

DIARY

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Stabilization

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RB

GRAY

Paris

Dated August 2, 1937

Rec'd 3:45 p. m.

Secretary of State

Washington.

1101, August 2, 6 p. m.

FROM COCHRAN.

With London market closed today, Paris exchange trading is very light. French control obtained some sterling at 132.78. Evidently still official support for forward franc. While National Bank of Belgium was obliged to intervene Friday to protect belga versus Swiss franc pressure on Belgian currency has today lightened. Some French circles expect lowering of official discount rate this week but this would seem difficult considering scarcity of funds and degree to which borrowers are already resorting to Bank of France. Rentes practically unchanged with no evidence yet of support through the new fund. Latest economy decrees have not aroused much comment or much hope. With many people on vacation there is a tendency to refrain from market commitments and to let things drift.

BULLITT

JR

CODAT

Paris

Dated August 3, 1937

Rec'd 3 p.m.

Secretary of State,
Washington.

1105. August 3, 4 p.m.

FROM COCHRAN.

Bank of France this noon lowered rate for discount from five to four per cent, advances on securities from six to five and thirty day advances from five to four. This had cheerful reaction on market. French control proffered some sterling but more active trading was in dollars, one Paris American Bank purchasing one and three quarter million dollars for the control today. Dollars appeared to be coming principally from London as a result of ten million dollar stock exchange deal over week-end. Brussels also selling dollars, while Bank of England was a buyer at 498.15. French rentes up fifty to seventy centimes and better feeling all around. Societe Generale operated for French control in forward franc market. Bankers holding treasury bonds opted for repayment in October are endeavoring to obtain ninety day treasury bills therefor instead of eighteen month notes which government has been suggesting.

French

JR #1105, August 3, 4 p.m., from Paris.

French Ministry of Finance today announced that Appert, Financial Attache in United States, will succeed Boisanger in charge of indirect taxation in the Ministry. Appert's successor in the United States is Paul Leroy-Beaulieu. Latter has been serving in same capacity in Rome; is a career inspector of finance; speaks English, is not outstanding.

BULLITT

CSB

ML

CODAT

Paris

Dated August 4, 1937

Rec'd 2:30 p. m.

Secretary of State

Washington

1111, August 4, 5 p. m.

FROM COCHRAN:

Journal Officiel today announced issue, from August 4 to 19, 1937 inclusive of one year treasury bonds bearing four percent interest from August 5 for which those holders of 1934 Treasury four and one half bonds who opted repayment on October 5th 1937 may exchange these latter securities. There will be no cash subscription. Labor leader Jouhaux spoke yesterday against deflation as an impossible solution of French financial difficulties. He is against liberal circulation of capital and in favor of control, alleging that capitalists are planning another crisis for October or November.

European Financial Press gives in considerable detail but so far without editorial comment letters from President Roosevelt and Chairman Eccles to Senator Thomas on stabilization of dollar.

Loney continues very tight in spite of lowering of discount rate yesterday and of rumor that a further decrease is to be expected.

French

ML -2- August 4, 1937 2:30 p.m. Paris #1111

French franc both spot and forward offered today, with Jouhaux' speech evidently having more influence than Bonnet technique. Control wielded sterling at around 132.81 and also intervened in forwards through both Comptoir and Credit Lyonnaise. Commercial demand for dollars from Amsterdam and Havre. Belga under pressure and being protected through sales of Swiss francs. French rentes up few centimes.

BULLITT

DDM:HBS

RECEIVED
AUG 11 1937
COMMERCIAL ATTACHE
U.S. CONSUL
PARIS

JR

GRAY

London

Dated August 5, 1937

Rec'd 12:45 p.m.

Secretary of State,
Washington.

523. August 5, 4 p.m.

FOR THE TREASURY.

All of the papers reported the President's letter to Senator Thomas yesterday. There is however very little comment in today's press though the FINANCIAL TIMES devoted a leader to the letter and to the problem of hot money, excerpts from which are quoted below.

