

DIARY

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December 1, 1936

MEMORANDUM OF CONFERENCE IN SECRETARY'S OFFICE  
REGARDING THE DECEMBER 15 FINANCING.

Those present besides the Secretary were Mr. Colt, President of the Bankers' Trust Company, and his principal bond man, Mr. Tompkins, and Mr. Bell.

The Secretary expressed appreciation to these gentlemen for their coming to Washington. He stated that in view of the announcement in the morning press that the Treasury would have total financing on December 15 of approximately \$1,500,000,000, just what would they advise the Treasury doing under the circumstances.

Mr. Colt said for the past year he had been studying the New York banking situation, particularly the problems of the smaller bankers. He had found that all of these banks today had bond accounts composed of various governmental and industrial issues. He said that the smaller banks outside of New York City had 60% of their deposits in time deposits which, in effect, makes them comparable to savings banks. He has asked himself the question, many times, as to what these banks will do in case of a demand for funds on a falling bond market. He believed that because of this problem these banks should change their investment practice somewhat and go into the real estate bonds, having a monthly installment payment plan. This would furnish them with a monthly income which would afford sub-

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stantial aid in case of a sudden demand for funds. He believed that these banks should be given a chance in any Government financing to secure short-time Government securities either in the form of Treasury 5-year notes or in short-time Treasury bonds.

The Secretary agreed with Mr. Colt that these banks should have such an opportunity, and he did not feel that the Government could put out \$1,500,000,000 in Treasury securities without giving an opportunity for subscriptions to Treasury notes to those who desired that form of security.

Mr. Tompkins said that he would like to see at least \$500,000,000 of the new financing go into Treasury notes in order to take care of that class of investor just referred to by Mr. Colt. The balance he would put as far into the future as practicable, rather than start a new series of bonds which would have the appearance of back-tracking. He recognized that we would, from time to time, have emergencies such as war and depression, and the money-market might be such, because of those emergencies, that the Treasury could not sell a long-term bond. He would recommend that the Treasury keep some gaps open so that we can later fill them up with 5-year notes, or even with a short-term Treasury bond, say a 2-1/2%. He said that we could easily sell today a 2-1/2% 13-16-year bond which would sell at about 101-1/8. He preferred the following program: 2-3/4% 24-27-year bond (1960-63), which, on the basis of the present market, would

sell about 101-12/32; and a 5 year note at  $1\frac{1}{4}\%$ . He said he thought a  $1-1/8\%$  Treasury note would sell but it was a little thin and would not, of course, go near so well as the  $1\frac{1}{4}\%$ .

Both of these gentlemen feel that the long term  $2\frac{3}{4}\%$  for a major part of the financing is advisable.

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The Secretary then changed the subject to bank examination. He asked Mr. Colt if he had any views with respect to consolidation of the bank examination activities of the Federal Government. He said that he had given the subject a great deal of consideration and felt that it was desirable for the activities to be consolidated. Particularly would it be advantageous from two angles: One, would be to get a uniform balance sheet approved by the examining authority, and, Two, would bring under this uniform procedure those banks now under the F.D.I.C. but not now under either the Comptroller of Currency or the Federal Reserve System. He feels that while the subject is important the question of consolidation should be delayed until after the provision of the Banking Act requiring, after July 1, 1939, that all F.D.I.C. banks become members of the Federal Reserve System has become effective. Otherwise, to put it into effect at the present time might drive many of the banks not only out of the Federal Reserve System but out of the F.D.I.C. System also.

The Secretary then raised the question of the Treasury

supervision. Mr. Colt said that he had not given that much consideration, but he had thought that there should be some consolidation of the F.D.I.C. and the Comptroller of Currency activities, and he had a feeling that the F.D.I.C. activities should be under the supervision of the Comptroller of Currency. He added, however, that he might have been influenced in this thought by the further thought that the function of chartering banks now lodged in the Comptroller of Currency probably could not be transferred and made a part of the functions of the F.D.I.C. After all, he said, it made very little difference who had supervision so long as it was centralized. He said after giving it further consideration he might even conclude that the whole banking supervision should be under the Federal Reserve Board.

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**TREASURY DEPARTMENT**

INTER OFFICE COMMUNICATION

DATE December 1, 1936

to Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: Conference relating to capital movements between the  
United States and foreign countries.

As you suggested at the meeting held in your office on November 23rd, I called a luncheon meeting today in the Washington Hotel of representatives from the Treasury Department, the Federal Reserve Board, and the Securities and Exchange Commission for the purpose of discussing the problems created by the existence of large foreign investments in United States securities and balances in this country. The following were present:

Treasury Department: Kent, Arthur H.  
King, Eldon P.  
White, Harry D.  
Shere, Louis  
Haas, George C.

Federal Reserve Board: Goldenweiser, E. A.  
Currie, Lauchlin B.  
Gardner, Walter R.

Securities and Exchange Commission: Gourrich, Paul P.  
Goldschmidt, Raymond

I opened the discussion by asking whether any of those present had formulated their thoughts on questions of this type:

1. Do we want to adopt a plan which will prevent the further accumulation of securities and balances in this country held by foreigners?
2. Do we want to adopt measures which will lead to substantial reduction of such balances and securities as are now held by foreign interests?

The discussion of these subjects was led throughout the greater part of the meeting by Dr. Paul Gourrich of the Securities and Exchange Commission. He felt definitely that the presence of large balances and large volume of American securities held by foreign interests constituted a threat to the stability of the capital and money markets, and was particularly apprehensive about the situation because of his conviction that war is very likely to occur during the next four years.

Dr. Gourrich's discussion fell into two parts:

(1) A statement to the effect that at present there are tendencies at work, partly because of tax factors and partly because of the margin requirements in the United States as against those in foreign countries which will lead to the development of foreign security markets and the corresponding shrinkage in the American security markets, by transferring the purchases and sales of American securities from domestic to foreign markets.

(2) To forestall a shock to our security and money markets which might originate with a war or with some other factor that might induce the dumping of securities and the withdrawal of balances on the part of foreigners, Dr. Gourrich suggests that it might be possible to develop some plan to prohibit the export of domestic securities.

He favors subjecting the nonresident aliens to the same tax on their profits from the sale of capital assets as is now paid by American citizens and residents of the United States. To effectuate the collection of such a tax he suggests that brokers and other intermediaries handling the foreign business might be required to obtain some type of bond from the foreigner which would insure ultimate payment of the tax.

It was suggested that Dr. Gourrich present the plan in the shape of a memorandum. It was also suggested that the Treasury Department and the Federal Reserve Board prepare memoranda containing their respective ideas relating to the problem and that all memoranda be presented to me on December 9 so that I could undertake to let each of the three conferring parties analyze the materials in the three memoranda.

It was agreed that the conferees would meet again on December 14 for further consideration of the problem.

December 1, 1936. 7

Chairman Eccles, Governor Ransom, Mr. Taylor and Mr. Upham had lunch with the Secretary at 1 o'clock.

Mr. Morgenthau, who was a few minutes late, explained that he had just received through the State Department some cablegrams from Paris dated November 28th containing reports of Ambassador Bullitt's conversation with the French on war debts. He went on to say that the State Department has been trying for some months to transfer the handling of the war debt situation to the Treasury, having suggested, in fact, that we, instead of them, send out the statements of the amounts due on December 15th, which suggestion was not agreed to. He stated the President's position to be that when and if war debt discussions are entered into, the approach will be through diplomatic channels but the actual negotiations will be by the Treasury. He said that he had talked to the President on the telephone yesterday and neither the President nor Secretary Hull knew of the Bullitt conversations. He said he asked the President if he wanted to talk about the December 15th financing and the President's reply was for the Secretary to use his own good judgment.

Reference was made to the visit to the Secretary by Sloan Colt and a Mr. Tompkins from his bank.

Mr. Eccles and Mr. Taylor both spoke very highly of Colt, Mr. Taylor stating that the two gentlemen had stopped in to see him before they called on the Secretary.

Mr. Taylor added that he knew both of them in college and that they belonged to the same ledges, etc.

Mr. Eccles referred to the three cornered study of international flow of capital which is under way by the Securities Exchange Commission, the Federal Reserve Board and the Treasury. He stated the special interest of each agency in the subject and suggested that a small group of not more than two of each of the agencies be commissioned to keep the study under way.

Mr. Morgenthau said that he understood at the preliminary meeting that the research staffs would get together and agree upon something.

There was considerable discussion of the implications of the inward movement of capital into this country and Mr. Eccles expressed the opinion that the British ought to be interested in cooperating with us to keep their money at home. One thing which he pointed out was the difficulty the American people generally would have in understanding how the British people can send so much money to this country for their investment and are unable to pay interest on their war debt. He thought informal discussion between the United States Treasury and the British Treasury or between the Federal Reserve Board and the Bank of England might stress that point.

Mr. Morgenthau said that while he did not want to discuss it until after Monday, he had some ideas with respect to the neutralization of gold imports. He said that he had given the Treasury staff until Monday to study the question.

Mr. Eccles expressed pleasure that the Treasury was giving the matter consideration because, as he said, there must be a cooperative sense of responsibility between the two agencies and it is idle to talk about the Federal Reserve Board being wholly responsible for domestic credit and the Treasury being only interested in the dollar abroad.

Mr. Morgenthau asked Mr. Taylor to check with Mr. Haas before  
Mr. Eccles and Mr. Ransom left on the status of the study of inter-  
national movement of capital.

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Upm.



TREASURY DEPARTMENT

WASHINGTON

OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND REFER TO

December 1, 1936.

In re: Closing agreements in Internal Revenue cases  
approved by the Secretary on November 24, 1936.

MEMORANDUM for Mrs. H. S. Klots:

At the conclusion of the conference in the Secretary's office, he asked that a memorandum of the cases be prepared for his file and sent to you. The memorandum requested is transmitted herewith. I would appreciate your asking the Secretary if the memorandum is in the form that he had in mind.

Commissioner.

December 1, 1936.

MEMORANDUM in re closing agreements in internal revenue cases approved by the Secretary November 24, 1936.

Closing agreements under section 606 of the Revenue Act of 1928 were approved by the Secretary in the cases listed below:

F. Tho. Nason (deceased),  
McKeesport, Pennsylvania.  
C-TS:PL:HPB.

The liability involved in this case was for individual income taxes for the calendar years 1933 and 1934, and for the period January 1 to April 4, 1935. A schedule showing the net income and tax liability reported on the returns, and the net income, tax liability, and the amount of any overassessment or deficiency determined upon final audit by the Bureau is as follows:

	<u>Reported on Return</u>		<u>Finally Determined</u>			
	<u>Net Income</u>	<u>Tax Liability</u>	<u>Net Income</u>	<u>Tax Liability</u>	<u>Deficiency</u>	<u>Overassessment</u>
1933	\$11,843.82	\$ 75.38	\$13,329.97	\$ 118.40	\$43.02	-
1934	\$68,019.18	\$13,350.05	\$67,660.43	\$13,199.55	-	\$150.50
Period Jan. 1 to Apr. 4, 1935	\$27,405.08	\$ 2,427.83	\$27,471.64	\$ 2,441.81	\$13.98	-

The adjustments producing the above results have been reviewed and approved by the Audit Review Division of the Bureau, and the closing agreement has been reviewed and approved by the Technical Staff of the Bureau. Acceptance of the final closing agreement falls within the provisions of Mimeograph No. 4149 in that the closing of an estate is involved, and such acceptance will extinguish the period within which claims for refund may be filed. Acceptance of the agreement was recommended by the Commissioner and the General Counsel.

D. M. Yates,  
Oak Park, Illinois.  
IT:K:Aj-ATH-27261.

This case involves liability for individual income taxes for the calendar year 1933. A schedule showing the net income and tax liability reported on the return, and the net income, tax

MEMORANDUM in re closing agreements in internal revenue cases  
approved by the Secretary November 24, 1936.

liability, and the deficiency determined upon final audit by the Bureau is as follows:

<u>Reported on Return</u>		<u>Finally Determined</u>		
<u>Ordinary Net Income</u>	<u>Tax Liability</u>	<u>Ordinary Net Income</u>	<u>Tax Liability</u>	<u>Deficiency</u>
\$35,861.28	\$3,198.94	\$36,907.47	\$5,034.20	\$1,835.26

The adjustments resulting in the tax as finally determined have been reviewed and approved by the Special Adjustment Section of the Income Tax Unit, and the closing agreement was reviewed and approved by the Technical Staff of the Bureau.

The principal adjustment made relates to the disallowance of a capital net loss of \$12,634.45. It appears that in December 1933 the taxpayer sold certain securities through a broker, at the same time instructing the broker to sell them to his wife, Mary E. Yates. This was done, the taxpayer furnishing his wife with the funds with which to purchase the securities. The purchase by her was of the same securities and made on the same day they were sold by taxpayer. The apparent loss sustained by the taxpayer was disallowed on the grounds that this sale was not bona fide. After a conference and full consideration of the circumstances, the Special Adjustment Section concluded that the imposition of the fraud penalty was not warranted. Acceptance of the agreement was recommended by the Commissioner and the General Counsel.

Mary E. Yates,  
Oak Park, Illinois.  
IT:E:Aj-ATH-27261.

The liability involved in this case is for individual income taxes for the year 1933. This taxpayer is the wife of D. M. Yates hereinabove referred to. A schedule showing the net loss and tax liability reported on the return, and the net income, tax liability and deficiency determined upon final audit by the Bureau is as follows:

<u>Reported on Return</u>		<u>Finally Determined</u>		
<u>Net Loss</u>	<u>Tax Liability</u>	<u>Net Income</u>	<u>Tax Liability</u>	<u>Deficiency</u>
\$1,996.43	None	\$4,724.81	\$116.07	\$116.07

MEMORANDUM in re closing agreements in internal revenue cases approved by the Secretary November 24, 1936.

The adjustments resulting in the tax as finally determined have been reviewed and approved by the Special Adjustment Section of the Income Tax Unit, and the closing agreement was reviewed and approved by the Technical Staff of the Bureau.

The principal adjustment relates to the disallowance of a loss of \$7,103.00 claimed to have been sustained upon the sale of securities. The taxpayer sold on December 6, 1933, through a broker, 200 shares of the capital stock of the Standard Dredging Company which had been acquired on August 5, 1929. The cost of the stock was \$7,605.00 and the selling price was \$502.00, and it was therefore claimed that a loss of \$7,103.00 had been sustained. The stock to cover the sale was not delivered until December 13, 1933. On the day of the sale the same stock was purchased by the taxpayer's husband with the proceeds of a check given to him for that purpose by the taxpayer. The loss was disallowed by the Bureau on the ground that this was not a bona fide sale.

After a conference and full consideration of the circumstances the Special Adjustment Section concluded that the imposition of the fraud penalty was not warranted. Acceptance of the agreement was recommended by the Commissioner and the General Counsel.

Eddie Cantor Enterprises, Inc.,  
Care of A. L. Berman,  
551 Fifth Avenue,  
New York, New York.  
C-TS:PL-VWL.

The liability involved in this case was for corporation income tax for the period August 6, 1932, to December 31, 1932, and corporation income and excess profits tax for the period January 1, 1933, to July 27, 1933. A schedule showing the net income and tax liability reported on the returns and the net income, tax liability, and the amount of the deficiencies determined by the Bureau upon final audit is as follows:

	<u>Reported on Return</u>		<u>Finally Determined</u>		
	<u>Net Income</u>	<u>Tax Liability</u>	<u>Net Income</u>	<u>Tax Liability</u>	<u>Deficiency</u>
Period Aug. 6, 1932 to Dec. 31, 1932	\$62,558.52	\$8,601.80	\$63,030.02	\$8,566.83	\$ 64.83
Period Jan. 1, 1933 to July 27, 1933	\$57,786.97	\$7,945.71	\$60,601.89	\$11,206.60	\$3,260.89

MEMORANDUM in re closing agreements in internal revenue cases  
approved by the Secretary November 24, 1936.

The adjustments producing the above deficiencies have been reviewed and approved by the Income Tax Unit, and the closing agreement has been reviewed and approved by the Technical Staff of the Bureau. Acceptance of the final closing agreement falls within the provisions of Mimeograph 4149 in that the closing of the affairs of a dissolved corporation is involved. Acceptance of the agreement was recommended by the Commissioner and the General Counsel.



GENERAL COUNSEL  
TREASURY DEPARTMENT  
WASHINGTON

ORDER DELEGATING AUTHORITY

Pursuant to section 512 of the Revenue Act of 1924, which created the office of General Counsel for the Department of the Treasury and abolished the office of General Counsel for the Bureau of Internal Revenue, effective when the General Counsel for the Department of the Treasury first appointed qualifies and takes office, and which provides:

\* \* \* \* The General Counsel, with the approval of the Secretary, is authorized to delegate to any Assistant General Counsel any authority, duty, or function which the General Counsel is authorized or required to exercise or perform \* \* \* \*

and subject to my review as occasion may require, I hereby delegate to the Assistant General Counsel for the Bureau of Internal Revenue generally the authority, duties, and functions heretofore exercised by the General Counsel for the Bureau of Internal Revenue, and particularly, without, however, by this enumeration intending to limit or abridge such authority, duties, and functions, I delegate to him the authority, duty, and power

- (1) To be the legal advisor to the Bureau of Internal Revenue and its various units and branches including the officers and employees connected therewith;
- (2) To render legal opinions, written or oral, for their guidance, on questions arising in the administration of such laws as they are called upon to administer;
- (3) To prepare or review material for publication, Regulations, Treasury decisions, and other rulings connected with such laws;

(4) To give such advice to others relative to questions falling within the scope of his jurisdiction as may to him seem proper;

(5) To make written or oral recommendations to me for advisable changes in the laws administered by the Bureau of Internal Revenue;

(6) To review all closing agreements to be submitted to the Secretary of the Treasury for action;

(7) To supervise and control the defense of petitions to the Board of Tax Appeals and to decide whether to acquiesce in the decisions of said Board or to recommend to the Department of Justice petitions for review of such decisions by the courts;

(8) To decide what suits should be brought in the courts under the laws administered by the Bureau of Internal Revenue and to recommend to the Department of Justice the bringing of such suits;

(9) To decide what cases should be prosecuted in the criminal courts and to recommend to the Department of Justice its consideration of such cases;

(10) To decide how suits brought in the courts against the United States or Government officials under said laws should be handled and to make recommendations to the Department of Justice concerning same;

(11) To decide what court decisions should be appealed to higher courts and to make recommendations to the Department of Justice concerning same;

(12) To cooperate with and at the request of the Department of Justice assist United States attorneys and others of that Department in handling suits in court, both civil and criminal (including claims for taxes in bankruptcy and receivership cases), and in preparing required briefs and arguments;

(13) To review all cases in which it is proposed to abate, refund, or credit taxes, interest, and/or penalties amounting in the case of any one person to \$20,000 or over, and to

prepare the reports to the Joint Congressional Committee on Internal Revenue Taxation in all cases coming within the scope of section 710 of the Revenue Act of 1928, and in such other cases as are now or hereafter may be required by the practice of the Treasury Department;

(14) To perform the functions prescribed for the Solicitor of Internal Revenue by section 3229 of the Revised Statutes in connection with offers in compromise;

(15) To supervise the action on claims for reward under section 3463 of the Revised Statutes;

(16) To supervise and control all officers and employees in his office and to recommend to me the appointment, promotion, demotion, or separation of such officers or employees as he may consider proper;

(17) To establish in his office such divisions, subdivisions, and sections as he may deem advisable;

(18) To designate, subject to my approval, the duties and titles of officers or employees within his organization and to delegate to such officers or employees such of his authority, duties, and powers as he thinks proper;

(19) To sign all briefs, correspondence, opinions, documents, and other papers using his statutory title or the operating title of Chief Counsel, Bureau of Internal Revenue, and to authorize anyone he may designate to sign for him his name to such papers.

*Herman Oliphant*  
General Counsel for the  
Department of the Treasury.

APPROVED: December 2, 1936,  
*Alley*  
Secretary of the Treasury.  
*M.S.L.*

December 1, 1936  
9:15 A.M.

H.M.Jr: Try his office.

Operator: All right. - Here's the Vice President.  
Go ahead.

H.M.Jr: Good. - Hello?

V. Pres.  
Garner: Hello Henry, how are you?

H.M.Jr: Oh, I'm fine.

G: Well, by golly, I - how is the money holding out?

H.M.Jr: Oh, pretty good. But now that you're back I  
suppose it won't hold out so well.

G: No - hell, I'm going to (Laughs)  
How's the family, Henry, all right?

H.M.Jr: Fine, how's your Mrs.?

G: Oh, Mrs. Garner's been just fine, getting plenty  
to eat.

H.M.Jr: When can I come up and see you?

G: Any damn time you want to.

H.M.Jr: Well, how about noon?

G: About what?

H.M.Jr: Twelve o'clock.

G: Hell yes. I take a little lunch at 12 o'clock,  
though, I guess. Can't you come before that time?

H.M.Jr: Ah -

G: Take a drink?

H.M.Jr: (Laughs) Well, let me just see - I just - ah -  
well, what are you doing right now?

G: I aint doing a damn thing except having Dr. Green

- 2 -

work on my toenails. One of my - fellow's  
been up here at the Capitol 160 years and he  
cuts my toenails every time I come up.

H.M.Jr: Well, where are you?

G: I'm in the Senate Office Building.

H.M.Jr: I'll - I'll be there in ten minutes.

G: Be there in ten minutes?

H.M.Jr: Yes

G: All right. Let her ride.

H.M.Jr: O.K.

December 1, 1936  
11:00 A.M.

20

W.R.  
Burgess: Sloan Colt, who's coming in this morning -

H.M.Jr: Yes

B: - was last year the President of the New York State Bankers Association -

H.M.Jr: Oh yes.

B: -- and in that capacity he did an enormous amount of work with the banks. He started a research study -

H.M.Jr: Yes

B: - about their assets and so on, and went around talking to all the little bankers' associations.

H.M.Jr: Yes

B: And he's a very fine, open-minded fellow, and has that rather special background of having studied very carefully the position of the smaller banks in the State.

H.M.Jr: Right.

B: That's his point of view, rather.

H.M.Jr: Good.

B: He's a young fellow and open-minded like the rest of us, you know.

H.M.Jr: Good.

