF
THE LIRE HAD BEEN 8 91 CENTS - IN TERMS OF DE-
VALUED DOLLARS - -THE RATE HAD BEEN ALLOWED
TO SLIP SLOWLY OVER THE PAST SEVERAL MONTHS
AND THE DECLINE WAS ACCENTUATED IN THE LATTER
PART OF LAST WEEK WITH THE MARKET CLOSING ON
SATURDAY AT 7 50 CENTS

OCT 5 1936

LIRA DEVALUATION

11:06

DEVALUATION OF THE ITALIAN LIRA AND DRASTIC REDUCTION IN MANY OF THE ITALIAN IMPORT DUTIES IS REGARDED LOCALLY AS A HIGHLY CONSTRUCTIVE STEP FOLLOWING THE TRI-PARTITE AGREEMENT AND FRANC DEVALUATION- ONE LOCAL BUSINESS MAN CHARACTERIZED IT AS PROOF THAT EUROPE IS DEFINITELY ENTERING -AN ERA OF COMMON SENSE WITH RESPECT TO BUSINESS-

REDUCTION IN THE ITALIAN IMPORT DUTIES LIKE SIMILAR ACTION ALREADY TAKEN IN FRANCE AND SWITZERLAND IS A PURELY DEFENSIVE MOVE TO PREVENT A SHARP RISE IN THE COST OF LIVING RESULTING FROM DEVALUATION OF THE CURRENCY- FROM A LONGER RANGE VIEWPOINT HOWEVER IT ADDS FORCE TO THE MOVEMENT TOWARD REMOVING THE ARTIFICIAL TRADE BARRIERS ERECTED IN THE RACE TOWARD ECONOMIC NATIONALISM WHICH NOW IS RAPIDLY GAINING MOMENTUM- THE STEP SHOULD DO MUCH TO STRENGTHEN DISCUSSIONS LOOKING TOWARD RESTORATION OF FREEDOM OF TRADE WHICH BEGAN THIS MORNING IN GENEVA

WCNS11

French Situation

PARIS.--FRENCH FASCISTS, PURSUING A NEW LINE OF ATTACK AGAINST THE LEFT FRONT GOVERNMENT, ARE TRYING TO UNDERMINE THE LOYALTY OF THE NATIONAL POLICE FORCE, THE UNITED PRESS SAYS IN A COPYRIGHTED STORY.

AS PART OF THE CAMPAIGN, THEY HAVE BEGUN A FIERCE ATTACK ON THE REGULAR POLICE FORCES AND AT THE SAME TIME APPEAR TO BE TRYING TO WIN TO THEIR CAUSE THE CRACK MOBILE GUARDS, CORPS D'ELITE OF THE NATIONAL POLICE WHO CONSTITUTE THE SHOCK TROOPS AGAINST DISORDERLY ELEMENTS.

TO MEET THE THREAT, THE GOVERNMENT, IT IS LEARNED, HAS BEGUN QUIETLY SHIFTING KEY MEN IN THE ARMED FORCES.

THE NEW TURN TO THE FASCIST ATTACKS IS ACCOMPANIED BY REPORTS THAT THE SMUGGLING OF ARMS INTO FRANCE FROM SWITZERLAND IS DIRECTLY DUE TO FASCISTS.

RUMORS THAT HAVE DEVELOPED FROM THIS PHASE OF FASCIST ACTIVITY CAUSED BISHOP MAURICE DU BOURG, OF MARSEILLES, TO SEND A CIRCULAR LETTER TO NEWSPAPER EDITORS DENYING THAT CHURCHES AND CONVENTS IN HIS DIOCESE ARE BEING USED AS FASCIST ARMS DEPOTS IN PREPARATION FOR THE OUTBREAK OF CIVIL WAR. BISHOP BOURG OFFERED TO OPEN ANY CHURCH OR CONVENT FOR INSPECTION.

10/5--R859A

OCT 5 1936

9.25

CREATE NATIONAL BANK FOR MONACO

PARIS- THE AGENCE ECONOMIQUE ET FINANCIERE STATES THAT THE PRINCE OF MONACO HAS ANNOUNCED THE CREATION OF A NATIONAL BANK WHICH WILL ISSUE NEW NATIONAL MONEY- HITHERTO MONACO EMPLOYED FRENCH CURRENCY

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XX

O.J. 227

OCT 5 1936

FRENCH REVENUES

PARIS- AUGUST REVENUE OF FRENCH TREASURY AMOUNTED TO 2 610 000 000 FRANCS WHICH WAS 71 000 000 FRANCS BELOW AUGUST 1935- INDIRECT TAXES AMOUNTED TO 1 931 000 000 FRANCS WHICH WAS 15 000 000 ABOVE LAST YEAR BUT 73 000 000 BELOW ESTIMATES- DIRECT TAXES YIELDED 678 000 000 WHICH WERE 86 000 000 FRANCS BELOW AUGUST LAST YEAR

FOR FIRST 8 MONTHS TOTAL TAX RECEIPTS WERE 20 427 000 000 FRANCS VS 20 691 000 000 IN SAME PERIOD 1935- INDIRECT TAXES YIELDED 17 924 000 000 FRANCS WHICH WAS 491 000 000 BELOW THE ESTIMATES BUT 151 000 000 ABOVE LAST YEAR- DIRECT TAXES YIELDED 2 503 000 000 FRANCS WHICH WAS 415 000 000 FRANCS BELOW FIRST 8 MONTHS OF 1935