"The letter reveals an attitude which in some respects is closely parallel to that of the British Treasury. Stabilization is seen as desirable but it is recognized that much has yet to be done before it can become an accomplished fact (***) Monetary means and devices by themselves are recognized by the President and also by Mr. Eccles as minimum utility without assistance of broader measures of cooperation (***) The outstanding fact in relation to the dollar is that the currency is being subjected at present to a number of external influences. Stabilization must be preceded therefore by a balancing of these influences. Mr. Roosevelt is clearly aware of this fact and we may expect some practical move from

JR #523, August 3, 4 p.m., from London.

him in the near future. For some time past the most important factor controlling the dollar rate has been the movement of hot money. This is one of the most difficult problems with which Mr. Roosevelt is confronted (***) The proposed tax on foreign investments in Wall Street would be of doubtful efficacy (***) The greater part of this hot money is flight capital seeking safety (***) A tax would be regarded merely as an extra price to be paid for the safe keeping of funds and as such negligible in comparison. President Roosevelt will probably go ahead with a scheme and it will not be entirely ineffective but the real crux of his problem lies in the European tangle".

BINGHAM

HPD

1911
 75
 August 3, 1933
 10:00 AM
 100-100000-100000

RB

CODAT

Paris

Dated August 5, 1937

Rec'd 8 p. m.

Secretary of State

Washington.

1122, August 5, 5 p. m.

FROM COCHRAN.

French Control again lost sterling protecting the spot franc and was obliged to intervene strongly in future market since forward franc is again definitely offered. Belga still under pressure with Belgian nationals buying their own industrial shares (?) on Paris market and with National Bank yielding some dollars last evening. French rentes slightly better but market suspects artificial character of improvement.

Bank of France statement as of July 29 showed re-valuation of gold stocks on basis of forty-three milligrams of gold to the franc, with resultant increase from forty-eight million eight hundred fifty-nine thousand five hundred fifty-seven thousand to fifty-five million six hundred seventy-seven thousand one hundred seventy-one thousand francs. Deposits were up over six billion francs representing bulk of revaluation profit which is constituting fund for supporting rentes. No new advances to the state.

RB

-2-#1122, August 5, 5 p. m. from Paris

state. Treasury deposit account declined one billion.
Coverage fifty-one point seventy versus forty-eight point
seventy-eight.

(END OF FIRST SECTION)

BULLITT

NPL

EMB

RB

CODAT

Paris

Dated August 5, 1937

Rec'd 5:22 p. m.

Secretary of State
Washington.

1122, August 5, 5 p. m. (SECTION TWO)

FINANCIAL TIMES LONDON today carries editorial on "Mr. Roosevelt And The Dollar". It begins: "President Roosevelt's statement concerning stabilization of the dollar, in his letter to the redoubtable Senator Thomas, reveals an attitude which in some respects is closely parallel to that of the British Treasury. Stabilization is seen as desirable but it is recognized that much has yet to be done before it can become an accomplished fact. As the President points out 'the rapidly shifting international scene' precludes any attempt to fix the dollar--and the same applies to other currencies--at any particular value". It ends "The present rate of around four dollars ninety-seven cents seems to require little official support except when the dollar tends downwards under the previously mentioned inferences. Actually the situation is not so simple, for there is a mutual feeling of under-valuation. At present the position is one of stalemate, for the British authorities

RB

-2-#1122, August 5, 5 p. m. SECTION
TWO from Paris

authorities are opposed to any serious appreciation of sterling which would sacrifice export advantages and the United States Treasury is equally adamant. In practice the present rate has come to be generally accepted as being not very far removed from the natural level, and without further definite developments it is unlikely to undergo anything more than the inevitable small variations."

(END MESSAGE).

BULLITT

EMB

NPL

O
P
YINCOMING CABLEGRAM

Moscow, August 5, 1937.

Federal Reserve Bank of New York

New York

No. 4

Refer to your wire of last month 7th and refer to our wire of last month 7th we have today instructed Chase National Bank London England to deliver to you for our account 358 bars of gold total weight approximately 5001 kilograms being forwarded from Leningrad U. S. S. R. within the next few days. Upon arrival this gold please place it our depot with you under advice by cable acknowledging Please acknowledge receipt of this message by wire.