B: The fellow this afternoon, Miller - I guess you -

H.M.Jr: I know about him.

B: Do you know him?

H.M.Jr: He's quite oldish, isn't he?

B: He's quite an old boy and he'll sound a little silly to you at certain points.

H.M.Jr: Yes

- 2 -

B: But he knows more about what the savings banks think about these things -

H.M.Jr: Yes

B: - than almost anybody else.

H.M.Jr: I see.

B: Because he's regarded it as his duty to sort of guide them in their security purchases.

H.M.Jr: Yes

B: And he puts in orders for them and things like that, -

H.M.Jr: I see.

B: - studies their portfolios; so he knows their point of view very thoroughly. He's an old savings bank man himself, you know.

H.M.Jr: I see.

B: So he's - he represents that point of view.

H.M.Jr: Yes.

B: I thought you'd like to just have that -

H.M.Jr: Good

B: - tip-off.

H.M.Jr: Now, after they leave I'll call you. When do you - coming down?

B: I was leaving on the Congressional.

H.M.Jr: Well, I'll get to you before then.

B: Yes

H.M.Jr: And then I want to talk to you about the -

- 3 -

B: How'd you make out with Gibson?

H.M.Jr: Well, I like him very much.

B: He's a good fellow.

H.M.Jr: His man Fox is pretty much stuck on himself.

B: He's a little bit stuck on himself.

H.M.Jr: Pays too much attention to his mustache.

B: (Laughs) That's right.

H.M.Jr: And I didn't think much of his advice, but I just listened.

B: Yes, yes. Oh, I think Gibson's better than Fox.

H.M.Jr: Yes, Gibson's - is - is first class.

B: Yes, he - he's a real fellow.

H.M.Jr: But the other fellow is - well, it's all - it's all - it's all in a day.

B: Yes, I think that's right.

H.M.Jr: But I've been wanting to meet Gibson because I wanted to talk to him about the European thing.

B: Yes, yes.

H.M.Jr: And it was a good chance.

B: Yes.

H.M.Jr: I'll call you up before one o'clock.

B: Very good.

H.M.Jr: Thank you very much.

B: First rate.

December 1, 1936  
12:40 P.M.

H.M.Jr: .....I needn't tell you, is first class.

Burgess: Oh yes.

H.M.Jr: Ah -

B: Well, I'm very glad you like him.

H.M.Jr: His man Tompkins was foolish enough to try to price the things too - well, I mean too high in the sense that -

B: Yes

H.M.Jr: - the disadvantage of the Treasury, -

B: Yes, yes.

H.M.Jr: - which is silly.

B: Yes, that's foolish.

H.M.Jr: I mean told us that we couldn't do better than - ah - thirteen here and not better than one and a quarter - you know, that sort of thing.

B: Yes, yes.

H.M.Jr: You know.

B: Yes.

H.M.Jr: But Sloan told us - impressed me extremely well.

B: Well, I'm - I - I - I was almost sure he would, and -

H.M.Jr: Yes

B: - I was delighted to hear he did.

H.M.Jr: Now, here's what I'd like to do with you. Ah - I feel - I mean I still can't give you an answer about Wednesday night because I'm running downhill a little fast physically, see? Hello?

B: Yes.

H.M.Jr: You could tell those fellows to hold themselves

- 2 -

in readiness, and if we let them know the first thing tomorrow morning they could still come down tomorrow night.

B: All right.

H.M.Jr: Now - but I do - I would like to see two people. I would like to see Divine and I -

B: Would you really?

H.M.Jr: Yes, I think we should. He's doing - he's one of the big five, isn't he?

B: Yes

H.M.Jr: What? And I thought if we brought him right down at the end -

B: Ah-ha -

H.M.Jr: - anything that he gets, he can't spill much.

B: Yes, yes.

H.M.Jr: See? What? And C. F. Childs - we've never had him in.

B: No, we haven't.

H.M.Jr: And they tell me the old man himself is very active.

B: Oh yes, he's active. He's in here frequently.

H.M.Jr: Yes

B: I know him very well. I don't -

H.M.Jr: Is there any reason why we shouldn't have Divine?

B: Well, we don't quite trust those fellows a hundred percent, you know.

H.M.Jr: I see.

B: And I'm a little afraid he might quote you somewhere or something like that, you know.

- 3 -

H.M.Jr: Well, how about C. F. Childs?

B: I'm a little the same way about him.

H.M.Jr: Is that right?

B: I don't quite trust him a hundred percent.

H.M.Jr: Ah-ha. Well, I don't want to - I don't feel strongly enough about it.

B: Yes. George felt quite strongly when I talked to him about it.

H.M.Jr: Hello - how about C. F. Childs?

B: Well, I didn't talk to - with him, but I - he doesn't know Childs. I know Childs pretty well.

H.M.Jr: Well -

B: I don't trust him quite a hundred percent either.

H.M.Jr: Yes. Well, you do Solomon Brothers?

B: Oh, absolutely, yes.

H.M.Jr: Well, let's - let's see if you can get Levy to come down again Friday at eleven o'clock.

B: Friday at eleven.

H.M.Jr: Yes, because he was very good last time.

B: Yes, yes.

H.M.Jr: And when you get in tomorrow morning, call me up about 9:15, see?

B: All right.

H.M.Jr: And then -

B: I'm coming down tonight on the Congressional.

H.M.Jr: Well then, call me at the Treasury at 9:15, and by that time I'll know how I am physically, see?

- 4 -

B: I see. You're not feeling well.

H.M.Jr: No, I - I am, but I - but I want to stay that way; I just don't want -

B: That's right.

H.M.Jr: I've got - unfort- we have a couple of social dates this -

B: I see.

H.M.Jr: - week.

B: Yes.

H.M.Jr: And I - and I - I'm not going to let myself - I don't know whether I want an evening meeting; that's the whole point.

B: I see, yes, yes.

H.M.Jr: You see?

B: Yes, yes.

H.M.Jr: And I - and see how I feel tomorrow.

B: All right.

H.M.Jr: But let's put Levy down definitely for eleven Friday.

B: All right, I'll attend to that.

H.M.Jr: And then if you'll call me at 9:15 and then if I feel all right and feel I can take it, why then I'll ask you to have these people be down in time for supper.

B: All right.

H.M.Jr: How's that?

B: That's very good.

H.M.Jr: Now, what's the reaction on the Street on my announcement?

- 5 -

B: Very good.

H.M.Jr: Very good.

B: The bonds are off just a little bit.

H.M.Jr: Are they?

B: Just a little, yes.

H.M.Jr: Well, that's all right.

B: Oh, that's fine.

H.M.Jr: That's all right. I've - in fact, I hope they go off a little more.

B: Yes, yes. That gives us a better basis for pricing things.

H.M.Jr: Much better.

B: Yes

H.M.Jr: Much better.

B: Yes, yes.

H.M.Jr: Well - ah - no one's taking this war debt stuff seriously?

B: Why, I haven't heard anybody mention it.

H.M.Jr: Ah-ha. All right.

B: (Laughs)

H.M.Jr: O.K.

B: Right.

H.M.Jr: Thank you.

B: Very good.

December 1, 1936  
12:40 P.M.

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Burgess: Oh yes.

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B: Why, I haven't heard anybody mention it.

H.M.Jr: Ah-ha. All right.

B: (Laughs)

H.M.Jr: O.K.

B: Right.

H.M.Jr: Thank you.

B: Very good.

December 1, 1938

Mr. Colt and Mr. Tompkins, of the Bankers Trust, saw the Secretary at 11 o'clock today. Mr. C. A. Miller, of the Savings Bank Trust, will see him at 3 this afternoon.

Miller

1/4 5 yr note  
personally would  
dislike

~~2/4~~  
~~45-48,~~  
down 2 1/2

December 1, 1936  
3:05 P.M.

H.M.Jr: Hello?

Stern: Hello.

H.M.Jr: Henry Morgenthau, Jr.

Stern: Good morning, Mr. Secretary.

H.M.Jr: How are you? - Mr. Stern, I'm just calling you up on a personal basis to congratulate you on your editorial yesterday and your cartoon by Jerry Doyle, on war debts.

S: Yes, sir.

H.M.Jr: I thought it was swell.

S: Thank you very much, and I - I - if you're that much interested I'll have him send you the original.

H.M.Jr: (Laughs) All right. You'll be interested that my wife gave me a lecture on Sunday along exactly the same line. So when she arrived last night from New York, she had your paper in her pocketbook and gave it to me before I went to bed.

S: Well, I guess you can't, though, stop them from paying their debts.

H.M.Jr: What?

S: You can't - you - you're referring to the editorial in which the -

H.M.Jr: - about the - if we - if we settle now, let them give them the money, they'll just use it to go to war.

S: But I say there's nothing you can do to stop them paying their debts.

H.M.Jr: Oh no. Oh no. But there's - (laughs) there's no sign that they want to pay any.

S: Oh, there isn't?

- 2 -

H.M.Jr: Well, I mean no - nothing really - just talk, you know.

S: I - I thought that they were really going to make an effort to - ah - get back in - ah - a partial payment basis.

H.M.Jr: Well, I don't know, but - because the point is so obvious, just as you've pointed out; if they could make a partial payment or gesture now, the money we'd give them, they'd only use it to go to - cut each other's throats.

S: Well, I - I certainly appreciate your calling me and I'm going to tell Jerry Doyle, and I'm sure he'll be delighted to send you a - the original.

H.M.Jr: Thank you.

S: Thank you. I hope I have the pleasure of seeing you some -

H.M.Jr: Well, if you ever come down let me know a day in advance and I'd like to see you.

S: And I'd like to see you.

H.M.Jr: But I just called purely personal, but I -

S: I appreciate that.

H.M.Jr: I -

S: I'd love to have a talk with you on several things.

H.M.Jr: But following 24 hours after a lecture from my wife, it hit home doubly.

S: I see. All right.

H.M.Jr: Thank you.

S: Good.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 1, 1934.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

Mr. Bolton called at 11:22 today. There were two things he wanted to mention, he said:

Firstly, <sup>did</sup> we desired to have them employ the £2,000,000 odd now standing to the credit of our account on their books.

They would be glad to give that facility to us as they did to all their other friends. Such employment of money, he explained, would not prevent us from selling at any time; they would simply take the balances and put them out overnight in round amounts of £100,000 but the money would always be available to us the next day. At the present time they were doing it at a rate of about 5/16 to 1/4%. I replied that I would discuss this matter with the Treasury.

The second point was the question of his three accounts with us, one of which was a deposit account in which, according to an old arrangement, a minimum balance had to be maintained, the size of which had been changed from time to time; at the present time it was \$250,000. This account was originally arranged between the two Governors for the purpose, he thought, of maintaining a permanent contact between the two banks. It was entirely complimentary and never used. Considering that they now had three accounts with us, two of which were very active, there seemed no reason to continue this complimentary account and they would like to amalgamate it with their F account. I replied that this seemed entirely reasonable to me but that I would very much like to look over our files and acquaint myself with the account's history and call him or send him a cable in a day or so.

As far as the exchange market was concerned, Bolton said,

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: December 1, 1933.

CONFIDENTIAL FILES

SUBJECT: Telephone conversation with

FROM: L. W. Kgoke

Bank of England.

- 2 -

there was one feature, namely that the franc was not so weak and, as far as he knew, had had no support for the last two days. Due to a system of inspection, with bank examiners and inspectors hanging around the banks all the time, none of the banks cared to risk answering a lot of questions and therefore refrained, as far as possible, from trading.

The situation in Holland, he thought, was improving; ~~the~~ kept on losing small amounts of gold to them as a result of a continued steady repatriation of capital. The Swiss return movement of capital, he thought, was over. Devaluation there had been a great success and everybody was feeling much happier. Against the recent dollar order from Argentina, he had operated to the extent of about \$10,000,000 in futures, which he would gradually cover in as an opportunity presented itself.

I referred to our operations here and told him that we had done nothing in guilders and francs and hardly anything in sterling other than the execution for Buenos Aires account, except that one day last week we were able to sell a little sterling when the market seemed to move up too fast. I asked whether our operating that way was in line with his understanding and he replied, "Of course." He asked me what sort of rate we had in mind and I told him none at all.

LWK:ENC

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 1, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM

L. W. KnakaBANK OF FRANCE.

Mr. Cariguel called at 12:22 today. He seemed very depressed. They were up against it, he said. I tried to cheer him up and referred to yesterday's and today's improvement in the franc quotation. He admitted it but stated that there had been no reversal of the tendency. The shame of it all, he said, was that he did not see what he could do about it; it was entirely beyond his reach, the difficulty being chiefly a political one.

He asked how things were in New York. I replied that sterling, after having been very strong this morning, suddenly turned and was now on the offered side, due, I thought, to selling from Europe. Cariguel agreed with this thought, saying that he had been told it was Lazard, but did not know for what reason. I mentioned that our own operations here had almost been nil. Cariguel inquired about the stock market today. I told him that it was fractionally irregular with most stocks a little better than last night, and fairly active. He thought it was likely to remain that way until the turn of the year.

LWE:KMG

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 1, 1936, 5 p.m.

NO.: 1175

FROM COCHRAN.

Feature of Paris exchange trading today is weakness of dollar. Market trader told me his bank was today offered \$1,300,000 by the Société Générale of France and another 1,000,000 by a Swiss bank in London. Market gossip is that these large offers emanate from New York and that New York is acquiring sterling. Bank of England is selling rather than buying gold bars, despite a price which would seem to (omission) buying. French rentes and share market irregular.

This morning I visited Cariguel at the Bank of France. It was his opinion that the weakness of the dollar resulted from profit-taking by English and Dutch investors on the New York market, and from repatriation of funds which London needs seasonally. Cariguel appeared to be pleased to see the dollar weaken for a while against sterling in answer to the charge that the dollar is still undervalued versus sterling, which has been made by certain British interests, including the FINANCIAL NEWS, and which has recently been pressed rather strongly. The (omission) (details?) of the technical arrangement following the tripartite accord were satisfactory to Cariguel, except that he finds it will be quite expensive

- 2 -

expensive for him to deal in gold on the American market because of the quarter of one percent handling charge.

In strict confidence Cariguel admitted that he has been quite disappointed by the repatriation of French capital following devaluation. This he attributed first to lack of confidence in the present government, and second, to measures seeking to prevent holders of gold or foreign investments from profiting by devaluation; third, to the extent to which bank accounts have been investigated by inspectors of the Ministry of Finance. He said that complaints have been received from important industrial clients of the Bank that their production has become abnormally low because of labor troubles, and they see no end thereof at present. Cariguel does not believe that France can have the confidence necessary to recovery in view of the labor and social unrest obtaining in France now. He said that although he opposed the punitive measures against gold holders, they were favored by advisers in the Ministry of Finance and even one or two in the Bank of France.

Cariguel believes that the idea which I previously reported of the issuance of a national defense loan for which gold would be accepted at its full value has now fallen through, and that the Government will not now have  
the

- 3 -

the courage to remedy the gold policy it now follows. Some of the French officials, Cariguel said, mentioned American precedents as the ground for defense of their above-mentioned policies. The reply to that made by Cariguel was that gold had not been held as a reservoir of wealth by anything like the number of people in the United States that it had in their country, and furthermore, safeguarding the depositors is one of the functions of American bank inspectors, while the inspectors which are used by the French Ministry of Finance go through bank records looking for tax evidence against the banks' depositors.

I asked Cariguel about the amount of Spanish gold that has been brought into France, and he said it had been considerable, but it had been quickly converted into foreign currencies, principally sterling and dollars, in order to meet current obligations, and that at present there is no storage of Spanish gold in France.

The opinion is expressed in French financial papers that publishing quarterly by Treasury Department of speculations on the movement of funds will educate the public to the necessity for resuming lending abroad.

END MESSAGE.

BULLITT.

EA:LWW

December 1, 1936

Mr. Dunn and Mr. Livesey, from the State Department, came to see the Secretary at 4:30 today. Mr. Bell, Mr. Taylor and Mr. Lochhead were also present.

Following is stenographic report of the meeting.

HM, Jr: Well, you got some worries?

Mr. Dunn: Well, you have seen this thing from Bullitt?

HM, Jr: Yes. I have here 1160, 1166, 1168 and 1169. Which one do you want to talk about?

Mr. Dunn: They are the same. There are four sections. They are numbered differently.

HM, Jr: But 1160 is November 28.

Mr. Livesey: Yes; that's an excerpt from a general dispatch. Mr. Bullitt reported a long general talk he had on political situations and in this they threw that. That thing had been absolutely secret and none of us had seen it until the next telegram came.

HM, Jr: I pointed out to Judge Moore that the Treasury received these at noon today. En passant.

Livesey: I called up Mr. Salmon -- he's head of the Telegraphic Service -- and he said he sent them down to the Secretary's office yesterday afternoon, but there was no lift in the instruction on the first one or on the second one -- to keep them secret. Then the yellow, the office, copy, the real copy of the original, of the one on the war debts, came to my desk this morning.

HM, Jr: It's a blessing in disguise, because when I saw the press this morning I was able to truthfully say that I knew nothing about it.

Mr. Dunn: That was helpful. We did not any of us know about these things until this morning. There has been a new system put in effect which has not seeped through the place yet.

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HM, Jr.: It's so good it doesn't work!

Mr. Dunn: It works too well. I wonder if you want to see what we sent to the Secretary for the Secretary's and the President's information.

HM, Jr.: Do you mind if I read it out loud.

"December 1. Strictly Confidential. For the Secretary and the President. Mr. Bullitt has informed us that yesterday Delbos, Minister of Foreign Affairs, sent for him and said that Blum suggested he make inquiry as to whether there would be a disposition on the part of the United States to discuss the so-called commercial debt of the French Government to this Government. It appears that he referred to the French Government's debt on account of the American war stocks. Bullitt replied that he did not believe it would be possible to detach the war stocks account from the general debt settlement in which it had been included.

There was some conversation about whether a payment on the war stocks debt without paying anything on the general debt would exclude France from the application of the Johnson Act. Bullitt pointed out that only full payment, according to the general debt settlement, would remove France from the operation of the Johnson Act.

This approach as reported by the Ambassador went no farther than the mention of possibility of some payment on the war stock debt nor were any proposals made which the Ambassador could transmit as such to his Government.

In view of the press reports which have issued from Paris as a result of yesterday's conversation, although Bullitt and Delbos had agreed not to say anything more than that the matter had been touched casually in a conversation, I this morning made the following statement to the press on the subject:

'For some time we have all noticed the press reports to the effect that the French Government desires to arrange a settlement of the debt.

'Last Sunday we received a cablegram from Ambassador Bullitt mentioning a conversation he had with Mr. Delbos, French Minister for Foreign Affairs, the day

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before during which several subjects were casually discussed, among them the debt. Mr. Delbos expressed the desire above mentioned, but did not indicate if and when he would make an effort to negotiate with the United States or in that event what proposal he would or might make. There was no specification of the time or terms. Of course, there was not or could not be anything for Ambassador Bullitt to communicate to the Department except what was said by Mr. Delbos as just stated. It cannot be too strongly said that the conversations were marked by nothing whatever in the way of definite proposals or opinions or even of specifications. Ambassador Bullitt has, of course, let it be understood that he is not in a position to discuss the debts officially unless he should be authorized by this Government to do so and, even then, would not be in a position to state or express any opinion of what would be the attitude of this Government toward any proposal that might be submitted.'

Please inform the President of this development and the press statement as above. I have furnished the Secretary of the Treasury a copy of Bullitt's cable."

HM, Jr: Thank you. Now what?

Mr. Dunn: Judge Moore would like to know what we could say to Bill Bullitt, if anything. If there is anything.

HM, Jr: I think it is very simple that inasmuch as you have sent this to the President, with Mr. Hull there, I wouldn't dream of making a suggestion until you hear from the President. I would say, 'Period. Paragraph.'

Mr. Dunn: Yes.

HM, Jr: I don't know whether you people agree. Dan?

Mr. Bell: Yes. I don't see how you can say anything until you get a reply from that cable. I question whether you could say anything to Bullitt anyhow if you didn't have that cable between here and the President, because he has put nothing concrete up to you and you can't tell him what to do. If they want to make a token payment we could accept under the same conditions we did in 1933. I don't see how we could go further.

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HM, Jr: But until we hear from the President ....

Mr. Dunn: Of course, we haven't asked the President anything nor the Secretary. You notice this simply informs them of the gist of what took place in the conversation between Bullitt and Delbos and then we just -- Judge Moore just said, 'Inform the President of this development and the press statement (as above). Just for their information.' So we may not hear anything. I don't know that we care to.

HM, Jr: Bullitt asked you for instructions.

Mr. Dunn: Yes, he does. 'I may have a call from him tomorrow, so I should be greatly obliged if I would be instructed by the Department at once regarding the line I should take on this matter, particularly with respect to the acceptability of a French offer to pay the 'war stocks' and not make a payment on the other debts.'

HM, Jr: I mean -- I want to be formal and at the same time I want to be friendly. I think the two things can go hand in hand. I don't know what instructions Mr. Bullitt received prior to his entering into this conversation. He's done it. He is a representative of yours.

Mr. Dunn: No, he had no instructions whatever. In his report, when it was first mentioned, on last Saturday, he said he stated explicitly that he was without any authority to discuss the matter at all.

HM, Jr: Well, unless I had very definite instructions from the President, I just, I can only take the position that I have nothing to say. I don't -- you got that part of my introduction, 'I want to be both formal and at the same time friendly on this thing', but I can't take any other position because it's too important.

Mr. Livesey: How about saying something to the President?

HM, Jr: It isn't up to me.

Mr. Livesey: How about technical phases of the thing which Mr. Bell knows?

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HM, Jr: Do you mean ... My position has to be that as far as the Treasury is concerned, we keep our mouth tightly sealed and don't make any hint or suggestion of any kind.

Mr. Dunn: Let me ask you some here, just to make certain.

HM, Jr: Wayne, if you differ at any time, just talk up.

Mr. Dunn: Is this a perfectly good statement that Bullitt made and which we reported and sent on to the President, "Bullitt replied that he did not believe it would be possible to detach the war stocks account from the general debt settlement in which it had been included?"

Bell: By administrative action, that's correct. It would take an agreement between the two countries and approval by Congress to unscramble it.