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OCT 5 1936

9.47

LONDON EXCHANGE MARKET ACTIVE

LONDON - FOREIGN EXCHANGE MARKET WAS ACTIVE THIS MORNING WITH A STRONG DEMAND FOR DOLLARS - FRENCH FRANCS ALSO WERE IN DEMAND ON SHORT COVERING WHICH NECESSITATED INTERVENTION BY THE BRITISH CONTROL WHICH WAS SELLING FRANCS AT 105 15-32 - SWISS FRANCS WERE UNCHANGED AT 21 44 1-2 FRANCS TO THE POUND AND GULDERS RALLIED TO 9 31 TO THE POUND

THREE MONTHS FORWARD DOLLARS WERE AT A PREMIUM OF 1 3-16 TO 15-16 CENTS FRENCH FRANC FUTURES AT A DISCOUNT OF 7-16 TO 11-16 AND GULDERS 11 TO 14 DUTCH CENTS DISCOUNT

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MK
OCT 5

1936

LONDON EXCHANGE MARKET

11.27

LONDON- ITALY'S DECISION TO DEVALUE CAUSED NO SURPRISE IN LONDON FOREIGN EXCHANGE MARKET WHERE IT HAD BEEN ANTICIPATED ALTHO PERCENTAGE OF DEVALUATION WAS RATHER MORE THAN HAD BEEN EXPECTED- FROM TECHNICAL POINT OF VIEW HOWEVER THE LIRA MARKET WILL NOT BE MUCH AFFECTED AS THE CURRENCY IS EXPECTED TO CONTINUE TO BE CONTROLLED RIGIDLY

REDUCTION IN ITALIAN IMPORT DUTY ON COAL WHILE WELCOMED WILL NOT CAUSE IMMEDIATE BENEFIT TO THE ENGLISH COAL INDUSTRY AS BRITISH FIRMS ARE UNWILLING TO EXTEND FURTHER CREDIT TO ITALY UNTIL THE OUTSTANDING DEBTS TO BRITISH EXPORTERS HAVE BEEN SETTLED

ADD L.W. ROME

CONSEQUENTLY UPON ANNOUNCEMENT OF THE PLAN WAS MADE THERE WAS ALSO
A SERIES OF PROTECTIVE MEASURES--BANS AGAINST RENT INCREASES AND
CUTS IN THE RENT DUE--IN ORDER TO PREVENT ECONOMIC DISORDER.

IMPORT DUTIES ON LIVE CATTLE REDUCED 65 PER CENT.

IMPORT DUTIES ON COAL REDUCED FROM 10 LIRE TO 3 LIRE (52.83 CENTS
TO 22.5 CENTS PER TON).

IMPORT DUTIES ON COKE REDUCED FROM 42.5 LIRE TO 10 LIRE (22.50 CENTS
TO 22.5 CENTS PER TON).

IMPORT DUTIES ON WHEAT REDUCED FROM 75 LIRE TO 35 LIRE (QUINTAL
FROM 168.75 CENTS TO 78.75 CENTS PER 220 POUNDS.)

IMPORT DUTY ON FRESH AND FROZEN WOLFS REDUCED 60 PER CENT.

THE NEW PREVIOUS DECREE WHICH LIMITED DIVIDENDS ON STOCK

COMPANIES TO 6 PER CENT--A DECREE NECESSITATED BY RAISING FUNDS DURING

THE ITALIAN CONQUEST--AND ANNOUNCED ALL FUTURE PROFITS ABOVE 6 PER

CENT WILL BE TAXED EXCEPT THOSE COMPANIES OPERATING IN THE COLONIES.

ISSUED A DECREE PROHIBITING THE SALE OF GOODS AT PRICES ABOVE

THOSE LISTED IN SEPTEMBER. ITEMS NOT YET SETTLED WILL BE FIXED TODAY.

FOR TWO CONSECUTIVE YEARS THAT RENTS MUST NOT BE INCREASED.

THIS INCLUDES HOMES, OFFICE SPACE AND THE LEASE OF CULTIVABLE LAND.

INCREASES ON GAS AND ELECTRICITY BOTH FOR PRIVATE AND PUBLIC, MAY NOT

EXCEED 10 PER CENT FOR TWO YEARS. THE SAME APPLIES TO PUBLIC SERVICES SUCH

AS STREET CARS AND BUSES.

TO BE FIXED

IT WAS DECIDED TO AUTHORIZE THE GOVERNMENT TO MODIFY THE NUMBER OF QUOTA RESTRICTIONS TO IMPORTATION OF COMMODITIES OF WHICH LARGE QUANTITIES ARE CONSUMED IN ITALY.

IT WAS ANNOUNCED THAT AT THIS MORNING'S CABINET MEETING, AT WHICH THE PLAN WAS APPROVED, PREMIER MUSOLINI REAFFIRMED THE RECENT STANCE OF HIS AMERICAN AGREEMENT. HE SAID HE ACCEPTED IN PRINCIPLE THE IDEA THAT ECONOMIC RESTORATION OF THE WORLD IS ONE OF THE NECESSARY CONDITIONS FOR COLLABORATION AMONGST PEOPLES FOR ECONOMIC AND SOCIAL PROGRESS.

IF NECESSARY, HOWEVER, HE ADDED, TO ABANDON TEMPORARY STIFFNESS FROM THE FIELD OF PERMANENT ADJUSTMENT.