State Bank of the U.S.S.R.

LMS

CODAT

Paris

Dated August 6, 1937

Rec'd 5:52 p. m.

Secretary of State,
Washington.

1125, August 6, 5 p. m.

FROM COCHRAN.

Control today yielded some sterling through Bank of France and also intervened through Credit Lyonnais and Lazard in forward franc market where discount has nevertheless widened. Difficulty is being experienced in finding satisfactory "names" for forward operations. Belga under heavy pressure. Belgian officials selling Swiss francs but not yielding dollars or sterling with result that belga is out of line with these two currencies. Paris Bourse rather good. Slight rise in rentes but not very impressive. Several banks which feel obliged to accept some of the Treasury's new ^{one}/year bonds as reimbursement of their maturing Germain Martin bonds are already offering the new securities at a discount.

FINANCIAL NEWS London today carried an article from its Paris correspondent on Bonnet and the French budget which concluded: "That Monsieur Bonnet is doing his utmost -- through the time-honored expedient of cheap
money

LMS 2-No. 1125, August 6, 5 p. m., from Paris.

money -- to get the wheels of industry revolving faster is illustrated by this week's reduction in the bank rate. And he is thus -- aided by the seasonal influx of tourist money and income tax collections -- also preparing for a revival of confidence in the currency and national credit which would of course greatly simplify his task. Whether that revival of confidence will mature rests largely with the Socialists. If that party should succeed in staging a "come back" at the end of the summer then undoubtedly there will be ^a renewed capital efflux and all Monsieur Bonnet's efforts will be nullified."

BULLITT

SMS:EMB

Aug. 7, 1937

Mr. Taylor

Mr. Dietrich

The following is a cable received August 5, 1937 by the Federal Reserve Bank of New York from the State Bank of the U.S.S.R., Moscow:

"Refer to your wire of last month 7th and refer to our wire of last month 7th we have today instructed Chase National Bank London England to deliver to you for our account 358 bars of gold total weight approximately 5001 kilograms being forwarded from Leningrad U.S.S.R. within the next few days. Upon arrival this gold please place it our depot with you under advice by cable acknowledging Please acknowledge receipt of this message by wire."

The above-mentioned gold has a value of approximately \$5,600,000, and you will observe from the cable that it is not to be sold but merely held under earmark for the State Bank at the Federal Reserve Bank of New York.

As this is the first shipment of gold directly from Russia since the institution of direct relations between the State Bank and the Federal Reserve Bank of New York, no doubt you will wish to bring this matter to the attention of the Secretary upon his return.

CA

Gray

PARIS

Dated Aug. 9, 1937

Recd 6:15 p.m.

Secretary of State,
Washington.

1134, August 9, 5 p.m.

FROM COCHRAN

Paris exchange market slow. French control bought a little sterling at 132.82 and sold some at 87. One Paris American bank bought \$400,000 for control and Lazard executed somewhat similar order. Belga still under pressure and florin weaker. Offer of dollars comes principally from New York and Japanese. French press carries report of criticism by House of Representatives Banking and Currency Committee of administration's gold purchase policy. Havre cotton people who are anxiously awaiting American crop report have rumor today that negotiations for American loan to French railways are progressing satisfactorily. Their Paris American bankers have tried to discourage such optimism.

French rentes are up 1 to 1.50 francs with Caisse selling some to prevent too rapid rise. General market atmosphere better. These improvements due principally to week-end political speeches by President Lebrun, Chautemps and Bonnet, who quoted President Roosevelt as recommending
to him

CA --2--1134 from Paris Aug 9 5 p.m...

to him as he left the United States that he balance the French budget, emphasized in a conservative and effective address the steps which he is taking toward this end. He urged the need for economies, patience and calm.

BULLITT

SMS RPL

037133 18

RECEIVED
AUG 11 1946
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

RB

GRAY

Paris

Dated August 10, 1937

Rec'd 4:14 p. m.