Mr. Taylor: War stocks debts disappeared as such.

HM, Jr: If I may make another suggestion to another Department -- in view of the fact that Bullitt has asked for instructions, I should think you would ask Mr. Hull to get instructions from the President. It seems to me that that's the next move.

Mr. Livesey: Any pipe line down there?

Mr. Dunn: Oh, yes! We have communication with him all the time.

HM, Jr: Here you are -- you are Chief of the Western Europe Division?

Mr. Dunn: Yes, sir.

HM, Jr: And your man asks you for instructions and you have to give him some kind of an answer, but from reading this Mr. Hull wouldn't know that Bullitt is waiting there for instructions.

Mr. Dunn: No. But we want to get the information

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down there and also first find out from here, from you -- Judge Moore did not want to do anything about it at all until it had been put up to you to see if you have any suggestions or instructions.

HM, Jr: I don't recognize the fact that the question of war debts is my responsibility. This came up, I think, when you took it up, Mr. Livesey, with Mr. Bell about our sending out the note at this time and the position I took was that you have done it now for three years. And you will remember that Phillips at a press conference, after I had been here about a month, announced that the State Department would handle war debts and since then -- up to that time, notices used to go out from here.

Mr. Livesey: No. The annual notices changed in the way they went out formerly under this Administration.

HM, Jr: But you remember Mr. Phillips' statement.

Mr. Livesey: No, I don't.

HM, Jr: It was late in 1933 or early 1934, at a press conference he announced that the State Department would handle it. Now to help you, at a meeting about six months ago, something like that, Mr. Hull, in passing, at another meeting said to me, 'You know, when it comes to war debts, I expect you to handle it'. But that's all and I feel it's so important that I told Bell, or Taylor, that when this question came up I would want written instructions from the President because I am very careful not to exceed my authority where it affects another Department and this is so important that -- we got along beautifully on this question of the tripartite agreement, the State Department and ourselves, I think, working beautifully together; no conflict, and I don't think there were any hard feelings abroad among the Ministers where Cochran went.

Mr. Dunn: No.

HM, Jr: But it was perfectly understood before we started.

Mr. Livesey: I think Mr. Hull had the definite thought that we had agreed with you. I was there. I rather

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thought I might have been invited in for hearing that particular part of the conversation, but I might have been in on what the rest of it was, and he told you that right out of a clear sky. But he, I think, did have that impression. And thereafter I put it in memorandum form, not immediately reporting it to him, but to get it around the Department a little bit that they were not supposed to do things they did on other occasions.

HM, Jr.: But he did sort of pull it out of the air. It wasn't part of the meeting.

Mr. Livesey: It was not a part of the meeting. I don't know what the antecedents had been in the Department but I think he said then that he had talked it over with the President and the President had that understanding, but from that time on I have figured that we were limited over there in our initiative on things we would have done before without any suggestion; for instance, whether we should vary the draft. I sent that down to Mr. Phillips, and he habitually took very little war debt over to the White House .....

HM, Jr.: But he never brought it here.

Mr. Livesey: It was the President's question. We mutually .....

HM, Jr.: But it never came here, Mr. Livesey.

Mr. Livesey: Only as far as that conversation.

HM, Jr.: But Mr. Hull might perfectly well have turned to me and said, 'You look after Liberia.' And he might say that, but unless the President backed him up formally I can't accept a responsibility of an \$11,000,000,000 debt just at an informal meeting, and nothing in writing, when Mr. Hull said, 'That's yours'. I have been here long enough to realize that just a gesture like that doesn't -- because the President might disagree with Mr. Hull and say, 'No, Mr. Hull; that's your responsibility.' And I have mentioned it at times to the President, but he has never said that he wanted to take up the question of war debts. You see? And as a matter of fact, I got the very definite impression that he did not want to take it

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up. And I also feel that when he does, I think that he will want to handle it. I think so. I don't know, I have nothing to show you gentlemen. But I think he will want to handle it like we have this monetary thing, but I have no instructions. And Mr. Hull -- it's just as though I said to you, 'Now when it comes to handling, well, the Italian question of money, Mr. Dunn, please, you look after it.' You may say, 'It's very nice, Mr. Morgenthau; it's very sweet of you, but unless the President or my Chief so directs me. I am sorry.'

Mr. Dunn: Yes. That's perfectly clear, I think.

HM, Jr: And, as I say, I am the last person in the world to be formal, but I think one has to be formal on this occasion.

Mr. Dunn: Of course, in this case Judge Moore ....

HM, Jr: I am talking very frankly.

Mr. Dunn: ... didn't want to do anything without giving you the opportunity -- even if there were any part you wanted to pick out and comment on, and suggest about.

HM, Jr: Any technical information as to the status of the war debts, it goes without saying, any technical information that you want is available to you, but when it comes to opinions, I am sorry, I have to withhold them.

Mr. Taylor: It's perfectly easy to get that situation clarified at this time. In other words, if there is a misunderstanding, you can inform your Chief that there is a minor misunderstanding.

HM, Jr: But it is not minor. It is fundamental.

Taylor: And he's on the ground. I think that should be given to him and then from the standpoint of the technical status of these so-called war stocks, Dan Bell can tell you, as he already has, that there is no such thing; they disappeared in 1929.

HM, Jr: That's the only thing we could contribute

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at this time, isn't it, Dan, from a technical standpoint?

Mr. Bell: That's all. That's the only question he has asked.

Mr. Lochhead: He brought up the question of the Johnson Act. I should think that would be for the Attorney General to make a decision.

Mr. Bell: He has already made a decision.

Mr. Dunn: That seems to be perfectly clear. Read his reply on that.

Mr. Lochhead: There is no more war stocks debt. It seems any payment they made ....

Mr. Taylor: No, that is not what I meant. Bullitt apparently said that nothing else than payment in full ...

Mr. Lochhead: He said, Even if full payment was made on the war debt, etc.

Mr. Taylor: As I understand the Johnson Act, it does not say that. I just pass that up for your information.

HM, Jr: They have their attorneys over there.

Mr. Dunn: There is a little confusion in what he says.

HM, Jr: Now, Mr. Dunn, just sit on this side of the table for a minute. Can I go any further than I have tonight?

Mr. Dunn: No. I don't know that there is any misunderstanding about this, but as far as I understand it Judge Moore in dealing with this situation didn't want to do anything about it until he had laid the information before you and had given you the opportunity to give any suggestions or any advice or any recommendation.

HM, Jr: I appreciate his courtesy, but the only

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advice I can give, and that's unasked, is that I would get that part of the cable down to Mr. Hull where Bullitt definitely asks for instructions.

Mr. Dunn: Yes; that we can do now. But if there were anything we could incorporate in that, we wanted to take that along. That would be more helpful to them if you had any recommendations.

HM, Jr.: No. The President has so definitely said no on this thing; so emphatically no, that we have just not paid any attention to it.

Mr. Dunn: This is just exchanging ideas. On that point of the war stocks, I think it would be just as well for them to be put straight on that as from here. We wouldn't do it unless the President were in favor of doing so.

HM, Jr.: You mean that they are all one?

Mr. Dunn: Yes. But I think it would be well to bring to the President's attention the possibility of instructing Bill Bullitt that if the question arises again, that he can say that of course they could not be treated separately.

HM, Jr.: I think that ought to be cleared up. But if the President wants this negotiated and says that is the Treasury's responsibility, I want to sit down very carefully and think the whole thing out and go into the whole thing and make a very careful study of the whole business and which is the best way. Do we want to do it on that side? Do we want to do it from here? Whom do we want to use? How far is he ready to go? It's the same thing all over again. There is no use doing these things unless when you do reach a conclusion it is acceptable to the President because when you start these things and fail, they always leave a very bad taste in everybody's mouth and it's that much more difficult....

Look how long it took to go from the London Economic Conference to this September agreement. Over three years. I mean to overcome that.

Mr. Dunn: Yes. Well....

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HM, Jr: I mean if you said to me, How would you do if you were going to do it, I would simply say I had not thought about it because every time I have brought the subject up, which is about two or three times in three years, the President said No, and I have seldom heard him so emphatic about anything. So I just haven't thought of the thing; thought it was a waste of time. But I appreciate your courtesy call and, as I say, anything we can do from the technical standpoint ....

Mr. Dunn: It is certainly something that you ought to be, and you will be, kept fully informed on because we would .....

HM, Jr: But the thing I don't quite -- we were able to conduct this monetary thing without a single leak, you know that, on the other side. There wasn't the slightest intimation; they kept it secret.

Mr. Dunn: This leaked over in Paris.

HM, Jr: I know.

Mr. Dunn: It certainly did not leak over here, because we did not know about it. Bullitt expected it, because you see what he says about the paid agents. They are all over the place.

ADDRESS OFFICIAL COMMUNICATIONS TO  
THE SECRETARY OF STATE  
WASHINGTON, D. C.



DEPARTMENT OF STATE  
WASHINGTON

December 1, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information five copies of excerpt from the paraphrase of telegram No. 1160 of November 28, 1936, from Ambassador Bullitt reporting a conversation with the French Minister for Foreign Affairs regarding the French war debt to the United States.

Enclosure:  
As stated.

JK

## PARAPHRASE

EXCERPT FROM TELEGRAM 1160, NOVEMBER 28, 1 p.m.  
FROM THE AMERICAN AMBASSADOR AT PARIS.

During the conversation this morning, the Minister of Foreign Affairs said that it might be desirable, in order to sweeten the atmosphere somewhat, for France, instead of sending the customary "ritual refusal" to pay on the French debt to the United States, to reply by a note stating that France desired to reopen the debt negotiations and has a full intention to reach a debt settlement. He asked that I please give him unofficially and personally a reply as to what I thought of this idea.

I said the decision seemed to me to be one which concerned the French Government exclusively; that I would not care to advise him regarding a matter which would be sure to cause great discussion within France. On his pressing me to give him my personal opinion, however, I said that a reply such as he suggested might tend to sweeten the atmosphere but its effect would depend entirely on what the French Government had in mind. The effect might be bad if it was simply an empty gesture which would cause everyone in the world to start again discussing the French debt to the United States. On the other hand, the effect might be good if the French Government was determined to pay its debt. Everything depended on what the French Government had in mind.

He

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He said that he himself had voted for the debt payment; that the socialists and Blum were now in favor of it and that they both intended to try to reach a genuine debt settlement.

I gathered the impression that it had been decided that a statement in this sense should be made on December 15.

We agreed to deny that we had spoken of the debt question.

EA:FL:DJW



DEPARTMENT OF STATE  
WASHINGTON

December 1, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information five copies of paraphrase of telegrams Nos. 1166, 1168 and 1169 of November 30, 1936, from Ambassador Bullitt reporting a conversation with the French Minister for Foreign Affairs regarding the French war debt to the United States.

Enclosure:  
As stated.

HL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 30, 1936, 1 p.m.

NO.: 1186

RUSH.

This morning I was asked by Delbos, Minister for Foreign Affairs, to call on him. He told me he had a talk with Blum yesterday, and that Blum had asked him to inquire of me at once if the American Government would be disposed to discuss the "commercial debt" between their Government and ours.

In answer I said that I did not know what he meant by the term "commercial debt", which was finally defined by Delbos as the debt which the French Government owed on account of the American "war stocks".

It was my impression, I told him, that this debt had been lumped with the pre-armistice debt and the post-armistice debt by the Mellon-Berenger agreement, although I said I could not be sure until I had examined the documents. Under the circumstances, I said, I did not know whether it would be possible to "unscramble the eggs" and receive a payment specifically on this obligation of the French Government to our Government. On this point he said he was entirely hazy.

I was then asked by Delbos what I thought would be the effect on American public opinion if a payment on account of the "war stocks" were made.

END SECTION ONE.  
EA:LNW

BULLITT.

PARAPHRASE OF TELEGRAM RECEIVED  
FROM: American Embassy, Paris, France  
DATE: November 30, 1936, 3 p.m.  
NO.: 1168

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RUSH.

SECTION TWO, continuing Embassy telegram No. 1166 of  
November 30, 1 p.m.

In answer I said that I would like to know whether  
this payment was meant to be merely a friendly gesture  
or whether it was meant to be a proposal for settlement  
of the whole indebtedness.

At first he said it would be a gesture, and I asked  
him whether he was entirely certain. I pointed out to  
him that even if full payment of the amount due on the  
"war stocks" were made, and nothing done about the other  
debts, France would not be relieved from the operation  
of the Johnson Act. I added that it would remain impos-  
sible for the French Government or any agent or subdivi-  
sion of the French Government to obtain any loan in  
our country.

After I explained this he said he was not altogether  
certain and that he would have to consult Blum again.  
He told me he would see Blum this evening and talk it  
over. Should it turn out that Blum meant this merely as  
a gesture, then the proposal would be that on the fifteenth  
of December instead of sending the "ritual note" of refusal  
to pay, a note would be sent by the French Government stat-  
ing that it desired to reopen negotiations/<sup>immediately</sup>for payment of  
the "war stock" debt.

FULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED  
FROM: American Embassy, Paris, France  
DATE: November 30, 1936, 4 p.m.  
NO.: 1189

RUSH.

SECTION THREE, continuing Embassy telegram No. 1188 of November 30, 3 p.m.

I made mention to Delbos of the fact that although he and I had been in agreement that we should both deny that war debts had been discussed by us, an article had appeared in the PETIT PARISIEN announcing that war debts had been discussed by us. Delbos told me that even worse than that, the statement that we had discussed war debts had been issued by the official radio station in Paris.

I then told him that I felt that there were in the Quai d'Orsay so many paid agents of the newspapers of Paris that confidential conversations on this subject would not be possible without the full knowledge of the French press. Therefore I felt it would be for the best general interest if we treated the press honestly and if either of us were asked by journalists today about the matter, we would say that we had touched on the matter of war debts but that no definite proposals or conclusions had been reached. Delbos was in agreement.

In addition I said if he wished to have conversations with me not known to the press, I should be glad at any time to come to his house to see him or have him come to mine. In the future, he said, he would come to visit me.

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I may have a call from him tomorrow, so I should be greatly obliged if I would be instructed by the Department at once regarding the line I should take on this matter, particularly with respect to the acceptability of a French offer to pay the "war stocks" and not make a payment on the other debts.

END MESSAGE.

BULLITT.

EA:LWW

## DEPARTMENT OF STATE

FOR THE PRESS

DECEMBER 1, 1936

STATEMENT BY THE ACTING SECRETARY OF STATE, MR. R. WALTON MOORE

For some time we have all noticed the press reports to the effect that the French Government desires to arrange a settlement of the debt.

Last Sunday we received a cablegram from Ambassador Bullitt mentioning a conversation he had with Mr. Delbos, French Minister for Foreign Affairs, the day before during which several subjects were casually discussed, among them the debt. Mr. Delbos expressed the desire above mentioned, but did not indicate if and when he would make an effort to negotiate with the United States or in that event what proposal he would or might make. There was no specification of the time or terms. Of course, there was not or could not be anything for Ambassador Bullitt to communicate to the Department except what was said by Mr. Delbos as just stated. It cannot be too strongly said that the conversations were marked by nothing whatever in the way of definite proposals or opinions or even of specifications. Ambassador Bullitt has, of course, let it be understood that he is not in a position to discuss the debts officially unless he should be authorized by this Government to do so and, even then, would not be in a position to state or express any opinion of what would be the attitude of this Government toward any proposal that might be submitted.

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OFFICE OF  
THE SECRETARY OF THE TREASURY

December 1, 1936

HMJr.

I am sending copies of this to Taylor, Haas, Opper, etc. The idea is really more Lockheed's than my own, but I am in enthusiastic agreement with it. It seems to me an improvement over the ideas we advanced when Williams and Viner were last here.

Upm

I suggest that, beginning at once, as the stabilization fund accumulates gold through the conversion of its foreign exchange acquisitions into bullion, the Treasury buy that gold without depositing gold certificates of an equivalent amount with the Federal Reserve banks.

I suggest that the gold be paid for out of the general fund (with increased borrowings from the market to secure the necessary cash). I suggest further that incoming gold from now on for an indefinite period be added to free gold in the general fund but kept as a separate classification and not included in the working balance.

This will mean, I believe, that incoming gold will not be added to the banking reserves of the country. As gold comes in an equivalent amount of funds will be taken out of the market through Treasury borrowing and the gold will be segregated and unspent by the Treasury. Moreover, the gold certificate holdings of the Federal Reserve System will not be increased, and thus there will be no increase in the maximum potential of Federal Reserve credit expansibility.

Conversely if and when gold moves out of the country it can move out of the accumulation in the general fund, channeled through the market by means of purchases of the securities theretofore sold, without effect upon banking reserves.

There seems to be clear authority in Section 8 of the Gold Reserve Act of 1934 for the Secretary of the Treasury to buy gold (from the stabilization fund) with money secured from borrowing.

This makes the two hundred million dollar working fund of the stabilization fund a true revolving fund, the gold acquisitions of which can be promptly (daily, if necessary) liquidated into cash for further operations.

It would appear to me that no legislation or other special arrangement is necessary for the immediate operation of such an arrangement.

C.B. Upham.

December 1, 1936.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION



65

DATE DEC 1 1936

TO Secretary Morgenthau

FROM Mr. Oliphant

This will confirm the oral advice recently given to you by Oppenheimer as to the nature of the monetary arrangements entered into between France, Great Britain and the United States in October, 1936.

This Department desired that purchase and sale of gold should be made between the treasuries of the respective countries. Since each of the three countries had stabilization funds which were a part of the respective treasuries, the October 13 statement stated that the United States would sell gold to equalization or stabilization funds of countries whose funds likewise offered to sell gold to us on satisfactory arrangements. The October 13 statement also designated the Federal Reserve Bank of New York to act as fiscal agent of the United States in carrying out such purchases and sales. Similarly, the British and French governments, in press releases which were cleared with this Department before issuance, announced that arrangements had been made between the respective governments for the purchase and sale of gold. Great Britain and France designated the Bank of England and the Bank of France as their respective fiscal agents to execute the day by day transactions in connection with such purchase and sale of gold. In other words, the principals in the transaction were the United States, Great Britain and France operating through their respective treasuries and stabilization funds, and the countries designated the banks as their respective fiscal agents to carry out the technical transactions. No agreement between such agents could turn them into the principals. It would have made no difference if the designation of the fiscal agent had been oral, as may have been the situation in Great Britain and France, since, in any event, the legal status in the transactions of the banks is simply that of agents, the treasury or stabilization funds being the principals. This view of the arrangements is made clear also by the lengthy eight-point document received by the Secretary of the Treasury from the Chancellor of the Exchequer several days before the October 13 announcement was made. (\*)

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(\*) It is clear that the English exchange equalization fund and the French stabilization fund are parts of the respective treasuries of the two countries, and that the Bank of England and the Bank of France are simply the fiscal agents of the respective governments in administering the funds. Moody's, Governments and Municipalities, 1936, page 1959; French Monetary Law of October 1, 1936, Article 3.

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The proposed legal relations having been thus fixed and the documents necessary therefor having been approved by the legal department, the initiative in working out the detailed operating arrangements among the three fiscal agents involved passed to Mr. Lockhead for handling with Mr. Knoke. That the drafts of proposed cables from and to our fiscal agent were not referred to the legal department for rechecking before being dispatched was not serious because no exchange of cables between such agents could alter the legal relations fixed by the exchange of communications between the Governments. What at that stage was involved was merely the setting up of appropriate accounts on the books of the three fiscal agents to cover the various purchases and sales of gold made among the three countries. The materiality of the cables setting up this bookkeeping arrangement is merely as evidence that instructions similar to those we had given the Federal Reserve Bank had been given their own fiscal agents by the other two countries.

*Lawrence C. Cliphart*

LMS

GRAY

Paris

Dated December 2, 1936

Rec'd 3:55 p. m.

Secretary of State,  
Washington.

1184, December 2, 5 p. m.

FROM COCHRAN.

Lombard Street editor of the London FINANCIAL NEWS after stating that immediate cause of depreciation of dollar was the purchase on American account of gold offered in France bullion market said today in part:

"Most of the gold available in the market was taken by the London agencies of the Guaranty Trust Company and of the National City Bank and it is assumed that both banks are operating on behalf of the American exchange equalization account. Ever since the devaluation of the franc these quarters have purchased the bulk of the dishoarded or newly mined gold coming to the London market. Until recently this was justified by the weak undertone of sterling which the United States authorities were entitled to counteract by gold purchases by virtue of the tripartite agreement.

During the last fortnight, however, and more especially

since

LMS 2-No. 1184, December 2, 5 p. m., from Paris.

since the middle of last week, sterling has shown a firm tendency. Notwithstanding this the American authorities have continued to buy in the London market every ounce of  
(END SECTION ONE)

BULLITT

CSB

CA

Gray

PARIS

Dated Dec. 2, 1936

Recd 4:50 p.m.

Secretary of State,  
Washington.

1184, December 2, 5 p.m. (SECTION TWO)

gold available.

In doing so they deliberately accentuated the appreciation of sterling and the depreciation of the dollar which is not quite playing the game. It can hardly be in accordance with the spirit of the Tri-partite Agreement for any participant to go out of its way to depreciate its currency however slightly. American and other foreign quarters have occasionally accused our exchange equalization account of the causing of a deliberate depreciation of sterling. These charges could never be substantiated but here we have concrete evidence that the American authorities are endeavoring to cause a depreciation of the dollar instead of confining their activities to the prevention of an unwanted appreciation.

It may be argued that possibly the two American banks engaged in buying the gold may operate on their own account and undertake the shipments to New York because there is a small profit on the arbitrage. Even if this were so the fact remains that the gold could not be shipped to New York by these two banks without the approval of the American authorities. Mr. Morgenthau has just declared that no gold will

henceforth

CA --2-- 1184 Paris Dec. 2 5 p.m...

henceforth be exported from the United States through private arbitrage. He is similarly in a position to check the import of gold through private arbitrage. As there is reason to suppose that gold is at present bought on official account this one way traffic in gold appears to suit the Washington authorities.

It may well be asked why our authorities do not intervene to prevent such a deliberate appreciation of sterling through official or officially approved American activity.

In

BULLITT

EMB RGC

CA

Gray

71

PARIS

Dated Dec. 2, 1936

Recd 5:17 p.m.