THE CABINET HAS TAKEN THE PLAN TO DEVALUATE THE LIRA BY APPROXIMATELY 20 PER CENT, IT WAS ANNOUNCED OFFICIALLY TODAY. UNDER THE PLAN, IT WAS ANNOUNCED, THE RATE OF THE LIRA WILL BE FIXED IN THE FUTURE STERLING AND TO THE AMERICAN DOLLAR.

ADD. LINE ROME

AS PART OF THE DEVALUATION PLAN, IT WAS ANNOUNCED, THE CABINET APPROVED REDUCTIONS IN IMPORT DUTIES, IN ORDER TO PREVENT INCREASE IN THE COST OF LIVING.

THE GENERAL DUTY ON WHEAT WAS REDUCED FROM 75 LIRA TO 40 LIRA A QUINTEAL FROM 23.947 TO 22.368 PER 220 POUNDS AT THE NEW LIRA RATE. THE DUTY ON FRESH AND FROZEN MEATS WAS REDUCED 50 PER CENT. THE DUTY ON LIVE CATTLE WAS REDUCED 50 PER CENT. THE DUTY ON COAL WAS REDUCED FROM 10 LIRA TO 5 LIRA 45.5 CENTS TO 40.5 CENTS A TON. THE DUTY ON COKE WAS REDUCED FROM 22 LIRA TO 11 LIRA 23.5 CENTS A TON.

BEYOND THE APPROVED REDUCING IMPORT DUTIES ON FOODSTUFFS AND ABOLISHING THE AD VALOREM TAXES ON THEM.

IT WAS ANNOUNCED THAT THE GOLD WEIGHT OF THE NEW LIRA WOULD BE 1/200TH OF FINE GOLD PER 100 LIRA, INSTEAD OF 1/100TH.

IN THE DECREES ISSUED, SOME QUANTITIES DEDUCED THAT THE LIRA IS ATTACHED TO THE GOLD. THE CABINET APPROVED THE FLOTATION OF AN "INTERNATIONAL VICTORY" LOAN, TO EXPLOIT THE "EMPIRE" AND TO "ENSURE THE NECESSARY NATIONAL DEFENSE."

ADD. LINA, ROME

A DECREE WAS APPROVED FORBIDDING THE SALE OF GOODS AT PRICES ABOVE THOSE LISTED FOR SEPTEMBER. IN INSTANCES WHERE PRICES HAD NOT BEEN DETERMINED IT WAS DECIDED THAT PRICES SHOULD BE LISTED IMMEDIATELY. THE QUOTATION FOR THE NEW LIRA WAS FIXED ON THE PRESENT VALUE OF THE OLD LIRA. THE RIGHT WAS RESERVED TO VARY THE RATE WITHIN A LIMIT OF 10 PER CENT, AS PROVIDED IN AMERICAN DEVALUATION ACTS. THE AMOUNT AND INTEREST RATE WAS ANNOUNCED FOR THE ETHIOPIAN ADVANCEMENT LOAN.

RATES FOR GAS AND ELECTRICITY FOR BOTH PRIVATE AND PUBLIC PURPOSES WERE RESTRICTED LIKEWISE FOR TWO YEARS.

IDENTICAL MEASURES WERE ADOPTED FOR PUBLIC SERVICES SUCH AS STREET CAR AND TRAM LINES.

THE NEW LIRA RATE WILL BE 50.5 PER CENT BELOW THE OLD RATE BUT NOT LOWER UNDER THE 10 PER CENT AUTHORIZATION.

EXCESSIVE TARIFF DUTIES WHICH WERE WIPED OUT WERE ABOUT 10 PER CENT ON THE MAJORITY OF PRODUCTS AND 10 PER CENT ON COAL.

IT WAS ANNOUNCED THAT THE CABINET WOULD MEET AGAIN SATURDAY.

1725-1038

MONSIEUR FERRI, ROME

THE CABINET FIXED THE RATE FOR THE LIRA AT 19 FOR THE DOLLAR - 2.25 CENTS TO THE LIRA COMPARED WITH THE PREVIOUS RATE OF AROUND 7.65 CENTS AND THERE WERE VERY INDICATIONS THE LIRA MIGHT BE ATTACHED TO THE DOLLAR INSTEAD OF STERLING. THE PREVIOUS OFFICIAL RATE 18.90 LIRA TO THE DOLLAR INSTEAD OF 7.91 GRAMMES.

THE LIRA-DOLLAR RATE RESTORES THE LIRA TO THE LEVEL PREVAILING BEFORE THE U.S. DOLLAR WAS DEVALUED WHILE THE LIRA WAS

REDUCED TO THE PRESENT DOLLAR. THE CABINET MAINTAINED THE RIGHT TO DEVALUE BY ANOTHER 10 PER CENT IN KEEPING WITH THE U.S. POLICY.

THE MOVEMENT WAS ITALY'S ANSWER TO THE RUSH OF EUROPEAN NATIONS TO ADJUST THEIR MONIES IN ACCORDANCE WITH THE FRENCH DEVALUATION PROGRAM.

UNDER THE INTERNATIONAL MONEY ACCORDS THERE HAD BEEN MUCH CONCERN THAT FRANCE AND THE U.S. WOULD TAKE OVER ITALY'S POSITION. MANY FELT THE LIRA WOULD NOT BE DEVALUED. IT HAS BEEN MORE OR LESS QUIET

IN EXCHANGE TRADING SINCE THE START OF THE ETHIOPIAN WAR. STATEMENTS OF THE BANK OF ITALY WERE SUSPENDED DURING THE WAR.