Secretary of State
Washington.

1136, August 10, 5 p. m. (SECTION ONE)
FROM COCHRAN.

French control acquired quite a few pounds and dollars today. Dollar became more bid from New York in trading. Belgian still yielding Swiss francs and dollars to support the belga. Forward franc bid without any official intervention in Paris. French rentes again gaining and Caisse selling to prevent too much rise in a market where the turnover is not heavy. Latest statements of Swiss National Bank show decline in gold and gain foreign exchange holdings

According to press reports Chinese Minister of Finance Kung yesterday signed a financial agreement with a group of French banks in Paris for the grant of a special credit with the object of increasing Chinese reserves of foreign currencies.

Press report from Rome on the occasion of the return of Suvich denies the rumor of forthcoming loans to Italy to be launched in the United States.

BULLITT

SMS

NPL

RB

GRAY

Paris

Dated August 10, 1937

Rec'd 4:30 p. m.

Secretary of State

Washington.

1136, August 10, 5 p. m. (SECTION TWO)

Although Paris market and most European financial press have reacted favorably to Bonnet's week-end speech, a suggestion of caution is contained in an editorial in the LONDON FINANCIAL TIMES today which concludes:

"Clearly, financial regularization on paper is not enough. Until taxes are collected, loans raised, and expenditure cut made effective the situation is the same as before M. Bonnet began his addition and subtraction. This fact has not escaped the shrewdly realistic French capitalist with his hoards over the water as is proved by the small return of capital that has so far materialized. It is all a matter of confidence which unfortunately the Popular Front Government through all its permutations and combinations has not been signally successful so far in inspiring. Excessive social reforms may have

RB

-2-#1136, August 10, 5 p.m. SECTION
TWO from Paris

may have been ended and the popularity even among the workers, of the forty hour week may be in question but trade union irresponsibility remains. The return to financial orthodoxy is a declaration of faith and welcome as stated but we have still to wait for its effective application".

END OF MESSAGE.

BULLITT

SMS

NPL

21

Treasury Department
August 10, 1937

TO THE PRESIDENT

This is in reference to your inquiry concerning the comments recently appearing in the public press with respect to the deficit for the month of July, 1937, as compared with the deficit for July, 1936, on the basis of daily Treasury statements.

There appears to be some misunderstanding about the matter and, therefore, I am glad to have the opportunity of submitting this memorandum.

As you know, it has always been the practice of the Government to regard the difference between its receipts and disbursements, including sinking fund and debt retirements from earmarked receipts, but excluding other debt transactions, as the Government's deficit. Whether collections deposited in revolving funds (such as the R.F.C.) are deducted from expenditures or credited as receipts, the effect on the deficit is precisely the same.

The transactions of the Government are of such a complex and varied nature that it would be virtually impossible to reduce the reports of receipts and expenditures to such simple form as would cause them to be readily understood by all, without, at least, making some mental analysis of the various factors involved. It would, perhaps, be even more difficult to devise a form of statement which would meet the individual views of all. Even if all the factors and problems involved in compiling the daily statement of the United States Treasury were thoroughly understood by the public, it is doubtful whether two persons would be in total agreement as to form, substance, and the particular treatment to be accorded certain items.

For instance, while some would contend that the same dollar should be charged as an expenditure ten times if it rolled over that many times in a revolving fund for loans, repayments, and new loans, there are others who would just as vigorously maintain that such practice would tend only to pad the total receipts and expenditures of the Government. Of course, when a lending organization commences to liquidate and has no authority to make further loans, the viewpoint changes. That is the situation to which we will eventually come with respect to the Reconstruction Finance Corporation as well as all other revolving funds, and if the Congress should enact legislation turning the collections for account of such funds into the general fund of the Treasury as miscellaneous receipts, the Treasury would change the present procedure for handling such collections to conform to the new legislation and the changed conditions resulting therefrom.