Secretary of State,  
Washington.

1184, December 2, 5 p.m. (SECTION THREE)

effect it would be very simple to check the movement without buying dollars and ear-marking gold in the United States. All the exchange equalization account has to do is to bid for gold in the London market when sterling is inclined to be firm. They could afford to pay a small premium over the American shipping parity. By all means let the American authorities acquire the gold whenever sterling is weak but surely its acquisition on British official account is the obvious way to counteract an appreciation of sterling."

Paris exchange market very slow. Dollar continues weak with Lazard selling. Bank of France said to have sold considerable sterling. French rentes down and Bourse rather bad. London market was gloomy and according to market contacts, quite unfavorably influenced for the first time by current gossip concerning the Royal Family. Local traders said that President Roosevelt's speech made an excellent impression and was the only good news of the day.

AGENCE ECONOMIQUE carries report from Amsterdam that Dutch equalization fund purchased around four and a half million pounds sterling last week. Customs figures show that French gold exports to England are heavy. (END MESSAGE)

EMB-RGC

BULLITT

AMERICAN OFFICIAL CORRESPONDENCE TO  
THE SECRETARY OF STATE  
WASHINGTON, D. C.



DEPARTMENT OF STATE  
WASHINGTON

December 3, 1936.

*It is sent  
to Bill  
Duffy  
Lull*

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses five copies of paraphrase of telegram No. 503 of December 2, 1936, from the American Embassy, Rome, transmitting reports which Ambassador Phillips has received with regard to war debts.

Enclosure:  
As stated.

*76*

**PARAPHRASE OF TELEGRAM RECEIVED**

**FROM: American Embassy, Rome, Italy**

**DATE: December 2, 1936, 1 p.m.**

**NO.: 503**

Reference is made to my telegram of October 1, noon,  
No. 397.

It is reported by a variety of well-informed but  
unofficial sources that preparations are being made by  
the Italian Government to inaugurate discussions in  
Washington looking toward war debt settlement.

It is even reported that it has been stated by the  
Minister of Finance that a proposal for some form of  
token payment will be put forward by Italy.

I have refrained from making any comment whatsoever  
when these reports have been brought to my attention.

**PHILLIPS.**

**EA:LWW**

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE SECRETARY OF STATE  
WASHINGTON, D. C.



DEPARTMENT OF STATE  
WASHINGTON

December 2, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses five copies of paraphrase of excerpt from a telegram of December 1, 1936 (No. 1178, section one, No. 1177, section two), from Ambassador Bullitt reporting a conversation he had with the French Premier, Mr. Blum, with regard to the war debt question.

Enclosure:  
As stated.

PARAPHRASE OF EXCERPT FROM TELEGRAM RECEIVED  
(parts pertinent to war debts)

FROM: American Embassy, Paris, France

DATE: December 1, 1936, 6 p.m.

NO.: 1176 SECTION ONE.

Today I had lunch with Blum alone, and I had an opportunity to caution him against basing his foreign policy or any part thereof on any exaggerated expectation of the effect on policies of the United States if France made debt payments or if it used any other means of cultivating a pleasant atmosphere.

I was told by Blum that on the fifteenth of December, this year, he would like to send a note to our Government saying that France was prepared to discuss with the United States the portion of the French indebtedness represented by the payments due for "war stocks" received from the United States. Blum said that this proposal was the only one he could make without the French Parliament voicing violent opposition.

BULLITT.

*Look in [unclear]*

- 2 -

No. 1177. SECTION TWO. Continuing my No. 1176,  
December 1, 6 p.m.

As I said to Delbos, I pointed out to Blum that this particular "egg" could not be "unscrambled" from the Mellon-Berenger Agreement, in my opinion. In addition I said that the United States in my opinion could not accept a payment like that as a specific payment on account of the "war stocks" but could only hold it in a special fund against the amount due us under the Mellon-Berenger Agreement which has not been paid. I had a list of the exact amounts due to us under that Agreement and went over it with him, ~~saying that~~ asking whether he thought there was the faintest possibility of the French Chamber and Senate accepting a proposal which the American Congress would also accept. His answer was that he did not think so.

Then I cautioned him against stirring up bad blood by starting polemics on both sides of the Atlantic Ocean on the (omission) (debt?) question. Finally he asked whether I meant that no offer whatsoever should be made by France. I said I had not meant that but I felt that any offer France made must be a very serious one, and that the worst thing that could come about ~~would~~ for relations between France and the United States would be to reopen ~~the~~ debt conversations publicly only to have them end in disagreement.

Then

- 3 -

Then he asked me to talk about the matter further with him and Auriol, Minister of Finance, and I said I would be glad to do that.

BULLITT.

PARAPHRASE OF MESSAGE FROM TELEGRAM RECEIVED  
(partly pertinent to war debts)

FROM: American Embassy, Paris, France

DATE: December 1, 1936, 6 p.m.

NO.: 1178 SECTION ONE.

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BULLITT.

- 2 -

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- 3 -

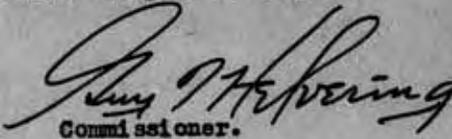
Then he asked me to talk about the matter further with him and Lauriel, Minister of Finance, and I said I would be glad to do that.

BULLITT.

December 2, 1956

**MEMORANDUM FOR  
ASSISTANT SECRETARY TAYLOR:**

Yesterday you asked me for a report on the status of the case of Courtauld's, Ltd., now pending before the United States Board of Tax Appeals. I asked Mr. Marrs, Head of the Technical Staff, to prepare such a report for me. I herewith transmit it to you. It covers the procedural status of the case at the present time. The defense recommendation of the Technical Staff, which discusses in some detail the merits of the various issues, is eighteen pages long. In case you desire a copy of that recommendation, or a brief statement of the merits of the issues, I shall be glad to comply.

  
Commissioner.

Attached:  
Report.

## MEMORANDUM

C-TS:ARM

December 2, 1936.

MR. COMMISSIONER:

In re: Courtauld's, Ltd.,  
c/o John G. Jackson,  
15 Broad Street,  
New York, New York.

Years: 1921 - 1932, inclusive.

Docket No. 79732.

The deficiency notice dated February 26, 1935, addressed to Courtauld's, Ltd., imputes a deficiency for the above-named years of \$20,534,815.87 and a 25% delinquency penalty of \$5,133,703.97. There are three principal issues in the case:

1. Whether taxable gain resulted from the disposition by the taxpayer of its stock in the American Viscose Company, which disposition occurred during the years 1926, 1927, and 1929;
2. Whether the petitioner, a foreign corporation, is entitled to the customary deductions allowed in computing net income under the various Revenue Acts, by virtue of its failure to file a return; and
3. Whether the delinquency penalties for all years were properly determined.

The taxpayer is represented by John G. Jackson of the firm of Jackson, Fuller, Nash & Brophy, 15 Broad Street, New York, New York.

Settlement conferences were held in the Technical Staff at Washington, D.C., on various dates between April 11, 1935 and July 21, 1936. All Staff negotiations were conducted by Mr. T. C. Mooney, former Senior Technical Advisor. These negotiations fell through. The highest proposition submitted by the petitioner was an offer of \$2,500,000. to represent a lump sum settlement of all years. The Staff then recommended defense of the case, the defense recommendation being dated September 10, 1936.

-2-

Mr. Commissioner  
In re: Courtauld's, Ltd.

Counsel for the taxpayer, in the summer of this year, stated emphatically that they desired to bring the case to trial before the Board at the earliest possible date. I find that the case is now in charge of Mr. J. A. Adams, Appeals Division, of the Chief Counsel's office, who is now actively engaged in preparing the case for trial before the Board. Mr. Adams advises me that settlement negotiations as such have not been resumed before him. There is considerable additional information mentioned in our defense recommendation which Mr. Adams seeks to obtain from the taxpayer. At the present time both sides are trying to iron out a stipulation of facts. Each side seems desirous of stipulating as much of the case as can possibly be agreed upon and to that end each side is drawing up its own proposed stipulations. A considerable amount of the necessary evidence is naturally outside the United States. For this reason, it is desirable to reduce to a minimum the necessity of taking oral testimony. Obviously, the preparation of stipulations in a case of this magnitude is a time-consuming matter but I believe from talking with Mr. J. A. Adams that the matter is progressing satisfactorily and with all desirable expedition.

*A. R. Marrs.*  
Head, Technical Staff.

December 2, 1936  
12:27 P.M.

H.M.Jr: Hello?

Jesse  
Jones: Hello.

H.M.Jr: How are you, Jesse?

J: Pretty fair, how are you?

H.M.Jr: Well, I'm all right.

J: Well, it's after Thanksgiving. You suggested I  
might have a -

H.M.Jr: That's right. Well now, look, Jesse - let me  
just take a look.

J: All right.

H.M.Jr: I'm trying to do a little money-raising this week.

J: I notice you are.

H.M.Jr: Ah -

J: Pretty good at that.

H.M.Jr: Well, so far you're not bad yourself.

J: Well, thank you.

H.M.Jr: How would you like to have - come around Monday.  
Are you going to be here Monday?

J: Well, I may be; I don't know.

H.M.Jr: Ah-ha.

J: The Secretary of Labor may ask me - last few days  
I've been trying to help her a little bit.

H.M.Jr: Oh.

J: On some of her western problems, and I may be with  
her somewhere else.

H.M.Jr: You mean out of town?

- 2 -

J: Might be. But, do you - are you dated up for today?

H.M.Jr: Yes. Well now, let me just think a minute. How about Friday noon?

J: I'm - I'll be in New York.

H.M.Jr: Oh. Oh. Well, let me just see.

J: Maybe - maybe some other hour than noon.

H.M.Jr: On Friday? When are you going?

J: Well, I'll be - I'll go up there tomorrow.

H.M.Jr: Oh, I was going to say you -

J: Would you have any time this afternoon?

H.M.Jr: No, I'm sorry, I've got this thing - Are you going to be here at noon tomorrow? I'm working back.

J: Tomorrow will be Thursday.

H.M.Jr: Yes.

J: I may be.

H.M.Jr: Well, why not let's make it tentatively for lunch tomorrow?

J: Well, make it tentative for tomorrow.

H.M.Jr: At one o'clock.

J: And I'll call you.

H.M.Jr: Will you?

J: In the morning.

H.M.Jr: Ah - that - and then I'll - I'll make it tentative for tomorrow.

J: All right sir.

H.M.Jr: Thank you.

867, n

December 2, 1936.

The Executive Committee of the Open Market Committee of the Federal Reserve Board met with the Secretary of the Treasury at 11 A.M.

Those present were:

Secretary Morgenthau,

Marriner S. Eccles, Chairman of the Board of Governors,

Ronald Ransom, Vice Chairman of the Board of Governors,

M.S. Szymczak, Member of the Board of Governors,

W. Randolph Burgess, Vice President of the Federal Reserve Bank of New York,

Dr. E.A. Goldenweiser, Director of the Division of Research and Statistics of the Federal Reserve System,

Leroy Peyser, Research Assistant, Federal Reserve Board,

Wayne C. Taylor, Assistant Secretary of the Treasury,

D.W. Bell, Assistant to the Secretary,

Marcus Harris, Bond Assistant, Treasury.

L.H. Seltzer, Division of Research & Statistics, Treasury,

H.D. White, Division of Research & Statistics, Treasury,

H.C. Murphy, Division of Research & Statistics, Treasury,

C.B. Upham, Assistant to the Secretary.

Asked by Mr. Morgenthau to review the market, Mr. Burgess reported that it is in excellent condition -- as good as it has been for a long time. The announcements by the Federal Reserve Board and by the Secretary of the Treasury with respect to financing and the consideration being given excess reserves made a very good impression. The market likes the frankness displayed and it appreciates knowing in advance how much cash is going to be offered on the 15th. The market sagged 1/32nd or so when it heard the amount of cash that would be

asked. There is a great amount of potential buying -- insurance companies have 700 million or 800 million to invest. They have to stay out of the market for the most part because when they go in it goes up. Banks are looking for investments and will take almost anything that is offered which is in line with market conditions.

Mr. Morgenthau said that his New York visitors of the last few days have been of two schools of thought. The bankers, for the most part, favor a 2-3/4% bond with as long maturity as possible. The other line of thought runs to a 2 1/2% bond of shorter maturity.

Mr. Eccles commented that heretofore banks have wanted a 3% coupon regardless of maturity and now they seem to have been beaten down to a 2-3/4% coupon regardless of maturity.

Mr. Burgess said that he thought most people in the market want a 2 1/2% short maturity. Those who favor a 2-3/4% bond want the gravy which would go with so rich an offer. It should give them one and a half to two points.

Mr. Morgenthau commented upon a memorandum which had been submitted to him with respect to the demands of the Social Security fund on Government issues and said that if the law stays as it is the fund would mop up over \$34 billion of debt in the next 17 years.

Mr. Seltzer added that in 17 years the present total debt would be entirely wiped out by the Social Security fund, for investment and trust funds and sinking fund requirements.

Mr. Murphy added that in 15 years some \$24 1/2 billion would be absorbed and in 20 years some \$36 billion or more than is now outstanding.

Mr. Burgess submitted an estimate of \$47 billion in 21 years if all funds are included. He commented that the Secretary of the

-3-

Treasury in the '80's had faced a situation similar to that which may be faced by Mr. Morgenthau's successors. In 1889, for instance, the Secretary of the Treasury bought \$120 million of securities in the bond market for which he paid a premium of \$17 million, paying as high as 129 for some issues.

Mr. Morgenthau said that the Research Division had made a study of the matter which included those figures so that he was familiar with them. He said that he did not see how he, as Secretary of the Treasury, could offer a bond of great length in view of the Social Security Act.

Mr. Eccles expressed his agreement and added that long term bonds have other disadvantages. It is impossible to tell what interest rates will be 30 years from now.

Mr. Burgess said he was inclined to favor a bond of 2-1/2% coupon, callable about 1949.

Mr. Eccles said they had discussed a 2-5/8% or a 2-1/2%, all being against the 2-3/4%.

Mr. Seltzer suggested a 2-1/2% of 1946-52 but Mr. Burgess thought that would be too much gravy.

Mr. Murphy commented that the market has only a high coupon long term bond to compare which makes pricing difficult.

On a round robin roll call both the 2-3/4% coupon and the 2-5/8% coupon were rejected and the agreement seemed to be reached on a 2-1/2% coupon.

Mr. Morgenthau then asked for an expression of opinion as to whether both a bond and a note should be offered and what the conversion privileges should be.

-4-

Mr. Burgess thought there should be a choice between a bond and a note. Many holders of maturing notes and others are trying to maintain liquid position. If they are offered a bond only many will be forced to take them. If there is a note they will have the privilege of doing as they wish. He would hate to see the Treasury take the responsibility for forcing buyers into a bond. Moreover the total is impressive and on amounts of this size there has always been a choice. Then also we want the market to settle down as quickly as possible. If a bond only is offered selling will continue and churning will result.

Mr. Burgess suggested that for the new money we offer \$400 million in a bond and \$300 million in a note and let the subscribers have their choice.

Mr. Eccles said he favored a note and a bond for exchange but for the \$700 million new money he would favor a bond only.

Mr. Ransom said that he rather favored the Burgess view based on what he reports as to market conditions.

Mr. Szymozak also agreed with Mr. Burgess.

Mr. Taylor said that he would like a bond only for new cash with an option on refunds.

Mr. Bell said he liked that also if the notes can be priced cheaper. He thought a 1-1/8% note would go on the exchanges but not for cash.

Mr. Burgess thought 1-1/8% for cash not too thin. He added that there is a shortage of notes in the market now. He said that banks would take the bonds with the idea of selling them later to pick up notes. If notes are available for pickup there will be a better market.

Mr. Bell commented that we might get a very small note issue and Mr. Morgenthau said he would not at all dislike that. He commented on the heavy note maturities of over \$1 billion in 1941. He said he could see no excuse for offering a 5-year note for cash now when we can get a 13 or 14 year maturity at 2-1/2%.

Dr. Goldenweiser said that if the bond is relatively short there will be less reason for offering a note for cash.

Mr. Burgess said that if the bond is long certainly there ought to be a note for cash. If the bond is short it is debatable. He would like to meet the needs and wishes of our customers.

Mr. Morgenthau said that we can't continue to meet the wishes of our customers because we are running out of the kind of merchandise they want. He favors a bond and a bill for conversion and a bond only for cash. He asked for sentiment on a 10 year option period on the bond and expressed a willingness to make it a little extra sweet if necessary to get that.

Mr. Burgess said that this was a very interesting suggestion but would make the bond hard to price. It would surprise the market.

Mr. Morgenthau said that some of his New York visitors knew of the suggestion for a 10 year option period so that Mr. Burgess must have been discussing it.

Mr. Burgess said he had mentioned it. He added that he saw some advantages to the Treasury but regarded it as an experiment and if the bond offered has a 10 year option period there would be all the more reason to take some cash in notes.

Mr. Morgenthau said a 2-1/2% bond of 1946-56 would go to 103 in the market.

-6-

Mr. Burgess questioned whether the Treasury needs a 10 year option period, thinking that 5 years is sufficient. A number of maturities with high coupon are coming along around 1946..

Mr. Eccles said that if the bond had a high coupon there would be justification for a 10 year spread. He said the Treasury has some obligations to institutional savers not to call their bonds if they would be too much disadvantaged.

Mr. Morgenthau asked if there would be any need to distort the price on a 5 year option period bond.

Mr. Burgess replied in the negative -- that it could be taken in the Treasury stride. He suggested a maturity of 1948-53 or 1949-54.

Mr. White said that he thought the idea of a 10 year spread ought to be given more consideration than it has had and suggested that there are a number of advantages which had not been sufficiently explored. He disliked to see it rejected without more thought.

Mr. Morgenthau said that a 1949-54 bond fits in pretty with the market unless something happens in the next two days.

Mr. Seltzer thought it cut the market rather thin.

Mr. Bell said that a 2-1/2% coupon of 1949 would sell on a 2.40 basis.

Mr. Seltzer and Mr. Murphy were inclined to think such a bond might be priced on its maturity date rather than on its call date.

Mr. Burgess added that if and when the market goes off there may be pricing on maturity date and that would make such a bond a little thin. He suggested that a bond with a low coupon would be the last to be called and that he would like to think about it. He

-7-

would like to question it a little more since it is a new idea. He thought a 1949-53 would be a little safer and a 1948-53 would be one hundred percent safe. We must think not only of the market price today but ten years from now when governments may be down and pricing is on the maturity date. Then a longer call date may make the bond look pretty sick.

Mr. Morgenthau expressed tentative agreement on the option of a 5 year note and some kind of a bond for holders of maturing notes and a bond only for cash subscribers.

Mr. Burgess commented that President Harrison and President Fleming would like to see cash subscribers have the privilege of either a bond or a note.

Mr. Morgenthau and Mr. Eccles said they could not see their way clear to do so.

Mr. Burgess said that he is thinking of the banks and the enormous importance of them maintaining liquidity.

Dr. Goldenweiser asked if it was not desirable to encourage new money to come from others than banks.

Mr. Eccles agreed with that but Mr. Burgess said that while it might be desirable it would not be accomplished.

C.B. Upham.

December 3, 1936  
9:17 A.M.

H.M.Jr: Hello.

Operator: Mr. Knoke hasn't come in yet.

H.M.Jr: Well, as soon as he does let me know.

Operator: All right.

H.M.Jr: Is Dr. Burgess there?

Operator: I'll find out.

H.M.Jr: All right.

Operator: Mr. Burgess.

Burgess: How are you?

H.M.Jr: I'm all right.

B: Good.

H.M.Jr: Burgess, they tell me they're having a little trouble over in England. The stock market opened there late and they're having quite a lot of disturbance.

B: I'll say, yes.

H.M.Jr: Now I may want to - I want to talk this over with you. You know my rule about our bond market before financing.

B: Yes.

H.M.Jr: But if that should be a repercussion over here, I don't think we ought to let the thing go too sharp.

B: No, not too far. I don't think it will, as a matter of fact.

H.M.Jr: Well, I tell you what I'd like you to do. As soon as the bond market opens and you get the openings, would you call me?

B: Yes

H.M.Jr: Because, you see, the thing is not acting normally. We - I want to tell you - you won't - you don't see the sales from abroad every day, do you, on stocks?

B: No.

H.M.Jr: Well, you know, I get them every day and Knoke does.

B: Yes

H.M.Jr: Well, the - the - the - it's quite a heavy sale yesterday, see?

B: I see.

H.M.Jr: And the way that's reacted every time on a heavy sale, sterling has gone up.

B: Yes

H.M.Jr: Well, instead of that sterling is down.

B: I see.

H.M.Jr: So the thing is not acting normally.

B: Ah-ha.

H.M.Jr: See?

B: Yes

H.M.Jr: And I thought you better watch it because, while it's - three, four thirty-seconds wouldn't bother me, but if it went off eight or ten thirty-seconds it would.

B: Yes, I see.

H.M.Jr: Do you see what I mean?

B: Yes, yes.

H.M.Jr: So after you get the opening, as soon as you've got the feel, I wish you'd call me.

B: All right, yes.

H.M.Jr: Because, after all, while I believe in being patriotic, there is a thing as - as letting Mrs. Simpson carry this thing a little bit too far.

B: Oh well, I don't think it would be fair to let it go entirely any more than the other way, because you want a normal market, and -

H.M.Jr: You didn't hear what I said.

B: - and -

H.M.Jr: I - you didn't hear what I said. I said while I believe in being patriotic, I said I think there's such a thing as letting Mrs. Simpson go too far.

B: (Laughs)

H.M.Jr: It's - it's all about Mrs. Simpson.

B: (Laughs) Oh, I should say.

H.M.Jr: What?

B: That's right, yes.

H.M.Jr: No, the whole thing is over whether the King is going to abdicate.

B: Of course, yes.

H.M.Jr: And it - it will have - it unquestionably will have repercussions.

B: Yes, yes.

H.M.Jr: While I am pro-American, I - I - (laughing) - it may be much too much.

B: (Laughs)

H.M.Jr: All right.

B: First rate.

FS

GRAY

London

Dated December 3, 1936

Rec'd 11:10 a. m.