IN DEVALUING, ITALY MOVED RAPIDLY. THE CABINET HAS HAD SEVERAL RECENT SESSIONS.

10/24-11-48

AND ILLUSTRATIONS

CONSEQUENTLY WHEN ANNOUNCEMENT OF THE PLAN WAS MADE THERE WAS ALSO A SCHEDULE OF PROTECTIVE MEASURES--AND A LIST OF INCREASES AND CUTS IN DUTY ON LIVES--IN ORDER TO PREVENT ECONOMIC DISORDER.

IMPORT DUTIES ON LIVE CATTLE REDUCED 65 PER CENT.

IMPORT DUTIES ON COAL REDUCED FROM 70 PER CENT TO 5 PER CENT (2.5 PER CENT TO 25 TONS A TON.

IMPORT DUTIES ON WHEAT REDUCED FROM 75 PER CENT TO 40 PER CENT (20 PER CENT TO 25 TONS A TON.

IMPORT DUTY ON WHEAT REDUCED FROM 75 PER CENT TO 40 PER CENT (20 PER CENT TO 25 TONS A TON.

IMPORT DUTY ON FRESH AND FROZEN MEAT REDUCED 60 PER CENT.

ANNULLED PREVIOUS DECREE WHICH LIMITED DIVIDENDS ON STOCK COMPANIES TO 5 PER CENT--A DECREE (NECESSITATED BY RAISING FUNDS DURING THE EARLY PLAN CONQUEST--AND ANNOUNCED ALL FUTURE PROFITS ABOVE 5 PER CENT TO BE TAXED EXCEPT THOSE COMPANIES OPERATING IN THE COUNTRIES.

ANNULLED A DECREE PROHIBITING THE SALE OF GOODS AT A LOSS--A DECREE WHICH WAS IN EFFECT IN SEPTEMBER. ITEMS NOT YET SETTLED WILL BE FIXED TODAY.

ANNULLED FOR TWO CONSECUTIVE YEARS THAT RENTS MUST NOT BE INCREASED. THIS INCLUDES HOMES, OFFICE SPACE AND THE LEASE OF CULTIVABLE LAND. RENTS ON GAS AND ELECTRICITY BOTH FOR PRIVATE AND PUBLIC, MAY NOT BE INCREASED FOR TWO YEARS. THE SAME APPLIES TO PUBLIC SERVICES SUCH AS STREET CARS AND BUSES.

1934-1935

ITALY DEVALUES LIRA
BY U P

8.35
OCT 5 1936

ROME - THE CABINET HAS APPROVED A PLAN TO DEVALUE THE LIRA BY APPROXIMATELY 40 PC IT WAS ANNOUNCED OFFICIALLY

UNDER THE PLAN IT WAS ANNOUNCED THE RATE FOR THE LIRA WILL BE 90 TO THE POUND STERLING AND 19 TO THE AMERICAN DOLLAR -5 263 CENTS A LIRA-

ON SATURDAY THE LIRA WAS 7 65 CENTS OR A LITTLE MORE THAN 13 TO THE DOLLAR

AS PART OF THE DEVALUATION PLAN IT WAS ANNOUNCED THE CABINET APPROVED DRASTIC REDUCTIONS IN IMPORT DUTIES TO PREVENT INCREASE IN THE COST OF LIVING

-0-

851 9861 9100
ADD ITALY DEVALUES LIRA

ROME -UP- THE IMPORT DUTY ON WHEAT WAS REDUCED FROM 75 LIRA TO 45 LIRA A QUINTAL -FROM 3 DLS 947C TO 2 DLS 368C PER 220 POUNDS AT THE NEW LIRA RATE-

THE IMPORT DUTY ON FRESH AND FROZEN MEATS WAS REDUCED 60 PC

THE IMPORT DUTY ON LIVE CATTLE WAS REDUCED 65 PC AND THE IMPORT DUTY ON COAL WAS REDUCED FROM 10 LIRA TO 5 LIRA -52 63 CENTS TO 26 3 CENTS- A TON - THE DUTY ON COKE WAS REDUCED FROM 42 5 LIRA TO 30 LIRA -2 DLS 236C TO 1 DLR 578C A TON

DECREES WERE APPROVED REDUCING IMPORT
0

DUTIES IN FOODS AND RAW MATERIALS AND ABOLISHING THE AD VALOREUM TAXES ON THEM

IT WAS ANNOUNCED THAT THE GOLD WEIGHT OF THE NEW LIRA WOULD BE 4 677 GRAMMES OF FINE GOLD PER 100 LIRA INSTEAD OF 7 919

AS PART OF ITS PLAN THE CABINET APPROVED THE FLOTATION OF AN -ETHIOPIAN VICTORY- LOAN TO EXPLOIT THE -EMPIRE- AND TO -ENSURE THE NECESSARY NATIONAL DEFENSE-

THE CABINET ABROGATED A PREVIOUS DECREE WHICH LIMITED DIVIDENDS OF STOCK COMPANIES TO 6 PC AND ANNOUNCED THAT IN FUTURE ALL DIVIDENDS ABOVE 6 PC WOULD BE PROGRESSIVELY TAXED EXCEPT AS REGARDS THOSE COMPANIES OPERATING IN THE COLONIES