For your convenient reference, there follows a reproduction of page two of the daily Treasury statement of July 31, 1937, showing comparative receipts and expenditures for July, 1936 and July, 1937:

COMPARATIVE ANALYSIS OF RECEIPTS AND EXPENDITURES

JULY 31, 1937

	This month	Corresponding period last year
GENERAL AND SPECIAL ACCOUNTS		
Receipts:		
Internal revenue:		
Income tax.....	\$37, 140, 977. 82	\$39, 120, 853. 56
Miscellaneous internal revenue.....	221, 071, 974. 33	200, 809, 819. 29
Unjust enrichment tax.....	361, 245. 24	
Taxes under Social Security Act.....	53, 081, 738. 80	
Taxes upon carriers and their employees.....	32, 139. 15	
Customs.....	40, 648, 901. 32	31, 680, 432. 27
Miscellaneous receipts:		
Proceeds of Government-owned securities:		
Principal—foreign obligations.....		
Interest—foreign obligations.....		
All other.....	16, 583, 641. 09	10, 586, 926. 56
Panama Canal tolls, etc.....	2, 165, 736. 69	2, 199, 233. 73
Seigniorage.....	3, 438, 208. 08	4, 816, 632. 80
Other miscellaneous.....	14, 588, 070. 23	4, 772, 831. 42
Total receipts.....	409, 160, 636. 55	293, 886, 769. 63
Expenditures:		
I. General:		
Departmental *.....	60, 168, 737. 13	39, 217, 701. 03
Public buildings *.....	3, 621, 994. 75	1, 517, 983. 00
Public highways *.....	18, 158, 280. 91	5, 954, 210. 39
River and harbor work *.....	13, 742, 897. 36	8, 550, 995. 21
Reclamation projects *.....	3, 470, 463. 36	
Panama Canal *.....	1, 570, 750. 54	902, 611. 73
Postal deficiency *.....	634, 268. 02	2, 627, 757. 62
Railroad Retirement Act.....	630, 410. 91	84, 710. 09
Social Security Act.....	39, 445, 594. 53	11, 891, 683. 11
District of Columbia (U. S. share).....	4, 495, 201. 76	3, 810, 062. 58
National defense: *.....		
Army.....	32, 958, 084. 09	33, 111, 436. 48
Navy.....	40, 230, 050. 80	35, 614, 034. 78
Veterans' Administration *.....	48, 925, 019. 46	45, 834, 860. 79
Agricultural Adjustment Program.....	23, 906, 640. 14	37, 627, 565. 30
Civilian Conservation Corps *.....	31, 883, 403. 60	1, 889, 157. 52
Farm Credit Administration.....	902, 538. 17	116, 373. 81
Tennessee Valley Authority.....	3, 702, 793. 24	59, 661. 95
Interest on the public debt.....	12, 286, 334. 55	9, 882, 833. 68
Refunds:		
Customs.....	1, 305, 380. 64	2, 107, 196. 65
Internal revenue.....	1, 714, 523. 11	2, 982, 609. 63
Processing tax on farm products.....	390, 255. 36	1, 749. 92
Subtotal.....	337, 380, 132. 05	249, 385, 878. 99
II. Recovery and relief:		
Agricultural aid:		
Federal land banks.....	755, 032. 80	1, 656, 948. 44
Relief.....	654, 613. 06	35, 022, 999. 24
Public works (including work relief):		
Reclamation projects *.....	2, 506, 628. 52	1, 828, 098. 63
Public highways.....	8, 642, 097. 33	30, 031, 831. 13
River and harbor work.....	3, 659, 211. 78	13, 476, 816. 15
Rural Electrification Administration.....	2, 289, 779. 75	316, 321. 82
Works Progress Administration.....	127, 350, 140. 37	162, 051, 064. 04
All other.....	22, 838, 301. 57	30, 922, 263. 55
Aid to home owners:		
Home Loan system.....	1, 516, 471. 13	2, 501, 078. 81
Emergency housing.....	6, 293, 099. 42	2, 883, 387. 70
Federal Housing Administration.....	1, 948, 667. 85	1, 015, 183. 73
Resettlement Administration.....	10, 170, 986. 02	13, 330, 248. 22
Miscellaneous:		
Administration for Industrial Recovery.....	45, 816. 32	2, 039. 78
Subtotal.....	198, 009, 494. 90	301, 686, 286. 22
III. Revolving funds (net):*		
Agricultural aid:		
Commodity Credit Corporation.....	* 1, 202, 864. 74	* 67, 213, 993. 06
Farm Credit Administration.....	* 1, 215, 246. 75	* 3, 833, 717. 57
Public works:		
Loans and grants to States, municipal-ities, etc.....	19, 184, 815. 02	29, 537, 015. 18
Loans to railroads.....	476, 679. 85	739, 344. 54
Miscellaneous:		
Export-Import Bank of Washington.....	48, 731. 87	443, 244. 37
Reconstruction Finance Corporation—direct loans and expenditures.....	* 15, 771, 523. 56	* 176, 872, 576. 03
Subtotal.....	* 2, 190, 133. 78	* 215, 806, 271. 41
IV. Transfers to trust accounts, etc.:		
Old-age reserve account.....	42, 000, 000. 00	
Railroad retirement account.....	10, 000, 000. 00	
Adjusted service certificate fund.....		30, 116, 050. 51
Government employees' retirement funds (United States share).....	73, 255, 000. 00	46, 783, 300. 00
Subtotal.....	125, 255, 000. 00	76, 915, 350. 51
V. Debt retirements (sinking fund, etc.).....		
	30, 550. 00	5, 039, 400. 00
Total expenditures.....	658, 545, 042. 47	417, 108, 643. 91
Excess of receipts.....	249, 384, 405. 92	133, 231, 873. 08
Excess of expenditures.....		