Secretary of State,  
Washington.

591, December 3, 2 p. m.

FOR TREASURY.

At a meeting with Waley and Philipps the latter referred to the conversation reported in the Embassy's 512, November 5, 5 p. m., and said that he now had to revise somewhat his estimate of the franc situation; that the position had deteriorated; that the flow of funds from France was having an effect both actual and psychological. Philipps particularly pointed out that on Thanksgiving Day with New York and Paris closed there was no pressure on the franc from the other markets; that if any evidence was needed that was sufficient indication that the pressure on franc came from within France. Waley seemed to think that if Blum relaxed his devaluation profits regulations for a specific period, say for a month, he might not only stop the flow of French funds abroad but induce the repatriation of substantial amounts of French capital. Philipps, however, seemed

FS 2-No. 591, December 3, 2 p. m. from London

seemed disturbed though not alarmed that the fundamental processes of French business recovery were moving so slowly--a condition which in the long run was the determining factor affecting the repatriation of capital.

RR

BINGHAM

December 3, 1936  
12:04 P.M.

H.M.Jr: Now, your boy friends left -

Burgess: Yes

H.M.Jr: - and I'm not quite sure what they had in mind when they came down.

B: Yes

H.M.Jr: But to boil the whole thing down, they seem to think that one and eighth is too narrow, but if we do a one and a quarter -

B: Yes

H.M.Jr: - and they -  $2\frac{1}{2}$  percent, 49-54, which they're very enthusiastic about -

B: Yes

H.M.Jr: - for the - that - offer that for the conversion rights, you see?

B: Yes

H.M.Jr: They say that a one and a quarter would be too rich to offer for cash.

B: Yes

H.M.Jr: And therefore they think that we could for cash just offer bonds and they'd go out - go extremely well.

B: Yes

H.M.Jr: They say we're faced with - with one and an eighth it's too narrow for the conversion and the one and a quarter is too rich for cash.

B: Yes, ah-ha.

H.M.Jr: So, while they seem to - well, that's the way they - I mean after an hour's talk, see?

B: Yes, yes, yes.

- 2 -

H.M.Jr: And we are faced with that difference of the one and an eighth and one and a quarter.

B: They think the 49-54 -

H.M.Jr: Well, to quote what's his name, the head of it, he said he was heartily in favor of a 49-54.

B: Ah-ha, ah-ha.

H.M.Jr: Hello.

B: I would have thought they thought that was too narrow.

H.M.Jr: No, they picked it.

B: I see.

H.M.Jr: Heartily in favor is what they said.

B: Well, I think it's all right.

H.M.Jr: What I mean, I - I'm - I'm using his words.

B: Yes, yes. Well, I think that's pretty good. The more I think about it, the more I'm reconciled to not taking - not taking a note for cash.

H.M.Jr: Well -

B: I don't think about that.

H.M.Jr: Well, the trouble is, Burgess, if the market stays as it is I can see that one and an eighth is awful close.

B: Well, I - since - since yesterday slipped off two or three thirty-seconds, it does make it awful close.

H.M.Jr: And to offer people a chance to subscribe for cash to one and a quarter - we'd sell nothing but notes.

B: That's right. Well -

H.M.Jr: Almost, I mean.

- 3 -

- B: Well, they'd - you'd oversubscribe very heavily your - your cash offering, but it wouldn't bother me very much.
- H.M.Jr: They also pointed out that a 49-54 two and a half they think would sell at about 101, and a five year note at one and a quarter would sell about par three-quarters.
- B: Yes
- H.M.Jr: So that the - would be about even, I mean.
- B: Yes, yes.
- H.M.Jr: I mean they'd be priced about the same.
- B: Well, the note would - making the note that - that full would guarantee the success of the bonds. You know, we've always figured that - that if you're operating an exchange of two issues and you make the note a surest buyer, you're sure of your bonds then.
- H.M.Jr: I see.
- B: So I think that has much to commend it.
- H.M.Jr: Well, I - I - I - after talking to these fellows, - I haven't asked Bell. (Aside to Bell: How do you feel?)
- B: Well, I like that program pretty well?
- H.M.Jr: (Aside to Bell: What?)
- B: I like the program pretty well.
- H.M.Jr: Bell says that - this is - this - what I'm saying - he likes it.
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- H.M.Jr: (Aside to Bell: Huh?) I think it seems - if the market stays as it is, with a one and an eighth and a one and a quarter, I - I - I don't think we ought to do a one and an eighth.
- B: I think it's a little thin.

- 4 -

H.M.Jr: And then if we do a one and a quarter and offer those fellows, we're not going to sell them any bonds, for cash.

B: Well, you'd - on your cash offering -

H.M.Jr: Yes

B: - you'd have to say what amount you were going to -

H.M.Jr: I know.

B: - and what amount note, if you did it that way. You'd have to say 400 bonds at -

H.M.Jr: Yes, but Mills is so enthusiastic about this 49-54.

B: Yes.

H.M.Jr: He's very enthusiastic.

B: Yes.

H.M.Jr: He says nobody expects it; they all expect a long term.

B: Yes, yes. - Well, I'm - I'm reasonably reconciled.

H.M.Jr: Well, I - I don't want - I - I want to - I'm very anxious to see Levy.

B: Yes, yes.

H.M.Jr: And then after that we can kind of ruminate a little bit.

B: Yes

H.M.Jr: And then see what happens.

B: Well, I think we're very close to the solution anyway.

H.M.Jr: I - after talking to these fellows I feel that - exactly that way, that we're very close to the solution.

B: Yes, yes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1936

TO Mr. Morgenthau

FROM Mr. Harris

<u>Suggested Coupon</u>	<u>Maturity</u>	<u>Market Basis</u>	<u>Probable Premium</u>
<u>NOTES</u>			
1 1/4% (5 yrs.)	12/15/41	1.07	28/32nds
1 1/8% (5 yrs.)	12/15/41	1.07	9/32nds
<u>BONDS</u>			
2 1/2% (12 yrs.)	12/15/48	2.36	1 pt. 14/32nds
2 1/2% (13 yrs.)	12/15/49	2.41	1 pt. 2/32nds

Estimates based on closing bid prices December 2nd.

December 3, 1936  
12:04 P.M.

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B: Well, I think we've very close to the solution anyway.

H.M.Jr: I - after talking to these fellows I feel that - exactly that way, that we're very close to the solution.

B: Yes, yes.

- 5 -

H.M.Jr: Like all these things, you keep working on them long enough and then suddenly you say, "Well, that's it."

B: Sure, that's right.

H.M.Jr: And I'm beginning to feel that way -

B: Yes

H.M.Jr: - aren't you?

B: Yes

H.M.Jr: I say I'm beginning to feel that way.

B: Yes, that's good.

H.M.Jr: Now, you said you had something else?

B: Oh yes, I wanted to tell you - I don't know whether Marriner has told you or not - we discussed after we left you yesterday -

H.M.Jr: Yes

B: - what the Reserve System would do with its securities.

H.M.Jr: He did not tell me.

B: Well, I think you ought to know.

H.M.Jr: I think I should.

B: I don't know that it's my place to tell you, but you ought to know that -

H.M.Jr: Well -

B: - that we discussed that informally; we're not going to reach a final decision -

H.M.Jr: Yes, well -

B: - until the issue is out. But informally we discussed dealing with our maturities this way. We've

177 million of maturing notes.

H.M.Jr: 177 notes.

B: 177

H.M.Jr: Yes

B: That we'd put 75 of that into new bonds, -

H.M.Jr: 75 into new bonds.

B: - 75 into notes -

H.M.Jr: Yes

B: - and the balance of 27 million -

H.M.Jr: Yes

B: - we'd put into short term bonds if we could find them; that is, the in-between bonds, you know.

H.M.Jr: Yes.

B: Our portfolio is a little low on some of the shorter bonds.

H.M.Jr: I see.

B: Shorter than the new bonds.

H.M.Jr: Yes

B: And we ought not to take into any one issue more than about 75.

H.M.Jr: Yes

B: Now, that would mean, if we follow it out, that we'd be making some switches.

H.M.Jr: Yes

B: That is, we might be selling a few rights and buying a few shorter bonds.

H.M.Jr: Yes

- 7 -

B: But we wouldn't do it if it - to the point where it affected the market.

H.M.Jr: I see.

B: We'd be very careful about that.

H.M.Jr: Well, I - ah - this is only a comment and not a criticism.

B: Yes

H.M.Jr: I mean I - I don't understand it because you fellows have been talking so much about getting the longer bonds, and it seemed to me that this would be your opportunity. Now, this is purely a comment, you understand.

B: Yes, yes.

H.M.Jr: And it just doesn't seem as though - I mean Eccles has been talking he's got to have longer bonds. Well, here's your chance to get them.

B: Well, I think the feeling is to do it gradually.

H.M.Jr: Well, as I say, it's purely a comment.

B: Yes. Yes, yes. And we shouldn't have more than a certain percentage of any given issue outstanding.

H.M.Jr: Well -

B: So that there's arguments -

H.M.Jr: Well I'm not making any suggestions -

B: Yes

H.M.Jr:

B: Well, I - I think you're quite right to raise the question, and up to us to say -

H.M.Jr: Right

B: - if you were doing it.

H.M.Jr: Right

- 8 -

B: Yes

H.M.Jr: But I'm glad to know about it. Thank you for telling me. He'll - he'll most likely tell me.

B: Oh, I think so, yes. It hasn't - it wasn't formal action; it was just a discussion of the thing, you know.

H.M.Jr: Now what else have you got on your mind?

B: And - that's all.

H.M.Jr: I see.

B: Nothing else at all.

H.M.Jr: Well - ah - then when - Levy will be here tomorrow at eleven.

B: That's right.

H.M.Jr: And after he leaves I'll give you another ring.

B: Very good.

H.M.Jr: Thank you.

B: Goodbye.

Fin 111



## TREASURY DEPARTMENT

WASHINGTON

December 3, 1936

### MEMORANDUM OF CONFERENCE IN THE SECRETARY'S OFFICE REGARDING THE DECEMBER 15 FINANCING

Those present besides the Secretary were Messrs. Mills and Repp of the Discount Corporation of New York, and Mr. Bell.

The Secretary started the conference by stating that he had already talked to several New York bankers and there seemed to be two schools of thought on the bond issue. Some said to go as far as possible into the future and others said to keep the term down to within 12-16 years. Practically all agreed that there should be a note issue and a bond issue.

The Secretary then asked Mr. Mills and Mr. Repp their opinion.

Mr. Repp said that, of course, the Department could do one of several things, but he personally thought that we should issue a note and a bond. The note should be five years and could be on a basis of 1-1/8%, although he feels that this is too thin, particularly in view of the present conditions. He said that in view of the fact that we have not had a note issue since June, the market is today dealing in notes on the basis of scarcity value. Therefore, with another issue of notes the present yields would be inclined to increase. On the present market a 1-1/8% note issue would sell on a basis to yield from 105 to 108, in which cases the quotations would range from 100-12/32 down to 100-7/32.

Mr. Mills said that he had no doubt but that a 1-1/8% note would go, but he thought it was too thin for the Treasury to take a chance.

The Secretary then said that he would admit for the sake of the conversation that the Treasury would put out a note and a bond, but the rate on the note might depend on the decision made with respect to conversion privileges. If the note is for exchange purposes only, he thought it might be priced more closely.

- 2 -

Mr. Mills and Mr. Repp both thought that if this were done a very few notes would be exchanged. Those presently holding the maturing notes would sell them on the market, take their premium and then buy some other outstanding note. It is Mr. Repp's opinion that if we wanted to confine the operation in notes to a conversion only and on a much lower basis, then we should offer that privilege in an outstanding note such as the issue of last June.

The Secretary then suggested that for the moment we forget about the note issue and consider the bond. He asked Mr. Mills his opinion as to what should be done.

Mr. Mills said that, assuming that we will have a refunding of \$780,000,000 and will ask for cash of about \$700,000,000, making a total financing of about \$1,500,000,000, there are three things now in the picture which may develop along angles that will seriously affect the money market: One, the contemplated change in the reserve requirements; two, a new Congress coming in and the attitude they will take on new legislation; and three, the world situation which has developed within the last twenty-four hours, particularly in England, because of the possibility of the King's abdication. This might be, he said, a disturbing influence in the market for several days.

Mr. Mills further said that of course no one knows just exactly what a change in the reserve requirements will do to the money market. He thought that the shock in August when the change was made was due to the novelty of the thing instead of there being any real pressure against the market because of the increase in the reserve requirements. He thought that the novelty has now worn off and that the next change will be a real test of just how the market will react to a control of this kind. He feels that a great deal of the shock has been discounted by the announcement a few days ago by the Federal Reserve Board that the matter is now under consideration and he, personally, does not feel that the shock will last very long; yet frankly he does not know and he does not think any one else does. Because of this situation he favors a note with a rate which can stand a loss of several points in the market and yet remain above par, and a bond of a much shorter maturity than we have put out in the last few issues. He thinks that a 2-1/2% rate with the first call date somewhere around 1950 would be excellent.

- 3 -

Mr. Repp then stated that in his consideration of the matter he had come to the conclusion that the Treasury of course had to put its public debt in those maturities where it will more nearly meet its debt retirement program. He is aware of the resistance of the banks to being constantly forced into long term bonds. He thought, therefore, that the Treasury should put out a note with, say, a five-year maturity, and a bond which would also be for a comparatively short term. He knew that the banks would consider a 2-1/2% rate on the short term very attractive from their standpoint. On the other hand, he felt that the insurance companies would prefer a longer term bond with a 2-3/4% rate. If this bond is issued for a 25-year term, it would go to 102, which any one would agree is too rich.

Mr. Repp said he realized that the 2-5/8% coupon rate is unpopular, but from the standpoint of the real investors, such as insurance companies, and the like, this rate would be popular if they could not get the 2-3/4%.

Mr. Mills said that when he left New York he had favored a note and a bond both for cash with exchange privileges into either the notes or the bonds, the bond to have a 2-1/2% rate with a maturity in 1950-53. But since discussing the proposal to issue a bond for cash and exchange and the note for exchange only, he agreed that it had a distinct advantage from the Treasury standpoint, especially in view of the difficulty in pricing a note for cash.

The Secretary then said that he had been thinking about a five-year spread between the call and maturity dates of the bond and wanted to know what these gentlemen thought about that.

Mr. Repp thought that a 2-1/2% 1949-54 bond would go very well, and Mr. Mills expressed the same opinion. He said that if we issued a bond of this kind on the present market it should yield about 2.40 to call, and about 2.43 to the maturity date, and would sell at about 101-4/32. If it were on a 1950-55 basis he felt that it would sell at 2.43 to call and at about 2.45 to maturity date, and would sell at about 101-7/32.

The Secretary then asked these gentlemen if they would change their opinion on the 1-1/8% five-year note, assuming that we issued a 2-1/2% bond of 1949-54. They both agreed that the majority of subscribers would take bonds and feel that they had been forced into

- 4 -

bonds by the Treasury's decision. They felt that a 1-1/4% note would be just right and on this basis, Mr. Repp thought that 80% of the exchanges would be in notes. Mr. Mills thought that as much as 60% would be in notes.

Mr. Mills and Mr. Repp both thought when they came down this morning that the Treasury should issue about \$300,000,000 of new money for notes and \$400,000,000 for bonds and allow for exchanges in either security, but since talking the matter over they agreed that while the 1-1/8% was too thin, the 1-1/4% was too rich for a cash offering but would be just about right for exchange purposes only. They also agreed that there would not be more than 5/32 difference on the market between a 1-1/4% five-year note and a 2-1/2% 13-18-year bond.

*scwB*

December 3, 1936  
2:36 P.M.

H.M.Jr: Hello.

Operator: Go ahead.

Knoke: Hello?

H.M.Jr: Hello, Knoke?

K: Yes, Mr. Secretary.

H.M.Jr: How are you?

K: Fine, thank you.

H.M.Jr: Knoke, Cochran sent me over a long cable today with an extract from the London Financial News.

K: Yes

H.M.Jr: And they've been pounding us. Let me just read you a quotation from their yesterday paper, see?

K: Yes, sir.

H.M.Jr: And I'm reading it to you with the thought that when you might talk to these fellows over there in England, that they might set this editor right, see?

K: Yes.

H.M.Jr: This is what it says: "Most of the gold available in the market was taken by the London agencies of the Guaranty Trust and the National City Bank, and it is assumed that both banks are operating on behalf of the American exchange equalization fund. Ever since the devaluation of the franc these quarters have purchased the bulk of the dishoarded or newly mined gold coming to the London market. Until recently, this was justified by the weak undertone of sterling, which the United States authorities were entitled to counteract by gold purchases by virtue of the tripartite agreement." Now, they tell me that it isn't the Guaranty or the National City; it's the Chemical, I understand, isn't it?

K: Yes, sir, the Chemical has been the principal actor, yes.

- 2 -

- H.M.Jr: Yes. "During the last fortnight, however, and more especially since the middle of last week, sterling has shown a firm tendency. Notwithstanding this, the American authorities have continued to buy in the London market every ounce of gold available. In doing so, they deliberately accentuated the appreciation of sterling and the depreciation of the dollar, which is not quite playing the game. It can hardly be in accordance with the spirit of the tripartite agreement for any participant to go out of its way to depreciate its currency, however slightly. American and other foreign quarters have occasionally accused our exchange equalization account of the causing of a deliberate depreciation of sterling. These charges could never be substantiated; but here we have concrete evidence that the American authorities are endeavoring to cause a depreciation of the dollar instead of confining their activities to the prevention of an unwanted appreciation."
- K: Yes.
- H.M.Jr: And so forth and so on. See?
- K: Yes. That's the Financial News?
- H.M.Jr: I'll tell you what it is. It's - it's the - it goes on. If you want to, I can have the whole thing put on the wire for you. I can send it to you; you'll have it in 15 minutes.
- K: Well thank you very much; I'd appreciate it.
- H.M.Jr: It's the Lombard editor - I'll - I'll just have this thing repeated and put on the wire to you.
- K: Yes
- H.M.Jr: The Lombard editor of the London Financial News. Now I wonder if we couldn't sort of - when you talk to your friend over there, you couldn't tell him to call this fellow in and - and just tell him he's crazy.
- K: Well, I - what - what we can certainly do is - is to

- 3 -

talk to them about it. I don't know - maybe there is some kind of a - of a personal antagonism, -

H.M.Jr: Well -

K: - that prompts this kind of stuff. It isn't the first time, Mr. Secretary. I have before me here Cochran's cable to you of November 12 -

H.M.Jr: Yes

K: - along exactly the same lines -

H.M.Jr: I know.

K: - and again the Lombard Street editor of the Financial News.

H.M.Jr: Well, this fellow - ah - will you talk to them today or will you talk -

K: Well, today, of course, I can't -

H.M.Jr: Well -

K: - they are - they're in bed by now, almost, I guess.

H.M.Jr: Well then, I'll - I'll put it in the mail Special Delivery and you'll have it the first thing in the morning.

K: Thank you very much and I'll talk to them tomorrow morning.

H.M.Jr: Will you? Ask them what's - of course, we have our people over here too; we can't - there may be some special reason.

K: Well, I'll see what I can find out, and the Bank of England will know as well as anybody else -

H.M.Jr: Right

K: - that this is not correct.

H.M.Jr: No. It's just as though they - if the Wall Street Journal ran something, you people could find out.

K: Yes. Well, I think something can be done.

- 4 -

H.M.Jr: Thank you.

K: Now Mr. Secretary, may I just say one word?

H.M.Jr: Two words.

K: On this - on this thing. It's just for that reason that I have frequently recently argued with - with Lockheed how good it would be if we could sell every once in a while, and just in order to take the wind out of the sail of these people who talk this way.

H.M.Jr: But we did sell -

K: Yes, I know, I know. That is, if we could do it on and off, even - after all, we are making money every time on it - I think it would help your whole policy very considerably.

H.M.Jr: There's - there's no argument about it. I - I'm for that.

K: Fine.

H.M.Jr: And listen.

K: Yes.

H.M.Jr: To show you how much I'm for it, for two years I've begged an organization named the Federal Reserve System to sell some of their two and a half million bonds.

K: (Laughs)

H.M.Jr: For two years I've begged them, so that it wouldn't always be two and a half billion, see?

K: Yes

H.M.Jr: So if I give them that advice and they don't take it, I'm glad to take your advice.

K: Well, I -

H.M.Jr: So, seriously, I - I - when the thing goes - today if

it had gone to - to 91, I'd have sold something.

K: Yes

H.M.Jr: You'll find that we'll be glad -

K: I'm sure it'll be the most helpful thing that we can do, Mr. Secretary.

H.M.Jr: Well, there's no argument.

K: Fine. Now, I hadn't called you before because there is nothing to report in the market.

H.M.Jr: I know.

K: It's entirely quiet. Sterling, as you know, is 90½, practically no business going through.

H.M.Jr: Yes

K: There's just one thing that is interesting with regard to the silver market.

H.M.Jr: Yes

K: The latest reports on silver from London said that silver was a little easier from Mexican and Chinese selling.

H.M.Jr: Good.

K: This Mexican selling is new. It's one thing Lochhead and I have wondered for a long while why they didn't do it.

H.M.Jr: Right.

K: Maybe they have seen the light.

H.M.Jr: Now, this cable is numbered 1184. You'll have it tomorrow morning.

K: All right, I'll - I'll be on the outlook for it.

H.M.Jr: 1184

K: Yes, and I'll speak to them tomorrow morning.

H.M.Jr: Thank you.

K: Thank you, sir.

RB

GRAY

Paris

Dated December 3, 1936

Rec'd 3:56 p. m.

Secretary of State

Washington.

1190, December 3, 5 p. m. (SECTION ONE)

FROM COCHRAN.

Dollar has strengthened on Paris market and is sought from most Continental centers. Florin has continued to improve, however, in spite of lowering of discount rate from 2.5 to 2 % today. Of 199 bars of gold offered in London market today British control is said to have provided 147. Bank of France called on to provide important amounts of sterling today at 105.15. Market continues to follow with much interest threatened constitutional question in England.

Statement of Bank of France as of November 27 showed discounts up 1,033,000,000 francs; circulation up 892,000,000; deposits up 350,000,000; coverage 63.23 versus 64.02.