OCT 5 1936

ITALIAN CABINET MEETS

9.00

ROME-U P- THE CABINET PRESIDED OVER BY PREMIER MUSSOLINI MET IN EXTRAORDINARY SESSION AT THE VIMINALE PALACE AT 10 AM TODAY -5 AM EST- TO DISCUSS MONETARY MEASURES TO BE APPLIED BEFORE THE BOURSE OPENS TOMORROW

OCT 5 1936

ADD ITALY DEVALUES LIRA

9.10

ROME-U P- IT WAS ANNOUNCED THAT AT THE CABINET MEETING THIS MORNING AT WHICH DEVALUATION WAS APPROVED PREMIER MUSSOLINI REFERRED TO THE FRENCH-BRITISH-AMERICAN AGREEMENT WHICH ACCOMPANIED FRANCE-S DEVALUATION- HE SAID HE ACCEPTED IN PRINCIPLE THE IDEA THAT ECONOMIC RESTORATION OF THE WORLD -IS ONE OF THE NECESSARY CONDITIONS FOR COLLABORATION AMONGST PEOPLES FOR MAINTENANCE OF PEACE- -

-IT IS NECESSARY HOWEVER- HE ADDED -TO ABANDON TEMPORARY SETTLEMENTS AND ENTER THE FIELD OF PERMANENT ADJUSTMENT-

IN DEVALUING THE LIRA THE CABINET APPROVED A PROPOSAL BY MUSSOLINI TO RESTORE THE RATE ESTABLISHED BY THE LAW OF DECEMBER 21 1927- THIS RATE WAS THROWN OUT OF ADJUSTMENT WHEN THE BRITISH POUND STERLING AND AMERICAN DOLLAR WERE DEVALUED

IT WAS DECIDED TO AUTHORIZE THE COMPETENT DEPARTMENTS TO MODIFY THE VOLUME OF QUOTA RESTRICTIONS FOR IMPORTATION OF COMMODITIES OF WHICH LARGE QUANTITIES ARE CONSUMED IN ITALY

OCT 5 1936

ITALIAN DEVALUATION

9.20

REOM- REUTERS- THE DEVALUATION COMMUNIQUE
STATED THAT SPECIAL POWERS HAVE BEEN CONFERRED
UPON PREMIER MUSSOLINI TO SUSPEND WHERE ADVIS-
ABLE THE PRESENT REGULATIONS RESPECTING THE
MOVEMENTS OF CAPITAL AND TRADE EXCHANGES WITH
FOREIGN COUNTRIES

-0-

9.45 300

OCT 5 1936 ADD ITALIAN DEVALUATION

ROME-UP- AD VALOREM TARIFF DUTIES WHICH WERE WIPED OUT WERE ABOUT 15 PC ON THE MAJORITY OF PRODUCTS AND 10 PC ON COAL

IT WAS ANNOUNCED THAT THE CABINET WOULD MEET AGAIN SATURDAY

AN ETHIOPIAN -VICTORY LOAN- TO WHICH ITALIAN ESTATES MUST SUBSCRIBE WAS APPROVED - THE LOAN IS TO BE USED TO EXPLOIT THE NEW EMPIRE OBTAINED BY CONQUEST - ESTATES MUST SUBSCRIBE 5 PC OF THEIR TOTAL VALUE TO IT

A DECREE WAS APPROVED FORBIDDING THE SALE OF GOODS AT PRICES ABOVE THOSE FIXED FOR SEPTEMBER - IN INSTANCES WHERE PRICES HAD NOT BEEN DETERMINED IT WAS DECIDED THAT PRICES SHOULD BE FIXED TODAY

IT WAS AGREED ALSO THAT FOR THE NEXT TWO YEARS RENTS MUST NOT BE INCREASED

THE QUOTATION FOR THE NEW LIRA WAS FIXED ON THE PRESENT VALUE OF THE DOLLAR - THE RIGHT WAS RESERVED TO VARY THE RATE WITHIN A LIMIT OF 10 PC AS PROVIDED IN AMERICAN DEVALUATION LEGISLATION

NEITHER AMOUNT NOR INTEREST RATE WAS ANNOUNCED FOR THE ETHIOPIAN -VICTORY- LOAN

THE RENT DECREE SPECIFIED THAT RENTS ON HOMES OFFICES AND CULTIVATED LANDS WERE INCLUDED

PRICES FOR GAS AND ELECTRICITY FOR BOTH PRIVATE AND PUBLIC PURPOSES WERE RESTRICTED LIKEWISE FOR TWO YEARS

IDENTICAL MEASURES WERE ADOPTED FOR PUBLIC SERVICES SUCH AS STREET CAR AND BUS LINES

OCT 5 1936

WCNS21

GENEVA.--ABOLITION OF IMPORT QUOTAS AND EXCHANGE CONTROLS WAS URGED UPON THE WORLD TODAY BY W. S. MORRISON, FINANCIAL SECRETARY OF THE BRITISH TREASURY, IN A SPEECH BEFORE THE LEAGUE OF NATIONS ASSEMBLY.

HE SAID THIS WAS A NECESSARY SUPPLEMENT OF DEVALUATION OF CURRENCIES TO BRING ABOUT WORLD ECONOMIC RECOVERY.