It will be noted from the above statement that the deficit for July, 1937, was \$342,000,000, as compared with \$123,000,000 for July, 1936, an increase of \$219,000,000. Total expenditures increased from \$417,000,000 in July, 1936, to \$358,000,000 in July, 1937. This increase of \$59,000,000 includes \$43,000,000 for the old-age reserve account, and \$16,000,000 for the railroad retirement account, neither of which were in the picture last year. It also includes a \$27,000,000 increase in the United States share of the Government employees' retirement funds. General expenditures under the Social Security Act, representing principally grants to States, increased from \$11,891,000 to \$29,495,000. These items account for \$86,000,000 of the \$342,000,000 increase in expenditures and are plainly set out in the Treasury's daily statement.

The principal items affecting the picture, however, are the Reconstruction Finance Corporation and the Commodity Credit Corporation. In July, 1936, these two agencies combined had excess repayments of \$445,000,000 as compared with an excess of repayments of only \$40,000,000 in July of this year. This is a decline of \$405,000,000 in net repayments, and, of course, the comparative figures with respect to total expenditures and the deficit for July, 1937, and July, 1936, were affected accordingly. Had the net repayments in revolving funds been the same this year as last, the expenditures for July, 1937, would have been only \$27,000,000 more than in July, 1936, and the deficit for July, 1937, would have been \$16,000,000, instead of \$342,000,000.

Although there appears to be considerable misunderstanding concerning the significance of the deficit for July in relation to the estimated deficit for the year, I do not understand that any one contends that the Government's deficit for July is actually different from that published in the daily Treasury statements. At a later place in this memorandum I will endeavor to clear up this misunderstanding.

The excess repayments in July, 1936, in the account of the Reconstruction Finance Corporation, on the basis of daily Treasury statements, amounted to \$176,573,076.83, while the excess repayments for July, 1937 were \$18,771,523.55, a decline of \$158,801,553.28. This difference is traceable to two causes: First, repayments in July, 1936, of approximately \$83,000,000 from retirement of preferred stock and capital notes of banks and trust companies; and second, approximately \$64,000,000 from repayments of railroad loans, sales of Public Works Administration securities, and other regular transactions; thus accounting for about \$152,000,000 of the \$158,800,000.