While as mentioned yesterday British customs figures show heavy current movements of gold from France to England

it is

RB

-2-#1190, December 3, 5 p. m.  
(SECTION ONE) from Paris

it is impossible to tell from Bank of France statement  
whether this is repatriation of British gold that has been  
held here under ear mark for some time or (END SECTION ONE)

BULLITT

CSB

PARTIAL PARAPHRASE OF SECTION TWO, telegram No. 1190  
from the American Embassy, Paris, December 3, 1936.

whether it is gold newly ceded by French equalization fund to pay for sterling which it has used to support the franc. Paris banks go importantly to the Bank of France for their sterling requirements almost every day. It is the belief in these circles that the French equalization fund has had to ship significant amounts of gold to London to acquire this exchange.

It is said by private French bankers that serious concern is felt by the Ministry of Finance over the means for meeting coming maturities in view of the fact that any large public operation is impossible. Enthusiasm has not been evidenced by bankers who have been sounded out by the Ministry of Finance as to their possible support. It is hoped by certain banking leaders that a crisis wherein Daladier would succeed Blum will take place in the next few weeks.

Paris press today carries following communique from the Ministry of Finance:

"Certain journals have published a report according to which the French Government is on the point of seeking a credit in the United States. The Government declares that this report is without any foundation".

END MESSAGE.

BULLITT.

EA:LWW

LMS

GRAY

Paris

Dated December 4, 1936

Rec'd 3:35 p. m.

Secretary of State,  
Washington.

1195, December 4, 6 p. m.

FROM COCHRAN.

Dollar fairly well bid on Paris exchange market. Bank of France believed to have yielded important amount of sterling today. Market operators consider as serious the constant strain on the franc vis-a-vis sterling. Florin continues strong and Dutch control continues to buy sterling. Belga fails to improve as further increase in Belgian unemployment for week ended November 28 is reported. French rentes unchanged to 50 centimes up.

Committee work on 1937 French budget continues and debates thereon in Chamber should begin December 10 with urgent plans to expedite its passage by Parliament by December 31. Treasury's account with Bank of France has according to statement of November 27 declined in week ended that date from 331 to 156,000,000 francs. It appears that this deposit is decreasing at a rate which will oblige the Treasury to resort to aid from private banks as suggested in my telegram yesterday or to renew its borrowing

LMS 2-No.1195, December 4, 6 p. m., from Paris,

rowing at the Bank of France in the near future and while the budget is under discussion.

Under money market notes the FINANCIAL TIMES London today remarks (END SECTION ONE)

BULLITT

CSB

RB

GRAY

PARIS

Dated DECEMBER 4, 1936

Rec'd 5:47 p. m.

Secretary of State

Washington.

1195, December 4, 6 p. m. (SECTION TWO).

"Interest may be aroused today by the statement of Mr. Morgenthau that the recent upward trend in sterling was a natural one, that it was not contributed to by artificial factors and that the United States Treasury was not disturbed by the movement. The American authorities lose no opportunity of buying gold made available in the London market and by so doing accentuate the application of sterling which was started by some return of money from Wall Street. The United States Treasury/<sup>no</sup>doubt would welcome depreciation of the dollar. Such being the case there would naturally be no concern over an improvement in the value of the pound."

Discussing the franc "peg" the FINANCIAL NEWS today says in part under Lombard Street notes

"For the present the lowering of the value of the franc is off the horizon although it has to be envisaged as a distant possibility. The French 'control' continues to peg

RB

-2-#1195, December 4, 6 p. m.  
from Paris (SECTION TWO)

to peg the franc rigidly against sterling even if in doing so it continues to lose foreign exchange. The current Bank of France return does not indicate any losses in spite of these losses and of the repayment of another installment of the London credit last Friday. All the losses are borne by the French exchange equalization account which appears to have accumulated sufficient gold during the repatriations in October to stand the losses without having to retransfer some gold from the bank of France."

French financial press considers as unfortunate the measure sponsored by Minister of Finance de Man to tax retroactively profits from Belgian devaluation. This is considered as contrary to the recently created tendency to achieve good will and confidence between Governments and also between Governments and their subjects in monetary matters. (END OF MESSAGE)

BULLITT

EMB

NPL

AM

OFFICE CORRESPONDENCE

DATE December 4, 1938.

CONFIDENTIAL FILES

SUBJECT: INTERNATIONAL MONETARY FUND

BANK OF ENGLAND.

TO: L. W. Kneke

I called Mr. Bolton at 12155 today and referred to our conversation of December 1, in particular to his suggestion that we close their Account B and amalgamate it with their Account F. I repeated that this seemed perfectly reasonable to me and told him that we were ready to act accordingly. I added that I took it for granted that, as a matter of principle, they would continue to maintain the agreed upon minimum balance of \$250,000. Bolton replied that there was no doubt whatever on this point. I told him that we would send him the necessary advice by cable tonight and he promised he would confirm on receipt of our message.

With reference to his other suggestion of December 1, that they employ for us the balance now standing to our credit in Account No. 2 on their books, I told Bolton that I expected to have an answer for him the beginning of next week.

I then referred to the article of the Lombard Street Editor of the London Financial News of December 2. I hoped it was not necessary for me to tell him, I said, that the assumption contained therein, that the Guaranty Trust Company and the National City Bank were operating on behalf of the American Exchange Stabilization Fund, was without foundation. Neither the Guaranty nor the City, nor ~~any~~ the Chase or the Chemical (who had had really been the biggest operators), nor for that matter any bank, had been acting in any of their gold operations for our account. I continued that I had looked into the figures and that I had found that the Guaranty, during the whole period

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 4, 1948.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. H. Knake

BANK OF ENGLAND.

- 2 -

beginning with the devaluation of the franc on September 26 to December 2, had taken \$8,000,000 of gold in the London market; the City Bank, \$8,000,000; the Chemical, \$44,000,000 and the Chase, \$60,000,000. As far as the Chemical was concerned I reminded Bolton of previous discussions in the course of which I had mentioned that we had called that bank in several times, gone over their figures and straightened them out on their calculations of shipping expenses. Since then, they had in their operations more accurately allowed for actual expenses involved. As far as the Financial News statement was concerned, that the American authorities had continued to buy in the London market every ounce of gold available and, in doing so, had deliberately accentuated the appreciation of sterling and the depreciation of the dollar, I referred to our actual operations, with all of which he was thoroughly familiar, and particularly those during the last two weeks. I mentioned that we had bought sterling exclusively in connection with the Argentine order, that even so, these purchases totaled only about \$8,000,000, and that the purpose of these purchases, as he knew, had not been to support sterling or drive it up. On the contrary, we had once sold sterling for the specific purpose of keeping the rate down. Bolton replied that he had been expecting some reaction to the Financial News article from us, that he was perfectly well aware of what was going on in the London market and could assure me that the writer of this article was "a sort of continual problem to everybody; most of his information was based purely on imagination and was completely wrong," as he, Bolton, knew. He was sorry, he added, that we should have been bothered with this thing.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 4, 1933.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.BY L. W. Knake

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He was afraid that it was the sort of thing that was very, very difficult to stop because it was malicious, sensational journalism of the kind that would create imaginary statements just for the sake of getting people to read the paper. The writer was Paul King, a man who was not allowed in any office in London of any repute and got no good information from anyone at all. Having created this sort of reputation, he was trying to keep it going by creating sensational news and causing a stir. I asked Bolton whether he was satisfied that the rest of the market realized how unreliable this stuff of King's was. Bolton replied that nobody took him seriously. He added that after the article appeared the Bullion Market had had a meeting in which they discussed the matter among themselves. This meeting, he hinted, took place more or less at the bank's suggestion, done very privately of course. To force King to make a public denial would really not be worth the candle, Bolton thought. Nevertheless, he thought he might take this question up once more.

Bolton then briefly commented upon this morning's market as follows: Sterling, as a result of the question of the King's marriage, was showing weakness; they had lost some amounts of gold to Switzerland, Holland and also to Belgium. The franc on the other hand, remained weak as heretofore. Baldwin's statement, just delivered in the House of Commons, made it perfectly clear that there was a complete breach between the King and the Government. As soon as this statement had become known sterling had turned weak. He had sold some \$400,000 or \$500,000 to prevent

FEDERAL RESERVE BANK  
OF NEW YORK

130

OFFICE CORRESPONDENCE

DATE December 4, 1952.

~~CONFIDENTIAL FILES~~

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Knake

- 4 -

BANK OF ENGLAND.

a break and succeeded in stopping the movement for the time being at least. Bolten thought it would take some time to settle this matter of the King's marriage and that, as a result, the tendency of sterling might be towards a lower level.

LWK:KMC

## WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING  
1734 NEW YORK AVENUE NW.  
WASHINGTON, D. C.

HARRY L. HOPKINS  
ADMINISTRATOR

December 4, 1936.

MEMORANDUM

TO: Mrs. Klots  
FROM: Emerson Ross *ER*

At Secretary Morgenthau's request, I am forwarding to you the attached list.

The order stopping any replacements for people dropped was not sent to the following states because of previous arrangements made in these states by which the local agencies assisted materially in the investigation:

Illinois  
Indiana  
Michigan  
Minnesota  
Missouri  
Nebraska  
North Dakota  
South Dakota  
Wisconsin

III

Memorandum of a Conference in the office of the Secretary, 10 A.M., December 4, 1936. Present: Secretary Morgenthau, Mr. Bell, Mr. Haas, Miss Lonigan, Mrs. Klotz, and Mr. McReynolds of the Treasury, and Mr. Williams and Mr. Ross of the Works Progress Administration.

The Secretary: What happened with this Mayors' Committee?

Mr. Williams: This was the Executive Committee of the Mayors' Conference, 12 of them. They had received the first impact of the letter we sent out. Apparently what our people had done was to take it up with the larger cities and indicate to them what it would mean as far as projects are concerned. For instance, in New York City, the proposal there was to close down the park project, that being the one where they had the highest material cost.

For example, we had cut the program in Pennsylvania from 248,000 to 225,000. The administrator there said that the money quota which we gave them was not sufficient to support the 225,000 and it was necessary to make a further cut of 5,000.

The facts seem to be that the money quota which has been set is apparently not sufficient to support the man quota given, and that is one of the things the Mayors are protesting. I said, "This is the position the Administration is taking, and you people have got to look forward to putting money into this yourselves." What they want the President to do is to put the full amount of money back in on the basis heretofore used and then they want increases made on the basis of normal increases for winter needs.

The Secretary: This cut was in the costs for the month of December?

Mr. Williams: We said, "Do not encumber beyond 150 million dollars for December for state projects."

The Secretary: The list of proposed limits that you gave us was for the month of January.

Mr. Williams: Yes.

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The Secretary: I have not seen a list for December. I should like it very much.

Mr. Williams: We can furnish it that way.

The Secretary: If you have it by states, give it to me for November and December, on a state basis. *et,*

Mr. Williams: We can do that.

The Secretary: When you do it, send one copy to Bell and one copy to Mrs. Klotz for my files.

What are the Mayors going to do about this?

Mr. Williams: They are going first to see all their Congressmen and Senators. Their instructions from the President before he left was to see Mr. Bell before the President gets back. They are going to ask questions about what the money will do, and what they want to do - they want to see Harry and I think they want to see you. Then they expect to see the President when he gets back.

The Secretary: Your people are undoubtedly conscious of the fact that, taking the country as a whole, the Rocky Mountain section gets more than its proportionate share.

Mr. Williams: You have not got much out there except in two states, Washington and California.

The Secretary: I was referring to the real Rocky Mountain states.

Mr. Williams: You have not very much there. When it is all said and done, the total amount of money we spend there is small. In Colorado the amount is hard to reduce. There are four states where you've got some money being spent: Washington, Oregon, Colorado, and California.

The Secretary: If you take what you spend, plus what the three A's and other organizations are spending, it piles up in those states to an

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excessive amount on a population basis.

Have you picked your eighty cities you are going to concentrate on?

Mr. Williams: We are working on that. Our biggest problem is in New York City.

The Secretary: When are we going to find out about all these "deals" that keep popping up all the time?

Mr. Williams: You know what happens. The President does not really make any of these deals. These men go in to see him and come out thinking that they have something when they really have not. What the President does is to say to them, "Something ought to be done," and they think he has made a commitment.

The Secretary: Are you conscious of any shift that is being made in the Ickes outfit to take people off of relief rolls? Isn't he supposed to take 90 percent of those people?

Mr. Williams: I think our man does not certify anyone any more unless they are on relief rolls.

The Secretary: How much money will Ickes have to spend, beginning January 1, for the next 12 months, money already allotted beginning January 1 to projects which are only partially completed and some of them not yet started? If I could get from Ickes a statement that he has so much money to be spent by months for the calendar year, it would help complete the picture of our relief needs for that period. I could then ask Wallace and the other organizations which will require relief funds for the same kind of information, and we could then get some idea of the total figure that will be required.

Mr. Bell: We have no such statement as that, by months, at present.

The Secretary: I think it is very important, because when the President gets back he has to make up his mind how much he is going to ask for relief. We have got to say, "Exclusive of

- 4 -

relief, we will have to spend so much money," and it will be necessary to set an outside figure for all relief expenditures. To do this intelligently, I want to know, beginning the first of January, by months, how much money each group is going to spend.

Wallace was talking to me the other day and I don't think he has the correct understanding. I think he is under the impression that 400,000 farm families are being laid off. He is figuring on taking over the entire Resettlement project.

Mr. Bell, can you compile all these things so we can get a complete picture? I would like to get together again next week to discuss this.

I do not know how Bell feels, but I would much rather completely isolate this money for relief and give Harry the full responsibility for allotting the funds to carry on all relief activities, than to have it mixed up by direct appropriation to the different organizations.

Mr. Bell: I have always agreed with that.

The Secretary: I would like to be in a position where, if I think your costs are too high, I can tell you that. Just to use a figure, without knowing that the illustration is correct: if it costs \$9,000 per family to house a family in Green Belt - if that is correct and I consider it too high, Hopkins should not be in a position to say that he had no control over it.

Mr. Williams: We do approve projects proposed by Mr. Ickes' group where there is adequate relief labor available; but it often happens that by the time they get started a year or more later, the relief labor in that locality has disappeared, or contractors refuse to hire labor from relief rolls, so that only a very small part of the money spent goes to relieve the relief rolls.

The Secretary: Can you give us a statement of a dozen projects, by name and locality, where you have approved projects and where it was not started for a year or more and then relief labor was not available?

Mr. Williams: Yes, we can do that.

The Secretary: Dan, I am going to say to the President when he gets back that this is number one. I do not know all the facts now, but I want to get them together so that we can present the whole picture to the President. We have got to consider 18 months' budget for relief and I am not ready. We have got to give the President an outside figure for a full period of 18 months.

Mr. Williams: I do not think you can get through this year on the agreed figure of 2 billion, 136 million.

The Secretary: How much money have you left?

Mr. Bell: 700 million.

Mr. Williams: I think we will require 900 million.

The Secretary: That is the first time you have used the 900 million figure.

Mr. Bell: Harry used 700 million.

The Secretary: The President said 500 million.

Mr. Williams: I have outlined on this sheet (attached) what can be done for the last six months of this fiscal year with an expenditure of 500 million, 750 million, and 900 million dollars. In my opinion, it will not be possible to accomplish the job we have to do with less than 900 million dollars for this period.

The Secretary: I would do this differently if I had to decide it. How many people have you now on the rolls?

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Mr. Williams: Right now, 2,750,000 people.

The Secretary: What did you have on the 15th of November?

Mr. Williams: About 2,783,000. We are trying to reduce that by 150,000. We expect to have that done by the 15th. Then there are 250,000 drouth cases turned over to Tugwell on the 15th, and we expect to reduce other Federal agencies 80,000 and cut off 20,000 non-relief cases, making a total reduction of 500,000 we are trying to make in December. That would give you 2,300,000 on the first of January, but Tugwell still has 250,000 on your doorstep. They've got 12 million dollars to take care of them, but I do not think that will be sufficient. Now, you start with 2,300,000 and everything in the picture is going to make it more and more difficult to hold down to that figure.

The Secretary: You won't get down to it. I do not even think you should try either to get down to that figure or hold to it.

Mr. Williams: The President said, "I want this put on the basis where all the people getting aid are on relief rolls," and that's what Harry is trying to do.

The Secretary: When will Hopkins be back?

Mr. Williams: He will be back tomorrow.

The Secretary: I think when we have our next meeting Harry should sit in. Will he be here next week?

Mr. Williams: Yes.

The Secretary: Will you tell him I would like to see him Tuesday or Wednesday morning of next week?

Mr. Williams: Yes.

The Secretary: Either Tuesday or Wednesday at 10, whichever is convenient for Harry.

We might as well be realistic about this thing. In the first place, from the standpoint of human needs, this is not the time to make the drastic reductions proposed; I would much rather start with a consideration for human beings. If this were put up to me, I would be entirely ruthless in reclaiming funds which have been allotted but are not being actually expended, and use those funds to take care of the employment needs during the months of January, February and March. That is the only thing we can do. I will say right now that if you try to go through with this program of rapidly reducing the number of people on your rolls, you are going to have cracked heads and state militias used. I do not think you should do it.

- Mr. Bell: We have been over the old funds without calling in any people from other organizations during the past week. We are certain we can get possibly 15 million dollars immediately.
- The Secretary: If Tugwell has a contract to buy 30 million dollars worth of land, I say don't do it. The C.C.C. has enough land to last them for years already.
- Mr. Bell: I agree that these land purchases should be cancelled, but suppose you are committed legally. You cannot put an Administration in the position of having some of its officers impeached for illegal actions.
- The Secretary: I went through a similar situation in the State of New York with Mr. Roosevelt. We agreed to buy 20 million dollars worth of land in 10 or 11 years, and the Legislature came along and did not vote the money, and they are not buying it. They have the contracts, but the Legislature will not vote the money. Suppose Tugwell has contracts to buy but Congress won't vote the money to pay for them. We have got to be ruthless in taking back money that has been allotted and has not

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been spent until there are sufficient funds provided to take care of this employment situation during the months of January, February and March.

There's no use of people coming to see me about these things. We have got to work from the inside out to help the President.

Mr. Williams: We will keep this thing on the basis where nobody gets a job who does not need it. That is where we are moving to now.

The Secretary: Of course, that is fundamental, but I think we will have to go one step further. We will have to give one job to a family and insist on outside employment being utilized where two or three days' employment can be secured from time to time. And you have got to tighten up in your own shop.

Did that letter go out about replacements?

Mr. Williams: It went out, except in nine states where a direct commitment had been made that certain replacements could be made. I will send you a list of those states.

The Secretary: If we go this far with you, you have got to be purer than Caesar's wife in your own organization.

Mr. Williams: I agree, and also the cities have got to put up some money themselves. If we can get through March without unduly reducing the employment, there will be a new situation in the spring.

The Secretary: If you could get down to 2,000,000 families by the first of July, I figure that fifty dollars a month a family for those 2,000,000 families would be adequate for the next twelve months.

Mr. Williams: That is not enough.

Mr. Bell: Then sixty dollars.

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Mr. Williams: We could get along on sixty.

The Secretary: I will sweat blood for you to take care of the months of January, February and March; but you have got to help in reducing the costs beginning the first of next July.

Dan, I think we have got to turn things inside out to get hold of some of these funds that have been allotted to projects that have been hanging fire for months and getting nowhere.

I would like to see Harry on Tuesday of next week and again on Thursday, even if we are not ready with our figures, so that he can get the feel of this thing and we can get ready to present the whole program to the President upon his return.

I should like you to consider this discussion as entirely confidential and, with the exception of discussing it fully with Mr. Hopkins, please both of you respect my confidence.

**REPORT OF EMPLOYMENT ON WHEEL PROGRAM,  
WITH NEW APPROPRIATIONS OF SPECIFIED AMOUNTS**

Total Project Employment ----- (Thousands)	Estimated Costs			Total	Funds Available
	W.P.A. and Force Account Agencies	National Youth Adminis- tration (---Millions---)	Adminis- trative Agencies		
Maximum balance from 1936 Act, Jan. 1					\$ 47.0
New Appro- priation					500.0
New Program					
January	2,300	\$ 143.0	\$ 6.5	\$ 4.0	\$153.5
February	1,900	114.0	6.5	4.0	124.5
March	1,400	84.0	6.5	4.0	94.5
April	1,100	66.0	6.5	4.0	76.5
May	750	45.0	6.5	4.0	55.5
June	600	36.0	6.0	4.0	46.0
Total		488.0	38.5	24.0	550.5
547.0					
Maximum balance from 1936 Act, Jan. 1					47.0
New Appro- priation					750.0
New Program					
January	2,300	143.0	6.5	4.0	153.5
February	2,300	138.0	6.5	4.0	148.5
March	2,100	126.0	6.5	4.0	136.5
April	1,900	114.0	6.5	4.0	124.5
May	1,800	108.0	6.5	4.0	118.5
June	1,800	108.0	6.0	4.0	118.0
Total		737.0	38.5	24.0	799.5
797.0					
Maximum balance from 1936 Act, Jan. 1					47.0
New Appro- priation					900.0
New Program					
January	2,300	143.0	6.5	4.0	153.5
February	2,600	156.0	6.5	4.0	166.5
March	2,600	156.0	6.5	4.0	166.5
April	2,500	150.0	6.5	4.0	150.5
May	2,300	138.0	6.5	4.0	148.5
June	2,000	120.0	6.0	4.0	130.0
Total		853.0	38.5	24.0	925.5
947.0					

The President

Bell and I have talked  
 with Aubrey Williams ~~and~~  
 three times during last  
 ten days. ~~Stop~~ We believe  
 that their program  
 for immediate laying  
~~off of unemployed~~  
~~is~~ ~~too~~ reduction in  
 relief ~~is~~ too drastic.  
~~Stop very much~~  
~~concerned~~

Murphy

Dec. 5, 1936.

Dec 5, 1936

Tell Henry and ~~Hess~~  
& Harry and Alan  
agree too drastic  
cut should be made  
especially in cities  
President

---

This was sent to me by type by  
the President and is an  
answer to the cable that  
sent the President on Saturday

144 Fin

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 4, 1956.