GREAT BRITAIN, HE EMPHASIZED, WHICH DOES NOT HAVE SUCH RESTRICTIONS, WILL CONTRIBUTE TO RECOVERY:

1. BY NOT RAISING ITS PRESENT TARIFFS AGAINST COUNTRIES WHOSE CURRENCIES ARE NOW BEING DEVALUATED.

2. BY NO FURTHER DEVALUATION OF STERLING.

"WE RECOGNIZE," MORRISON SAID, "THAT THE UNITED STATES IS PLAYING ITS PART IN DEVELOPING AN ECONOMIC POLICY WHICH SHOULD BE BENEFICIAL TO WORLD TRADE."

10/5--R920A

W
LEAGUE MEETING

11:12
GENEVA-U P- IN THE ECONOMIC COMMITTEE UNDER-
SECRETARY OF INDUSTRY AND COMMERCE ADAM ROSE
SAID POLAND SO FAR HAD LOST 60 000 000 ZLOTY
IN FOREIGN EXCHANGE THROUGH IMMIGRATION OF THE
JEWS TO PALESTINE BUT WAS READY TO COOPERATE
IN ABOLISHING EXCHANGE RESTRICTIONS IF ITS
OWN INTERESTS COULD BE PROTECTED

-0-

847
OCT 5 1933
LEAGUE MEETING

GENEVA -UP- ABOLITION OF IMPORT QUOTAS AND EXCHANGE CONTROLS WAS URGED UPON THE WORLD BY W S MORRISON FINANCIAL SECRETARY OF THE BRITISH TREASURY IN A SPEECH BEFORE THE LEAGUE OF NATIONS ASSEMBLY

HE SAID THIS WAS A NECESSARY SUPPLEMENT OF DEVALUATION OF CURRENCIES TO BRING ABOUT WORLD ECONOMIC RECOVERY

-0-

853

9861 9 100

ADD LEAGUE MEETING

GENEVA -UP- GREAT BRITAIN MR MORRISON EMPHASIZED WHICH DOES NOT HAVE SUCH RESTRICTIONS WILL CONTRIBUTE TO RECOVERY:

1- BY NOT RAISING ITS PRESENT TARIFFS AGAINST COUNTRIES WHOSE CURRENCIES ARE NOW BEING DEVALUED

2- BY NO FURTHER DEVALUATION OF STERLING -WE RECOGNIZE- MR MORRISON SAID -THAT THE UNITED STATES IS PLAYING ITS PART IN DEVELOPING AN ECONOMIC POLICY WHICH SHOULD BE BENEFICIAL TO WORLD TRADE-

THE LEAGUE ECONOMIC COMMISSION HAD BEFORE IT A REPORT OF THE ECONOMIC AND FINANCIAL COMMITTEES SAYING THAT ABOLITION OF IMPORT QUOTAS AND CURRENCY RESTRICTIONS MUST ACCOMPANY ANY SUCCESSFUL REALIGNMENT OF CURRENCIES SUCH AS THAT PROVIDED IN THE RECENT ANGLO-FRANCO-AMERICAN AGREEMENT

MINISTER OF COMMERCE PAUL BASTID INFORMED THE ECONOMIC COMMISSION OFFICIALLY THAT FRANCE INTENDS TO ESTABLISH A NEW TARIFF SYSTEM ABOLISHING IMPORT QUOTAS

BASTID EXPLAINED THIS EXCEEDS FRANCE-S REDUCTION OF TARIFF QUOTAS LAST SATURDAY - HE WARNED HOWEVER THAT THE NEW TARIFF WOULD BE PUT INTO EFFECT ONLY IF OTHERS FOLLOWED FRANCE-S EXAMPLE

Hitler

W

HAMELIN, GERMANY.--THE NEW GERMANY ARMY DEMONSTRATED TO NEARLY 700,000 PERSONS THAT IT CAN PERFORM BUT SO FAR, ON A SMALLER SCALE--THE RUSSIAN ARMY'S TRICK OF DROPPING ARMED MEN BY PARACHUTE INTO STRATEGIC POSITIONS.

PRECEDING A SPEECH BY ADOLF HITLER HERE YESTERDAY THE "BLUE FORCES" ROUTED THE "REDS" LARGELY AS A RESULT OF THIS MANEUVER. THIRTY MEN WITH SIX MACHINE GUNS WERE PARACHUTED DOWN FROM THREE PLANES.

RAIN AND WIND CHILLED THE CROWD AS THEY WAITED FOR HOURS TO HEAR DER FUEHRER ADDRESS THEM. HE--WITH AN EYE OBVIOUSLY ON FRANCE--RIDICULED DEVALUATION AND SAID THAT THE MARK WOULD REMAIN STABLE.

"I COULD RAISE WORKERS' WAGES 15 OR 20 PER CENT TOMORROW," HE SAID. "I COULD RAISE PRICES 15 OR 20 PER CENT THE NEXT DAY. XXX IN TWO MONTHS WE COULD DEVALUATE THE MARK AND SWINDLE THE SAVINGS OF THE PUBLIC. XXX WE ARE NOT CONCERNED WITH WHAT THE WORLD OUTSIDE MAY DO. WE SHALL REMAIN FIRMLY PLANTED IN OUR SOIL AND SECURELY GUIDED BY OUR REASON."

10/5--R1057A 4EF

(DJ 12:58 P.M. Oct. 5, 1936):

Czecho-Slovakian Money Situation.

Prague - The stock exchange remains closed and the Cabinet still is debating the amount of devaluation which it is still confidentially expected will not exceed 16 per cent. Sterling is quoted at 142 50 crowns to the pound against 120 Saturday according to Reuters.