In the Commodity Credit Corporation account the excess of receipts in July, 1936, amounted to \$27,313,293, as compared with \$1,302,864, in July of this year, a decline in excess receipts of \$26,010,429. This difference is accounted for by the sale of \$70,000,000 of collateral trust notes, Series A, in July, 1936, and was offset by the payment of such notes later in the fiscal year. Ordinarily this transaction would not appear in the statement of receipts and expenditures on page two of the daily Treasury statement, but the deposits were not so marked as to enable the Treasurer of the United States to identify the character of the transactions. Steps have been taken to have all checks and all deposits flowing through the Treasurer's accounts of a million dollars or more, be delivered to the Commissioner of Accounts and Deposits for examination and instructions concerning the accounting treatment of unusual items.

The daily Treasury statement shows "Departmental" expenditures of \$20,168,737, in July, 1937, as compared with \$29,217,702, in July, 1936, an increase of \$20,951,065. \$2,300,000 of this increase is in the Department of Agriculture, arising principally from

the fact that a more expeditious method for making payments to States under cooperative agreements had been worked out between the Treasury and the Department of Agriculture. Similar payments for last year were not made until August.

U. S. Maritime Commission \$3,400,000, due principally to the fact that payments under ocean mail contracts were made by the Maritime Commission in July, 1937, whereas similar payments were made by the Post Office Department in July, 1936 from its own account with the Treasurer of the United States and reflected in the postal deficiency.

The remainder is accounted for by the fact that, as compared with last year, a considerably larger amount of checks issued by the Division of Disbursement in June were paid in July, 1937.

The "General" expenditures (including "Departmental") for July, 1937, were \$337,000,000, as compared with \$249,000,000 in 1936, an increase of \$88,000,000. Of this amount \$89,000,000 is explained above. \$30,000,000 of the remaining \$49,000,000, is due to the transfer of the Civilian Conservation Corps from the "Recovery and Relief" classification to the "General" classification. You are familiar with this change of classification in the budget. Then, there was an increase of \$8,000,000 in Navy expenditures; and about \$1,000,000 in interest; the balance is principally an account of highway and river and harbor work, due largely to a change in classification from "Recovery and Relief" to "General".

With reference to the general question of publishing the receipts and expenditures of the Government, several changes were made in the daily Treasury statement, effective July 1, 1937. You probably have read some favorable comments appearing in the public press concerning these changes. One of the changes had to do with the handling of certain non-cash transactions, representing amounts set aside in the old-age reserve account, the railroad retirement account, and the several Government employees' retirement funds. It is felt that sound budgetary practice requires that such items be included in governmental expenditures, but they are kept in a separate group for ready identification.

Another important change relates to the handling of revolving funds. These funds have been segregated from all other funds and placed in a separate group, with a separate net sub-total. In conformity with the long-established practice - - a practice which I believe to be in accordance with the legal status of the funds - - the figures are on a net basis, i. e., gross payments less repayments; but it is important to note that the gross receipts and repayments are reported in detail on page four of the daily Treasury statement so that it is simply a matter of arithmetic to put the figures on a gross basis. Then there is still another alternative, namely, to publish the figures on the present net basis (supplemented by supporting schedules of gross payments and repayments as at present) but to "shuttle" the figures back and forth between receipts and expenditures, depending upon whether the

* Note for files - Vol. 3344 includes the
 \$144 million in Social Security referred to
 in copy of L. S. and the \$214 million
 referred to in section of L. S.

net result is an excess of expenditures or an excess of payments. Under such a procedure, the net figures for Reconstruction Finance Corporation in one month would be reported under "Receipts" and "Disbursements" in another month the net figures would appear under "Receipts". But here again it is simply a matter of arithmetic to add the net payments to the totals of both receipts and expenditures if such is the best way which one wishes to work. In the last analysis, whether the items are treated one way or another, the effect on the deficit is the same. While there is some merit in the treatment which I have just outlined, it presents some practical difficulties; and, in my opinion the present procedure conforms more nearly to law and the legal status of the funds, than any other plan thus far devised or suggested.

The daily Treasury statement now presents a somewhat forward picture of the receipts and expenditures of the Government in the most simplified form consistent with proper presentation of a complex subject.