TO Secretary Morgenthau  
FROM M. A. Harris

<u>Suggested Coupon</u>	<u>Maturity</u>	<u>Market Basis</u>	<u>Probable Premium</u>
<u>NOTES</u>			
1 1/4% (5 yrs.)	12/15/41	1.05	31/32nds
1 1/8% (5 yrs.)	12/15/41	1.05	12/32nds
<u>BONDS</u>			
2 1/2% (12 yrs.)	12/15/48	2.33	1 pt. 24/32nds
		2.34	1 pt. 21/32nds
2 1/2% (13 yrs.)	12/15/49	2.40	1 pt. 3/32nds
		2.39*	1 pt. 7/32nds

\*Yield on 3 1/8s due 12/15/49-52.

Estimates based on closing bid prices December 4th.

December 4, 1936

Fin

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MEMORANDUM OF CONFERENCE IN SECRETARY'S OFFICE  
REGARDING THE DECEMBER 15 FINANCING.

The Secretary today held a conference with Mr. Levy, of Salomon Brothers and Hutzler of New York. Mr. Bell was also present.

The Secretary asked Mr. Levy what he thought the Treasury should do in its December financing, assuming that we would have a total financing of \$1,500,000,000, of which \$787,000,000 represented refunding of maturing Treasury notes, \$400,000,000 of cash to pay off maturing Treasury bills and \$300,000,000 of new cash.

Mr. Levy immediately replied that the Treasury should sell a  $2\frac{1}{2}\%$  Treasury bond maturing December 15, 1953 and callable June 15, 1950. He suggested that the whole financing be done in bonds. The bond of the type he just mentioned would sell at about 101, would go well, and would meet the Treasury's problem with respect to open dates. He thought that a  $2\frac{3}{4}\%$  bond was entirely too rich and that the Treasury should not undertake to extend the maturity of such a bond so far into the future in order to price it right in the market. He also thought that it was not necessary at this time to offer any Treasury notes - that we might as well leave the note market alone at this time. He realized, however, that there was a tremendous demand for Treasury notes because of the short time character, but he did not feel that it was the Treasury's concern to meet every demand of the bankers for this type of security. On the other hand, if the Treasury desired to issue a 5-year note it would go at  $1-1/8\%$ .

-2-

He was then asked as to whether or not there was anything in the situation which might effect the Treasury's financing. He said that he did not see anything that could materially effect the market or which would effect it for any length of time. He said that he was not afraid of the English situation. Although the London market might be disturbed for several days, yet that might have the effect of throwing funds into the American market, thereby increasing bond prices. He said the market expects the Federal Reserve Board to do something about bank reserve requirements and, to some extent, that action has already been discounted. He stated that at the time the announcement is made it will, of course, shock the market, but he felt that though the shock would cause the market to go down several points it would soon react just like it did last summer.

On the whole, he felt very optimistic about the coming issue. He thought that the Treasury certainly had nothing to worry about in so far as its success is concerned.

*duff*

147 Fin

December 4, 1936.  
11:37 a.m.

H.M.Jr: How are you?  
Burgess: Oh I'm fine.  
H.M.Jr: Well your friend Mr. Levey left.  
B: Have a good time with him?  
H.M.Jr: Yes - ah - ah - he said he's going to give us a new one. He has a 2-1/2 June, 1950 to December '53.  
B: Yes.  
H.M.Jr: Three and a half years.  
B: Yes.  
H.M.Jr: And he says 1-1/8 note.  
B: Well I'm - the biggest question I have on the program we discussed yesterday is about the note.  
H.M.Jr: Well, of course, the thing has shifted since yesterday.  
B: Yes.  
H.M.Jr: I mean to-day.....  
B: Your note is a little better to-day.  
H.M.Jr: Yes. How much better is it to-day?  
B: Well a thirty-second. I mean it's - on this morning's prices they're just the same now.  
H.M.Jr: Yes.  
B: That is - ah - 101.01 yield basis.  
H.M.Jr: Yes.  
B: But I'm working on that a little bit and I - I think it's a question whether you'd rather get your note money through a cash offering or through conversions. If you put out a 1-1/8 per cent note just for conversions you'll hardly get any.

- 2 -

H.M.Jr: Well Burgess - after listening to all these fellows....

B: Yes.

H.M.Jr: ....I - I don't see any possible reasons on the new money to offer anything but a bond.

B: Anything but a bond.

H.M.Jr: Yes.

B: Just a bond alone.

H.M.Jr: Yes, on the new money.

B: Well - on the new money.

H.M.Jr: Yes.

B: Well I don't....

H.M.Jr: I don't see why we should fool around with five year money.....

B: Yes.

H.M.Jr: .....when we can get 13 year money at 2-1/2 per cent.

B: Yes, well you want to give some out on a note. Now I'm not sure that the conversion is necessarily the way to do it. I don't think you .....

H.M.Jr: Well you - you.....

B: I don't like the 1-1/4 very well.

H.M.Jr: Well the 1-1/4 right now looks awful sweet.

B: It looks a little sick, yes. Then if you had a 1-1/8 you wouldn't get any to speak of and it might make the smallest look a little silly.

H.M.Jr: Well we may be pushed into doing the whole thing on a bond.

B: Well - ah - that's a pretty big order with Wally cutting up over there.

- 3 -

H.M.Jr: Oh now listen - you're - you're not - I've done a lot of kidding on that. You're not serious on that. If she does - I mean after all the weaker the English picture gets the stronger we get here. They demonstrated what's happened the last two days.

B: Yes, oh I don't think.....

H.M.Jr: I mean it - the more they get worried over there the more capital will come here.

B: Yes - yes - yes.

H.M.Jr: What?

B: Well I think that's a possibility we ought to consider - putting out all bonds.

H.M.Jr: Now you take yesterday - the net purchase was this way by over 500 million - I mean 500 thousand.

B: Is that so?

H.M.Jr: Yes, I mean the purchases shifted again.

B: Yes.

H.M.Jr: The only place there were any sales was England but all the rest of the world bought.

B: Yes

H.M.Jr: The net - there were more sales from England than purchases.....

B: Yes.

H.M.Jr: ....but all the rest of the world bought.

B: Yes - yes.

H.M.Jr: Now - I can dope this Simpson affair anyway but that it would bring capital here.

B: Oh I think it would.

H.M.Jr: Yes.

- 4 -

- B: But whether there might be some temporary uneasiness you don't - you can't tell.
- H.M.Jr: Yes. Now after all if we brought out a '49 - '54 that - the way it is to-day it would be a very sweet drink.
- B: I think so. I've been going into that some.....
- H.M.Jr: And - and
- B: I think it's all right.
- H.M.Jr: And no note - and no note.
- B: Well I'm not willing to (laughs) go that.....
- H.M.Jr: Well I'm - I - I - I'm - ah - ah - I mean I'm - I'm - I think you're going to have quite a time to convince me for the cash to offer anything but a bond.
- B: Yes - yes. I may not try. I'm - Gordon Rentschler is coming in in a few minutes.
- H.M.Jr: Good.
- B: I've got the Bank of Manhattan fellow coming over for lunch.
- H.M.Jr: Well I'd like to talk to you about half past three or four.
- B: Just a good time - that's fine.
- H.M.Jr: Now Dan just wrote on a piece of paper, "Ask Burgess what he'd think of a 1-1/4 note at a hundred and a half for exchange only."
- B: Well if you're going to do that I'd offer some more of the June notes. You know that was my first suggestion at 101. If you're going to offer something at a premium I'd use something that you've got outstanding.
- H.M.Jr: I see.
- B: And that's well worth considering.
- H.M.Jr: Yes.

- 5 -

B: Give them an option and take either one of those at 101.

H.M.Jr: Yes, well let's talk again. But the way you feel now you don't feel as urging me for the new money to use a note, do you?

B: No, I'm a little embarrassed about - about what option we give.

H.M.Jr: Yes.

B: If that was going to be too clumsy the easiest way might be to let them have two or three hundred million on the new money.....

H.M.Jr: Yes.

B: .....and then take very little on the exchange.

H.M.Jr: Yes, well let's talk to each other at half past three or four.

B: Right - I'd like to work on it a while.

H.M.Jr: Thank you.

B: Very good.

H.M.Jr: It's a pleasant job this time though - we're

B: That's right. We can do almost any damn thing we please.

H.M.Jr: Yes, and we want to be careful.

B: That's right. (laughs)

H.M.Jr: O.K.

B: Very good.

H.M.Jr: Goodbye.

December 4, 1936  
3:31 P.M.

Marriner  
Eccles: .....the System's - held by the System's portfolio.

H.M.Jr: Yes, Marriner.

E: Now, we have 85 million due in February.

H.M.Jr: Yes

E: And we have 92 million due in December.

H.M.Jr: Yes

E: And this is what we had agreed that we should do, unless you found some good reason why we ought to change our views on it.

H.M.Jr: Go ahead.

E: 75 million in bonds. We take 75 million - that's - that's - we'd exchange 75 million in - in whatever bonds are offered in exchange.

H.M.Jr: Yes

E: 75 million in notes.

H.M.Jr: Yes

E: We've already picked up about 18 million in notes, and we'll continue to pick up what we can between now and the time, and what's left over we would of course take in new notes.

H.M.Jr: Yes

E: That'll leave 27 million which we would want to use to pick up intermediate bonds.

H.M.Jr: I see.

E: Now that - that would put our - the bond portfolio of the System a little over four hundred million, which would be the highest it has been.

H.M.Jr: I see.

- 2 -

E: By - by about 40 - 30 or 40 million.

H.M.Jr: Ah-ha.

E: And it will put us in a position where if it seemed desirable to dispose of some of them in exchange for notes again, in order to help to stabilize the market, that we'd be better able to do it than if we don't buy as many bonds now.

H.M.Jr: I see. Sounds all right.

E: Well, it - it will fit in all right with your program, will it?

H.M.Jr: Oh yes.

E: Ah-ha.

H.M.Jr: Oh yes.

E: Well, I just wanted to let you know what - what our present plan is on the thing.

H.M.Jr: Well -

E: If that's all right, we'll - we'll - we'll figure on going ahead that way.

H.M.Jr: Well, thank you for calling me.

E: All right.

H.M.Jr: Thank you, Marriner.

E: Goodbye.

H.M.Jr: Goodbye.

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- 2 -

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E: Ah-ha.

H.M.Jr: Oh yes.

E: Well, I just wanted to let you know what -what our present plan is on the thing.

H.M.Jr: Well -

E: If that's all right, we'll - we'll - we'll figure on going ahead that way.

H.M.Jr: Well, thank you for calling me.

E: All right.

H.M.Jr: Thank you, Marriner.

E: Goodbye.

H.M.Jr: Goodbye.

December 4, 1936  
3:55 P.M.

H.M.Jr: Hello?

Operator: Dr. Burgess.

Burgess: Hello, sir.

H.M.Jr: Hello.

B: - - I see. Well, I - I know what I think.  
I think your program of yesterday was just right.

H.M.Jr: And I - and -

B: Now, I've explored it pretty carefully. Rentschler  
was in here for about an hour and we went over  
things together.

H.M.Jr: Yes

B: He thinks that the bonds - he thinks the five year  
spread is a little too much.

H.M.Jr: Yes

B: I don't.

H.M.Jr: Yes

B: Fletcher Gill was in to lunch. Now, he's a very  
smart fellow, from the Manhattan Company. You met  
him once, didn't you?

H.M.Jr: Who?

B: Fletcher Gill. Did I ever have him down?

H.M.Jr: Fletcher Gill?

B: Yes

H.M.Jr: No

B: Well, I'll put him in the next lot. He's a very  
smart fellow.

H.M.Jr: No.

- 2 -

B: He says he's sure our 49-54 is all right.

H.M.Jr: Yes

B: Dr. Dudley Little again - he's under Mills -

H.M.Jr: Yes

B: He has a little qualification about the bonds, thinks it will be worth 101. - All these people agree there should be a note issue, really for two reasons: The reason that you've had in mind, that you don't want to force people into a bond; and second, the rather technical reason that if you don't put out a note issue there'll be an awful lot of churning in the market. That is, a lot of people will take the bond and sell it and be buying a note, which will have the double effect of putting a large weight of selling on bonds and a large weight of buying on your note market, which will distort it terrifically.

H.M.Jr: Now wait a minute so I can follow your thinking.

B: Yes

H.M.Jr: Are you talking about - on the cash aspect of the bond only?

B: No. Well, I'm talking about having a note for exchange.

H.M.Jr: For exchange.

B: I'm not talking about a cash. I surrender on that.

H.M.Jr: Oh, that's - the - I mean the reason I asked that because it - I mean I was building up a wall against you.

B: No, don't do that.

H.M.Jr: Thinking that you -

B: I'm with you (laughing).

H.M.Jr: Thinking that you were going to say a bond is a note

- 3 -

for cash.

B: No, I'm on the same side of the wall that you are.

H.M.Jr: Oh well then that makes my thinking easier.

B: (Laughs) Yes, but I think there should be a note; that is, it shouldn't be altogether just a bond issue.

H.M.Jr: Well, I - I - ah - we're not very far apart now.

B: Now the only question, it seems to me, is - is what - what coupon the note should carry.

H.M.Jr: That's right.

B: And on that point I feel pretty sure that a one and a quarter is correct.

H.M.Jr: Yes

B: I think it will guarantee the success of the bond issue.

H.M.Jr: Yes

B: There's a technical reasoning in there again. If the coupon is so small that the - that the note conversion is unattractive -

H.M.Jr: Say that again, please.

B: If the coupon on the note is so small -

H.M.Jr: Yes

B: - that the note conversion is very unattractive -

H.M.Jr: Yes

B: - then a lot of people who want notes will nevertheless convert into bonds and sell the bonds and buy notes in the market.

H.M.Jr: I see.

B: Now, that has the double effect of depressing your

- 4 -

bond market and of lifting your note market.

H.M.Jr: I see.

B: And -

H.M.Jr: Just contrary what you would think. I mean if you had a good premium on the bond and a small premium on the note.

B: Yes

H.M.Jr: But I can see it.

B: Evidently a fellow would convert into the bond and then sell it -

H.M.Jr: Yes

B: - in an attempt to realize the coupon.

H.M.Jr: Yes

B: Now, you assure the success of the bond issue by - by making the note additionally attractive.

H.M.Jr: Yes

B: So the fellows that really want notes will get notes.

H.M.Jr: Yes, and keep them. And keep them.

B: And keep them, yes.

H.M.Jr: That's the important point.

B: And it makes a steady market.

H.M.Jr: There'll be no churning in the notes.

B: That's right, yes. Oh, there'd be some churning, but not much.

H.M.Jr: Yes

B: Now, a one and a quarter will be worth about par 20, say.

- 5 -

H.M.Jr: Wait a minute, wait a minute, wait a minute. The premium?

B: About - about twenty thirty-seconds premium.

H.M.Jr: Well now, our boys say thirty-one thirty-seconds.

B: Oh, I don't think so.

H.M.Jr: They were giving me the close - since the market's closed.

B: I see. Well, I think that's a little - you mean the bonds, don't you?

H.M.Jr: No, I'm talking about the one and a quarter note.

B: That's what I'm talking about, yes.

H.M.Jr: I've had this since the market's closed.

B: I see.

H.M.Jr: Have you had yours?

B: Well, I haven't figured it in the last ten minutes, at least. (Laughs)

H.M.Jr: Well -

B: The market's up one thirty-second today.

H.M.Jr: Yes

B: That doesn't affect it very much.

H.M.Jr: No

B: But it'd be worth, oh, par and a quar- - par and three quarters or somewhere around there. You can't tell exactly what it will be worth.

H.M.Jr: Yes

B: But it will be worth enough so the difference between the bond and the note is not very great.

H.M.Jr: Uh huh.

- 6 -

B: So a fellow would convert into whichever one he really wanted.

H.M.Jr: Uh huh.

B: Which is the important thing; that makes a steady market.

H.M.Jr: Yes

B: Well, that's my story.

H.M.Jr: Well now, as I get it, your story is the - the conversion of five year one and a quarter and a  $w\frac{1}{2}$  percent 49-54.

B: 54, yes.

H.M.Jr: 49-54.

B: Yes

H.M.Jr: And what do you figure on that premium?

B: About 101. It's worth about a point premium, I think.

H.M.Jr: Well, our boys say a point and three thirty-seconds.

B: It all depends on how you figure it. There isn't any real way of figuring it.

H.M.Jr: They figured on a 240 basis.

B: 249? Oh, a 240 basis, yes. Well, it isn't worth quite that, I think.

H.M.Jr: An-ha. Well - and then for cash all bonds?

B: That's right, yes.

H.M.Jr: Of course, on the bond, we're not giving it quite as sweet as we have before, are we?

B: Not quite.

H.M.Jr: No.

B: And that's an argument for making the note reason-

- 7 -

ably generous - hold the bonds up.

- H.M.Jr: On this basis what would your guess be on the conversion? How much - what percentage would take bonds?
- B: Sixty percent.
- H.M.Jr: Sixty. Well, I wouldn't mind that.
- B: I think that's all right. Might be more than that.
- H.M.Jr: And these boys are not - well, they can't help but be enthusiastic on that.
- B: Oh, I think it makes a lovely - a lovely issue.
- H.M.Jr: You do.
- B: The head sizes are out the window.
- H.M.Jr: Yes
- B: There are none of those eighths businesses.
- H.M.Jr: Yes
- B: It's one and a quarter, one and a half, one the other.
- H.M.Jr: You know - you know, Knoke talked to the Bank of England.
- B: Yes
- H.M.Jr: And they told him that for the next four or five days we must expect a - a very much disturbed market.
- B: Must expect?
- H.M.Jr: Yes
- B: Yes, yes. Well, that's another reason for - well, making this note a little sooner.
- H.M.Jr: Yes. I don't think I'm going to argue with you very much. We - we can talk again, I'd say, about eleven

- 8 -

o'clock tomorrow.

B: Yes, yes.

H.M.Jr: By then the market will be open for an hour.

B: Yes. Well, we - we'll have a flash from - from London anyway.

H.M.Jr: You say Rentschler isn't very happy over 49-54.

B: He thinks it's a little thin. He thinks - he didn't like the five year spread quite.

H.M.Jr: Yes

B: I was a little embarrassed. I - I didn't know you'd talked with him.

H.M.Jr: Oh

B: So I got ahold of him. I - I hadn't  
But that's all right.

H.M.Jr: Well, I talked - he was up at the farm, and I thought that didn't count.

B: (Laughs)

H.M.Jr: (Laughs)

B: That's pretty clever.

H.M.Jr: (Laughs very heartily) All right. That's the best laugh I had today.

B: That's fine.

H.M.Jr: At my own expense.

B: (Laughs)

H.M.Jr: All right.

B: Very well, sir. Very good.

H.M.Jr: I'll talk to you again tomorrow.

B: Very good. That's fine.

H.M.Jr: Good night.

B: Goodbye.

Fin

Preference given small cash subscriptions

Prior to March 1933 - Various.

March 1933 to June 1935 - Full allotment to \$10,000  
(except Oct. 1933 bonds to \$1,000  
and Dec. 1933 certfs. to \$5,000)

July 1935 to date - Full allotment to \$5,000.

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Previous low rates

In December 1934 a 1-1/8 percent one and one-half year note.

Otherwise nothing as low as 1-1/4.

Nearest was 5 year 1-3/8 last June.

On bonds, nothing as low as 2-1/2 except Consuls and Panamas,  
which carried circulation privilege.

December 4, 1936  
4:05 P.M.

John L.  
Loeb: He spoke to Herbert Lehman -

H.M.Jr: Yes

L: - and he suggested I call you.

H.M.Jr: Yes

L: We have some cocoa contracts open with Brazilian shippers.

H.M.Jr: Yes

L: And one house has defaulted with whom we have no contracts, but several look as if they may. Cocoa has doubled its value.

H.M.Jr: Yes

L: And there's a couple hundred thousand dollars involved, -

H.M.Jr: Yes

L: - as far as we're concerned.

H.M.Jr: Yes

L: And we're sending one of our partners down to look over the situation.

H.M.Jr: Yes

L: And I'd like very much, because I know how it is down there, to get him letters of introduction to the consular officials at Bahia in Brazil and at Rio de Janeiro.

H.M.Jr: Yes

L: And I have no idea how to go about it.

H.M.Jr: Well now, I'd like - when is he going to sail?

L: Well, he's flying down tomorrow.

H.M.Jr: To where?

- 2 -

L: Well, he's flying to Bahia.

H.M.Jr: Well, what - well, that plane leaves -

L: Well, it leaves Miami -

H.M.Jr: Sunday

L: - on Sunday morning.

H.M.Jr: Yes, I know it does. Well now, I tell you what - what time does that plane - that plane leaves here at noon, doesn't it?

L: Well, I think the plane leaves here - the plane that he'll take from here probably will leave tomorrow evening, - tomorrow evening, and get to Miami six o'clock in the morning.

H.M.Jr: Yes

L: And then he leaves at 7:45.

H.M.Jr: Well then, I tell you what you tell him to do.

L: Yes.

H.M.Jr: What's his name?

L: Harold.

H.M.Jr: Harold.

L: F - like in Frank.

H.M.Jr: Yes

L: Linder - L-i-n-d-e-r.

H.M.Jr: All right. Well now, I tell you what you tell him to do. You tell him to be at my office tomorrow morning at 9:15. Let him come down on the midnight.

L: Be at your office -

H.M.Jr: - at 9:15 tomorrow morning, at the Treasury. See?

L: Yes

- 3 -

H.M.Jr: And I'll - I'll see that I either fix him up or the State Department. I'll fix him up one way or the other.

L: Well, if - if he couldn't get there, because of getting this business in order, do you think cables could be sent out?

H.M.Jr: Subsequently?

L: Yes

H.M.Jr: Yes, but if he isn't here and it's enough important, you better be here.

L: Right. Well, we'll have one of our partners there, either I or - or - at 9:15 at the Treasury tomorrow.

H.M.Jr: Yes, at my office.

L: At your office.

H.M.Jr: Yes, and - and have some - have some way so he can identify himself.

L: Oh certainly.

H.M.Jr: And he better write out before he comes down - try to put up one page -

L: Yes

H.M.Jr: - not to exceed one page, just what the thing is, you see.

L: Righto.

H.M.Jr: I mean try to condense it down to one page, what his troubles are.