WARSAW

DOW JONES - October 5, 1936.

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OCT 5 1936

NO CHANGE IN POLISH MONEY POLICY

11:59

, WARSAW - FOLLOWING A CABINET MEETING TODAY
IT WAS OFFICIALLY ANNOUNCED THERE WOULD NOT
BE ANY ALTERATION IN POLAND-S PRESENT
MONETARY POLICY /

-0-

RB

GRAY

The Hague (Part Air)

Dated October 5, 1936

Rec'd 9:04 a.m.
October 6.

Secretary of State
Washington.

47, October 5, 4 p. m.

General situation still indicates complete confidence in Government although florin now stands 190 to \$1.00. Equalization fund not functioning as yet and it is now believed that it will not be used unless a 25% devaluation is reached. The rate of 190 represents 23% quota abolition not expected now but question of readjustment of the import monopolies now being studied.

EMMET

RR

CSB

RB

GRAY

Rome

Dated October 5, 1936

Rec'd 3:45 p. m.

Secretary of State

Washington.

401, October 5, 5 p. m.

My 400.

The following is a summary of the communique issued after the meeting of the Council of Ministers this morning: after reporting on the international monetary situation resulting from the depreciation in countries hitherto composing the gold group and the alignment that had already taken place in many other European countries, the Duce recommended and the Council approved unanimously and without discussion the devaluation of the lira to the 1927 level of stabilization. Mussolini then described the possible repercussions of this measure. As regards foreign trade, it improves the situation especially by stimulating exports and tourist traffic. Only a rise in prices at home would offset these advantages but it was decided to peg certain prices and to supervise rigorously fluctuations in others when they correspond to world price levels. In addition to this and other measures
against

RB

-2-#401, October 5, 5 p.m. from
Rome

against speculation the Council authorized the Under Secretary for Foreign Trade and Exchange to vary the volume of import quotas for widely consumed commodities and to eliminate without delay the system of private clearings. The purchasing power of the lira will thus be energetically and systematically safeguarded at every point.

Mussolini then examined the Anglo-Franco-American declaration which preceded the alignment of the franc and declared that he agreed with the idea that world economic readjustment was one of the necessary conditions for international cooperation for the purpose of peace. Temporary expedients must however be abandoned for something permanent.

The Council then most categorically reaffirmed that the policy of achieving a maximum of economic autonomy would be continued, this being essential to the military defense of the nation.

The following measures were then approved:

One. In order to adjust the lira to the value of the leading world currencies its gold content is being changed. Since in 1927 the ratio of the lira to the dollar and pound was stabilized at 19 and 92.46 respectively, in order to restore that ratio the gold content of the lira has been

RB

-3-#401, October 5, 5 p.m. from Rome

has been reduced proportionately to the reduction in the gold content of the dollar, which was 40.93 per cent. The lira is thus reduced to 4.677 grams of fine gold for every one hundred lire of nominal value in comparison with the 7.919 grams established in 1927.

Since the American stabilization law authorizes further variations within a 10% limit and since other important countries such as France and Switzerland have reserved similar powers the Italian law envisages the possibility of further adjustments within a ten per cent limit.

No change is made as regards the circulation and value as legal tender of State notes and of coins which will continue to circulate as at present in Italy and her colonies and possessions and must be accepted as payment by the State and private individuals at their present value. The gold reserves of the Bank of Italy are revaluated on the basis of the present parity of the lira and the profit thus realized is placed at the disposal of the State Treasury.

Special powers are granted the Chief of Government and Minister of Finance to suspend when appropriate all or part of the restrictions now in effect regarding the movement of capital and foreign trade as well as to issue

executive

RB

-4-#401, October 5, 5 p.m. from Rome

executive and supplementary regulations.

Two. In order to avoid disturbances on the domestic market and an increase in the cost of living it is forbidden to sell commodities at prices higher than those registered during September last by the Provincial Councils of Corporative Economy and the Provincial Inter-syndical Committees. Commodities the prices of which are not registered by the above mentioned organizations may not be sold at prices higher than those current on the market at the date the law goes into effect. For two years there may be no increase in rents, in prices of electric current and gasoline, or in public transport rates. The law also contains regulations regarding hotel rates and establishes penalties for contraventions.

Three. The ad valorem tax on imports established on September 24th, 1931 is abolished and the Chief of Government is authorized further to revise import duties on the basis of the new monetary and price situation.

Four. A five per cent redeemable loan will be issued to cover requirements of colonial development and national defense and all real estate owners must subscribe thereto an amount equivalent to 5% of the net capital value of their property. This loan which will be exempt from all present and future taxes will be paid back in 25 years, amortization

RB

-5-#401, October 5, 5p.m. from Rome

amortization to begin the first year of issue. To guarantee payment of interest and capital a small extraordinary tax will be assessed on real estate. Whenever property owners lack liquid funds for subscription special measures provide these funds under conditions whereby interest charges cancel each other. The tax may also be paid in a lump sum with the bonds themselves under favorable conditions which should also improve the market for the bonds.

Five. The decree law of September 5, 1935 restricting payment of dividends by commercial companies is repealed but a progressive tax is applied to dividends of over six per cent or over the average distribution during the past three years. This tax applies only to dividends paid, not to profits set aside as reserves. All profits from activities in the colonies and possessions are exempt from this tax in view of the greater risks involved and the benefits deriving therefrom to the economic development of the Empire.

A further official announcement adds: Clearing agreements which were suspended last week owing to the impossibility of determining exchange rates will be immediately resumed on the basis of the new quotations as they are fixed. Private compensation transactions outside the clearings

RB

-6-#401, October 5, 5 p.m. from Rome

the clearings which were also suspended will on the other hand be abolished altogether since with the new value of the lira there is no longer any need for form of payment on the basis of actual as opposed to official exchange quotations. For the same reason the premiums applied to trade with countries with which new clearings were concluded after July 15th are abolished. With the abolishment of private compensation transactions, the immediate advantage of which to Italian exports is now absorbed in the general advantages of today's measures, exports will go forward more rapidly and surely and with less disturbance to price trends thus solving notable difficulties which had arisen in importing countries. At the same time certain Italian imports formerly subjected to private compensation transactions will become easier and very often much cheaper to the advantage of both producer and consumer in Italy.

Inform Commerce.

PHILLIPS

HPD

LMS

GRAY

Geneva

Dated October 5, 1936

Rec'd 12:22 p. m.

Secretary of State,
Washington.

402, October 5, 5 p. m.

In the Second Committee this morning the Swedish representative stated that his Government had learned with satisfaction of the common French-English-American declaration and associated itself with the policies stated therein. The monetary policy of Sweden remained unchanged. He laid particular stress upon the importance of abolishing quotas and exchange controls.

GILBERT

RR

LMS

GRAY

Madrid

Dated October 5, 1936

Rec'd 3 p. m.

Secretary of State,
Washington.

X-188, October 5, 5 p. m.

Decree published in GACETA DE MADRID October 4 requires all Spanish nationals, both individuals and corporations or organizations, to deliver gold coins or bullion, foreign currencies and foreign securities in their possession to the Bank of Spain within seven days. Delivery is "against receipt" of their value in pesetas at rate to be fixed by official exchange control board.

WENDELIN

KLP:CSB

LMS

GRAY

Paris

Dated October 5, 1936

Rec'd 2:20 p. m.

Secretary of State,
Washington.

968, October 5, 5 p. m.

FROM COCHRAN.

Paris exchange market very active with Bank of France taking important quantities of (\$) at steady rate of 21.40 and of pounds at rate varying from 105.50 to 105.43. Florin is erratic moving both up and down.

First quotations of devalued lira were 112.25 and 112.75. News of Italian decision reached Paris too late to permit much trading in lira. As reported by telephone, Italian Council of Ministers this forenoon issued decree law revaluing lira making it 19 to the dollar as under law of 1927; thus depreciation corresponds with the American cut. Likewise Chief of State reserves authority to lower the lira another 10 per cent by decree. From preliminary reports received here by Bank of Italy representative there will be no exchange stabilization funds. Guarneri's exchange control office will continue to function and various exchange restrictions must remain for
the

LMS 2-No. 968, October 5, 5 p. m., from Paris.

the present. The effort will presumably be to keep the lira rate steady against the dollar. It would of course vary vis a vis the fluctuating European currencies. Mussolini has declared in decreeing devaluation that after having examined the Anglo-Franco-American declaration the Italian Government (END SECTION ONE)

BULLITT

HPD

LMS

GRAY

Paris

Dated October 5, 1936

Rec'd 4:24 p. m.

Secretary of State,
Washington.

968, October 5, 5 p. m. (SECTION TWO)

is in agreement in recognizing that world economic stability and general business recovery can only be inspired through close collaboration between all peoples desiring peace. The Council of Ministers decided further to suppress the Italian ad valorem tax upon imports which has been ten per cent on coal and coke and fifteen per cent on most other articles. The Chief of State is authorized to modify the customs regime by decree.

Paris stock market very active with prices mounting but operations restricted officially as they were on Friday. Credit Lyonnais for example gained forty per cent over last week. The waiters' strike on Saturday and the Communist and Rightist demonstrations yesterday evidently did not alarm the market. The press, however, insist that the Government must bring about internal peace and order if devaluation is to prove of any benefit. Some observers fear that with the American stock market continuing to improve the amount of repatriation of capital to a disturbed

LMS 2-No. 968, October 5, 5 p. 1., Sec. 2, from Paris.

turbed France will be disappointing. Others feel that Blum is showing excellent judgment in his policies and will have the support of the country to such a degree that the confidence required for repatriation and recovery gradually will develop.

BULLITT

SMS:NEL

Paraphrase of section three of telegram No. 966 of October 5, 1936, from the American Embassy, Paris

This afternoon I had a telephone conversation with Jacobson at Basel. Jacobson told me that he and his associates in the B.I.S. almost unanimously thought Italy had done the wisest thing in taking advantage of the lead of the other countries to devalue at the present time. The statement which Mussolini made about collaboration and his tariff move was liked at Basel. It is their belief that France has shown real initiative in the tariff policy she followed. Germany, on the other hand, will only become more isolated through failure to fall in line with the monetary movement at this time, they said. Jacobson added, incidentally, that he and his associates think Bohmert may suffer some loss of prestige because he was not included in or informed of the original international monetary arrangement between the United States, France and Great Britain.

No one at Basel of course thinks that a foreign power would be willing to lend to Germany the enormous sum which would be necessary if she were to attempt to stabilize her currency and lift restrictions. But they feel that just as Italy has begun on her own resources, Germany should do the same. Germany is criticized, furthermore, for making arguments about Versailles and colonies into the problem of monetary affairs.

END MESSAGE.

BULLITT.

EA:LVM