L: Right, I'll do that.

H.M.Jr: And it - it's cocoa contracts -

L: That's right.

H.M.Jr: - with Brazil.

L: That's right.

- 4 -

H.M.Jr: And they're trying to "welsh" on us.

L: That's it.

H.M.Jr: Well, you have somebody here and I'll - either -  
I'll fix him up one way or the other.

L: Well, that's awfully kind of you. Thank you ever  
so much, Henry.

H.M.Jr: Glad to do it.

L: Right.

H.M.Jr: Goodbye.

December 4, 1936  
4:10 P.M.

H.M.Jr: Ah - some cocoa contracts in Brazil.

Livesey: Yes

H.M.Jr: And they say there's a couple hundred thousand dollars at stake and these people are trying to "welsh" on it because of the increased price of cocoa; and one of their partners are going down there Sunday.

L: Yes

H.M.Jr: And they'd like to get some kind of a letter to our Consul down there. So I told the man - whichever man is going to be here tomorrow morning at 9:15, and would it be all right if I sent him over to see you?

L: Yes. I probably - this being - the kind of stuff he wants is probably consular assistance down there, so-called -

H.M.Jr: Yes

L: - and for that I'd probably call in our Mr. Murphy just down the corridor here.

H.M.Jr: Well, would you mind -

L: And we'd probably - rather give an instruction to our man down there than give him a letter to anybody down there, because there's such a tremendous pressure for letters that the general understanding is that a letter doesn't mean anything.

H.M.Jr: Well, any way - just as long - I mean I'm sure you have a regular practice -

L: Yes

H.M.Jr: - you can follow.

L: Yes, if you send him over to me I'll take care of him.

H.M.Jr: I'll send him. I told him to be here because I - I told him we couldn't give him any letters, and - but

- 2 -

I didn't know what - I suppose there are other people in the same boat he's in.

L: Yes, but if it's a question of - the Consuls can be useful in matters of that kind, in spite of their function, and if we get a statement of facts from him, which perhaps better be in writing but he can write it out right here -

H.M.Jr: I told -

L: - we could then instruct the Consul and perhaps do it by airmail, if he could take a look at the situation before Mr. Loeb gets down there.

H.M.Jr: Fine.

L: So the thing is perfectly regular.

H.M.Jr: Thank you very much.

L: And by the way, Mr. Secretary, did you hear any more on this French war debt business?

H.M.Jr: Ah -

L: I didn't know whether there had been any further communication over there or not.

H.M.Jr: Well, there was that following cable, which they sent me an extract of, where Bullitt had lunch with Blum.

L: Yes

H.M.Jr: That cable came over. I suppose you saw that.

L: Yes. Well, after our conference the other day we got off a telegram that night to the Secretary.

H.M.Jr: Yes

L: And the Secretary - and incidentally we mentioned you in it in the form of saying that you thought that you were not in a position to give any advice - I've forgotten the exact phraseology - and you had not been charged with the responsibility of the

- 3 -

matter and, therefore, had not given intensive study to it.

H.M.Jr: Good.

L: And we got a reply this morning I think - perhaps yesterday - from Mr. Hull saying that after a conference it had been decided that all these questions referring to the two telegrams and the political telegram of which an excerpt was sent to you.....

H.M.Jr: Yes.

L: .....should be left until the President got back to Washington.

H.M.Jr: Well that.....

L: And that was telegraphed to Mr. Bullitt.

H.M.Jr: Well that's more than agreeable to me.

LP All right, sir. I just inquired around to-day and found out to-day that it was agreeable downstairs that we tell you - that is - apparently you hadn't been told by Jimmy Dunn or otherwise we'd have called up Mr. Taylor and told him about it.

H.M.Jr: No this is the first I've heard but I think that's a happy solution, don't you?

L: Yes, except that I would like to kind of stop the French off from any foolish idea of mentioning that Warsaw thing. It seems to me that was the - damaging from every point of view. Of course they should have sense enough to do that.

H.M.Jr: The things seems to have died down now.

L: Yes.

H.M.Jr: I saw the cables from Mr. Phillips.

L: Yes.

H.M.Jr: He 's handling it very carefully.

L: Yes.

- 4 -

H.M.Jr: No, I'm more than pleased to wait for the President to get back.

L: Well if it's - of course there may be more from France but Bullitt has just had to stand them off over there.

H.M.Jr: That's right. Thank you very much.

L: You're entirely welcome.

Confidential

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By  
Mr. Gray Warren  
Dec 4<sup>th</sup> 1936

- A. Dangers in international price comparison.
1. Use of index numbers that are not comparable.
  2. Use of a base year that is not representative.
- B. It is desirable that the price structure (commodities, cost of living, wages, etc.) within each country be brought into balance.

Exchange rates not then serious.

- C. Rise in prices of commodities in gold desirable and probable.
- Cost of living (143 July) already high compared with all commodities (118) and only a limited rise in it probable.
- The less the better.
- Price rise likely to continue for several years.
- Price rise likely to go too far.

- D. Commodity prices while the dollar is a given weight of gold cannot be controlled except temporarily and to a limited degree by credit policies, reserve requirements, etc.
- These policies have a greater effect on the stock market, but even here the effect is less than is often believed.

- E. The dollar.

1. Extend present law
2. Revise law and widen range
3. Adopt a basic index number standard, with little discretion allowed and price of gold change daily.

## TELEGRAM SENT

LMS

GRAY

December 4, 1936

5 p. m.

AMEMBASSY

LONDON (ENGLAND).

435.

The Secretary of the Treasury wishes to inform you that the information contained in your cable No. 591 was useful.

MOORE, ACTING  
(FL)

EA:FL:LWW

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 5, 1936.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KNOKEBANK OF ENGLAND.

I called Mr. Bolton at 7:32 a. m. today. The situation was the same, Bolton said, as that reported by him yesterday. The complete breach, of which he had spoken before, continued. The King, as he (Bolton) saw it, had three alternatives:

- (1) Not to marry.
  - (2) To marry and abdicate.
  - (3) To marry and remain King, in which case the Government would resign. A general election would follow.
- The political parties, with the exception of a few trouble makers seemed united in their belief that Mrs. Simpson would not make a good Queen.

There seemed to be a fairly general feeling of annoyance rather directed against the King although his personal following undoubtedly was great. Nothing was likely to happen until Monday afternoon, that is until Parliament meets.

The market today had been steady but nervous. They had lost small amounts of gold to Amsterdam and also to Switzerland, but there was no great movement of capital. The French franc continued weak.

LWK:KMC

December 5, 1938

I saw the Vice President and told him about the Relief problem. He was terribly excited and said that he could not do anything unless the President asked him to, but if the President did ask him he said he would act. He said, "Henry, why doesn't the President consult you and me about such things instead of taking Hopkins' and Aubrey Williams' word for it?"

I then called McIntyre and explained the situation to him and he also is upset and said he would send for Hopkins to come back.

My whole worry is that these people, through laying off so many men, will work this country up to a frenzy and we will have bloodshed and great privation.

Saturday  
December 5, 1936  
10:39 a. m.

L. W.  
Knoke: I've had the Bank of England today -

HM, Jr: Yes

K: - whether the King ought to marry -

HM, Jr: Yes

K: - or secondly, to marry and abdicate -

HM, Jr: Yes

K: - or thirdly, to marry and remain King, in which case the government would resign. A general election would be - would follow. -

HM, Jr: A little louder -

K: Pardon me?

HM, Jr: A little louder -

K: A general election would follow, -

HM, Jr: Yes

K: And the result, of course, is beyond anybody to predict.

HM, Jr: Yes

K: No doubt there will be a great personal following for the King. On the other hand apart from the few trouble makers the political parties were united in their belief that the lady would not make a good Queen.

HM, Jr: Yes

K: There was also, he thought, quite a feeling of annoyance against the King.

HM, Jr: Yes

K: Barring the unexpected, nothing is likely to happen until Monday afternoon.

HM, Jr: Yes

- 2 -

HM, Jr: Wait a minute, why do they say Monday afternoon?  
K: Parliament - then Parliament meets.  
HM, Jr: Monday afternoon? -  
K: Yes  
HM, Jr: Oh, they meet in the afternoon?  
K: Yes  
HM, Jr: Well, you don't know what time?  
K: No - that's the only way I got it.  
HM, Jr: Yes  
K: Monday afternoon - I think the ordinary - it's three o'clock, but I'm not quite sure of that.  
HM, Jr: Yes  
K: The markets are steady - a little nervous - the undertone for sterling we think continues to be on the soft side.  
HM, Jr: On the soft?  
K: A little softer, yes.  
HM, Jr: Yes  
K: - yesterday as the result of - of the critical developments in England.  
HM, Jr: Yes  
K: The rate is not materially changed, there's about 489 and seven eighths. They lost a little gold to Amsterdam and to Switzerland.  
HM, Jr: I see.  
K: And also to Belgium.  
HM, Jr: I see.  
K: But the movement of capital was insignificant.

HM, Jr: O. K. Well, thank you very much.

K: All right, sir.

HM, Jr: Thank you.

K: Good morning.

HM, Jr: Good morning.

December 5, 1936.  
10:43 a.m.

H.M.Jr: Professor McGuire from Colum- from Harvard.  
Roswell  
Magill: Yes.  
H.M.Jr: And then this very good man from the Pacific Coast.  
M: Traynor.  
H.M.Jr: Who?  
M: Traynor.  
H.M.Jr: Yes, and we were going to spend the greater part of  
the week going over the studies that we have here  
preparing ourselves.  
M: Yes.  
H.M.Jr: And I thought that you'd like to sit in on it.  
M: Well I certainly would if I could.  
H.M.Jr: I see. But you're not able to, is that the point?  
M: I'm afraid not. The trouble is this. I have  
regular classes on Monday, Tuesday and Wednesday.  
H.M.Jr: I see.  
M: And it would - I don't know quite how I can make  
them up if I miss them.  
H.M.Jr: Ah-ha.  
M: I could be down for one day or possibly two days  
and make up those classes.....  
H.M.Jr: Yes.  
M: .....but the three is pretty hard to do.  
H.M.Jr: Ah-ha - well I mean...  
M: I'm sorry to miss it because I'd like very much to  
be there.

- 2 -

H.M.Jr: Yes, well it's - we're going to start in and we're going to work with them and show them the studies we have and ask for their criticisms and suggestions....

M: Yes.

H.M.Jr: .....and I thought you'd like to sit in on it.

M: You bet I would.

H.M.Jr: But if you can 't - well I'm sorry.

M: Well I'm - I'm afraid I can't. I tell you what I'll do. I'll talk to the Dean to-day and see if there is any way that I can shift my classes around.....

H.M.Jr: Yes.

M: .....but I'm - I'm afraid I couldn't get away for all week.

H.M.Jr: Well I - I don't - you know your own problems. That's what it is.

M: Yes.

H.M.Jr: And I told Oliphant and Haas that beginning Tuesday I'd set aside time every morning to study this whole tax situation and go over all the studies.

M: Yes.

H.M.Jr: And that's what we're going to do Tuesday, Wednesday, Thursday and Friday.

M: Yes.

H.M.Jr: So.....

M: Well I'd - I'll see - when are they - when are those two men going to get there?

H.M.Jr: They get here Monday.

M: They're going to get there Monday.

H.M.Jr: Yes.

- 3 -

M: Well now I'll speak to the Dean.....

H.M.Jr: Tuesday - Tuesday - Tuesday.

M: .....this morning and see how things look but I'm afraid that I just can't do it.

H.M.Jr: Well they get - they get here Tuesday.

M: They do.

H.M.Jr: Yes. Well that's what the program is and - and - ah - I mean I don't want - I mean I don't want to ask you to do anything which will.....

M: Oh well that's all right - it would be a - a very - a very agreeable opportunity from my point of view. I'd like to do it.

H.M.Jr: Well you talk to the - if you've got the time - if you can't be here four days if you could be here three days or two days.

M: Yes.

H.M.Jr: One day wouldn't be much use.

M: No, well I'll - I'll speak to the Dean and it's - it's possible for instance that I could get down there Wednesday or something of that kind.

H.M.Jr: Ah-ha.

M: And I'll see what we can do with the classes. It may be I can get one of my colleagues to exchange hours with me so that I could work it out some way.

H.M.Jr: All right but we're going to get started now and, as I say, I'm going to - these two men - President ~~Conant~~ <sup>Conant</sup> has given, as I understand it, Dr. Mc Guire permission to come down here as much as he can and we're going to work between now and the first of the year. We're going to try and work out a program.

M: Well that's fine. Both those men are good men and they both will give you a lot of help.

H.M.Jr: Well and we like to have you here.

- 4 -

M: Well I wish I could because there's nobody I'd like to work with and besides I'd like to do it anyway.

H.M.Jr: O.K.

M: Well I'll talk it over up here and see what I can do.....

H.M.Jr: All right.

M: .....and drop you - well I guess if I let you have a letter Monday morning that will do it.

H.M.Jr: That will be fine.

M: Thanks a lot for calling.

H.M.Jr: Goodbye.

M: Goodbye.

December 5, 1936.  
10:47 a.m.

H.M.Jr: Hello

Operator: Mr. Bell

H.M.Jr: Hello - Dan.

Bell: Yes.

H.M.Jr: I called up McIntyre and told him what I was doing.

B: Ah-ha.

H.M.Jr: And he's going to order Hopkins back here Monday.

B: Good.

H.M.Jr: Now I think - can't you have your fellows speed this thing up a little bit so we can - when they come back at us the comeback will be well where can we get the money, you see?

B: Ah-ha. Well they're - they're working on the thing now. They thought that they might have it Monday evening but.....

H.M.Jr: I mean without asking you to do it couldn't they work over the week-end?

B: I think some of them will. See this involves our - almost every department of the government service.

H.M.Jr: Well I think it's important enough. I mean I'm not going to ask you to do it but that you ask your people to work Saturday afternoon and Sunday on it.

B: The difficulty is that we've got to get in touch with almost everybody in the government service.

H.M.Jr: Well I - I ...

B: I mean pin them down as to what they're doing and write a memorandum about each project - each item I mean.

H.M.Jr: Well I see.

- 2 -

B: And....

H.M.Jr: And you couldn't tell them to get this thing out for them and tell them you wanted it Monday morning -

B: Well if I do it I'll know what I'm going to get.

H.M.Jr: What are you going to get?

B: Well I'm going to get that the money is all obligated and it can't be released.

H.M.Jr: Well let me put it this way.....

B: What I want is to bring these people in here and pin them down.

H.M.Jr: On Monday?

B: Yes.

H.M.Jr: O.K.

B: Or I could do it this afternoon - it would be all right.

H.M.Jr: Well I just think that - I don't - I think this - if we have it ready by Tuesday morning it will be fine.

B: Oh good.

H.M.Jr: Is that asking too much?

B: No, that's better.

H.M.Jr: All right well then.....

B: I think we can have something.

H.M.Jr: All right I'll - let's say Tuesday morning.

B: Yes.

H.M.Jr: O.K.?

B: Yes, I'll try and have something by Tuesday morning.

- 3 -

H.M.Jr: Because that would be the comeback I'd suggest.

B: It's so scattered that.....

H.M.Jr: McIntyre was so excited about this thing that he wanted to add his name to the telegram. I said that was up to him.

B: (Laughs)

H.M.Jr: And he got an answer from the President at the request of the Mayor - the Mayor's telegram to him, and the President just - he gave them - well, a non-committal answer.

B: Yes.

H.M.Jr: I didn't expect it. You heard what the President did on the debt situation.

B: No.

H.M.Jr: He told them to hold everything till he got back. Not to do anything.....

B: Well that's sensible.

H.M.Jr: See?

B: Yes.

H.M.Jr: To do nothing till he got back.

B: I think that's sensible.

H.M.Jr: Yes.

B: All right.

U

GRAY

Paris

Dated December 5, 1936

Rec'd 11:25 a.m.

Secretary of State

Washington

1205, December 5, 4 p.m. (SECTION ONE)

FROM COCHRAN.

Fairly active exchange trading between banks this forenoon. Dollar has been in demand at 21.475 and supply has come principally from New York. Belga and Swiss franc moved up in line with dollar. Gossip is again current that French control may let rate slip to London devaluation limit of 22.96 to the dollar. Auriol baby bonds rose to premium 104.25 yesterday on report that a new Treasury loan is shortly to be issued for which these bonds would be accepted at a premium perhaps equivalent to the depreciation of the franc. Subsequent story that only original subscribers to the baby bonds would benefit from this premium has counteracted the gain therein. Market anxious to see whether some action may not still be taken with respect to accepting gold at present price in subscription to Treasury loan and also as to whether open market operations may soon be permitted.

Concluding an article on "Controlling the Boom"

(END SECTION ONE)

CSB

EJLITT

RB

GRAY

Paris

Dated December 5, 1936

Rec'd 12:25 p. m.

Secretary of State  
Washington.

1205, December 5, 5 p. m. (SECTION TWO)

ECONOMIST London today says "tariff policy and exchange policy are inevitably interrelated; and in return for a far reaching multilateral low tariff agreement this country might well be prepared to accept a measure of provisional exchange stabilization within reasonably wide limits. Until such an agreement is realized, however, it seems hardly worth committing ourselves to a greater curtailment of freedom than that involved in the present tripartite agreement. To preserve at any rate during the next year the existing short term stability and the existing reasonably natural exchange rates seems at the moment the wisest policy. For no great strain on the present sterling dollar rate seems probable in the immediate future. The sterling area's balance of payments is probably less adverse than has been supposed. And American costs seem likely to rise certainly as rapidly as British costs in the coming months; for the rise in

American

RB

-2-#1205, Dec. 5, 4 p. m. from  
Paris (SECTION TWO)

American wages has only recently become rapid and substantial. Much future trouble might, however, be avoided if the authorities in all the countries signatory to the Tripartite Agreement were to "exchange information" not only on day to day policy but on the general movement of prices expected and designed by each. Divergences of price movement within the bloc underlined may require further exchange adjustments. And these could be made more harmoniously if the policy of each were clearly understood by all".

END MESSAGE.

BULLITT

CSB

To Mrs. Klotz  
From Mr. Gaston

December 5, 1936

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The Secretary was disturbed this morning by an Associated Press story printed in the Washington Post and the New York Times ~~this morning~~ under the caption (Times) "WPA Presses Plan for Payroll Cuts" and saying that Treasury officials had disclosed the existence of 87 million of work-relief funds, "a backlog which might be used to carry WPA activities well into February." This was embarrassing to him and to Bell in their efforts to deal with the relief fund situation. I found that the figure was taken from the report (which we make available to the Press regularly) of the status of the emergency relief funds, the latest being that issued this week, as of Nov. 20. The exact figure of unallocated funds in this report is \$87,790,649.51. The A P reporter had gone to Heffelfinger to find the amount of unexpended and unallocated funds. Heffelfinger took him to Fussell, who referred him to the printed report.

The Secretary drafted a message to send in code to the President and called in Tollaksen to code it. He ~~then~~ talked to Marvin McIntyre on the phone, telling him that if WPA went ahead with their plan for drastic relief cuts it would create a situation that would "make the bonus riots seem like a picnic" and would undoubtedly react against the President. He told McIntyre ~~would~~ Gaston would go over to see him with a copy of the message to the President to get his reactions.

I went over and read the message to McIntyre and he immediately put in a call for Hopkins and then dictated a message to the President for his own signature. He talked to Hopkins and then revised his message to read: "Henry's wireless to you this morning I concur heartily and think there is much danger in situation. Have arranged with Hopkins for private powwow Henry Bell and I Monday. Have you any suggestions about possible modifications."

When I reported this to the Secretary he said Bell would not be ready with

2--Mrs. K--12/5/36

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~~13~~

the necessary figures Monday and asked me to suggest to McIntyre 3 p.m. Tuesday for the meeting. McIntyre agreed and said the meeting would be in the cabinet room and the back entrance should be used.

A handwritten signature in dark ink, appearing to be 'R. B.', written in a cursive style.

December 5, 1936  
11:05 A.M.

Present: Mrs. Klotz  
Mr. Bell  
Mr. Haas  
Mr. Murphy  
Mr. Seltzer  
Mr. Harris  
Mr. Taylor  
Mr. Lochhead

H.M.Jr: Well, I haven't heard from you fellows for some time.

Haas: Seltzer has got some tables fixed up there. You might start with those.

Seltzer: Well, this sort of material, I imagine, Harris has given you. (Hands sheet to Secretary)

Haas: Maybe you better go around over the Secretary's shoulder and explain that.

H.M.Jr: Any difference in this and what Harris has got?

Seltzer: Well, you have it on these various bases.

H.M.Jr: Well, what makes those vary?

Seltzer: Well, you estimate on what basis this issue would sell. It depends on the terms of your bonds. If you say a '49 -

H.M.Jr: Let's say that I did say '49.

Seltzer: And what's your final maturity?

H.M.Jr: '54.

Seltzer: '54? I don't think you'd make it. I think you'd have a hard time getting par for it. You wouldn't get much more than par for it.

H.M.Jr: Why?

Seltzer: Well, here you have a bond maturing six months earlier than that - this 2<sup>3</sup>/<sub>4</sub> '51-'54; they are selling to yield 2 points.

Premium on 5-year note bearing 1-1/8 and 1-1/4 percent coupons, respectively, on various yield bases

Yield Basis	1-1/8 percent coupon	1-1/4 percent coupon
	(Decimals are SPDs)	
1.00	.19	1.7
1.01	.18	1.5
1.02	.16	1.4
1.03	.15	1.2
1.04	.13	1.1
1.05	.12	.31
1.06	.10	.30
1.07	.09	.28
1.08	.07	.26
1.09	.05	.25
1.10	.04	.23

Treasury Department, Division of Research and Statistics.  
December 5, 1956.

Premiums on  $2\frac{1}{2}$  percent bond on various yield bases  
to earliest call date

Yield Basis	1946	1947	1948	1949	1950
2.45	.14	.15	.17	.18	.19
<u>2.40</u>	.28	.31	1.01	<u>1.04</u>	1.06
2.55	1.11	1.14	1.18	1.22	1.25
2.50	1.25	1.50	2.03	2.08	2.12

(Decimals are 32ds)

Treasury Department, Division of Research and Statistics.

December 5, 1936.