With reference to the adjustments, if any, which the deficit for July may have with respect to the full fiscal year, I would like to call attention to the following:

As you know, the receipts of the Government do not flow into the Treasury evenly throughout the year. It is very probable that the eight months of this fiscal year in which a comparatively small amount of income taxes will be received, may show an aggregate deficit of \$1,400,000,000, whereas the four months that payment on bonds may show a surplus of as much as \$1,000,000,000, leaving a net deficit for the year of about \$400,000,000, as indicated in your message to the Congress of April 30, 1937. The deficit of \$289,000,000 during July, 1937, as shown in the daily Treasury statement of July 31, 1937, does not, therefore, indicate the necessity of revising the estimates for this fiscal year 1938, as contained in that letter.

(Signed) Wayne C. Taylor

Assistant Secretary
of the Treasury.

WCT:BNW
8/10/37

RB

CODAT

Paris

Dated August 11, 1937

Rec'd 3:02 p. m.

Secretary of State
Washington.

1139, August 11, 4 p. m. (SECTION ONE)

FROM COCHRAN:

At Bank of France this forenoon I was informed that French stabilization fund yesterday gained one hundred twenty-four million francs of foreign exchange. Since July 1st the fund has acquired on balance three billion four hundred million francs of foreign exchange. Total of assets in fund as of yesterday was nine billion nine hundred sixty-one million francs including the above amount of foreign exchange and revaluing on a forty-three milligram to the franc basis the some four billion francs of gold which was acquired from the Bank of France when the recent changes on the monetary system took place and which the fund has been able to hold.

Higher officials of Bank of France are working well with Governor Fournier but organized personnel just dedicated a special number of their publication to ex-Governor Labeyrie. Latter is reported recently to have told the

unionized

RB

-2-#1139, August 11, 4 p. m. from
Paris SECTION ONE

unionized employees as well as outsiders that he had been forced out only temporarily and that the "will of the people" would in the not distant future return him to the bank where he could complete the reforms which he had started, institute exchange control, et cetera. While the responsible officials of the bank laydh (laughed?) at this, their relations with the personnel are not helped by Labeyrie's remarks

BULLITT

HPD

RE

CODAT

Paris

Dated August 11, 1937

Rec'd 5:20 p. m.

Secretary of State

Washington.

1139, August 11, 4 p. m. SECTION TWO.

The Bank officials find Bonnet a very alert and understanding Minister of Finance with whom they can cooperate. They feel that he has shown real courage in the steps which he has so far taken. They realize, however, that he has chosen the propitious time with Parliament adjourned, with so many Parisians, including labor agitators out of town, with France enjoying a really good tourist season, and with the entire effects of the latest currency depreciation not yet fully felt on the cost of living.

While the gains by the French stabilization fund have been encouraging, there has not yet been any big repatriation of French capital from abroad and the Bank of France officials do not look for the heavy holders to act quickly. The really significant sums were sent to New York to be away from Europe as well as from France

and my

RB

-2-#1139, August 11, 4 p.m. from Paris

and my contacts do not take too seriously the press stories that important amounts of this French capital are moving from New York to London.

Operators of French stabilization fund have recently been more aggressive in their dollar purchases and hope to continue to acquire more thereof so long as their situation permits. They are surprised that the British have not made more effort to check the dollar's decline especially since London will shortly be needing dollars for seasonal purchases of American grain and cotton.

BULLITT

SMS

NPL

RB

CODAT

PARIS

Dated August 11, 1937

Rec'd 8:20 p. m.

Secretary of State

Washington.

1139, August 11, 4 p. m. SECTION THREE.

At the bank I mentioned the story in this morning's AGENCE ECONOMIQUE that a group of banks headed by Paris and Pays Bas and including Lazard, Bank of Indo China and Franco Chinese Bank for Commerce and Industry, has opened a credit of 100,000,000 francs to the Central Bank of China at Shanghai which may be raised eventually to 200,000,000 (Reuter's report of this credit was mentioned in my 1136, August 10, 5 p. m.). My contact at Bank of France thought this was more of a friendly gesture to Kung than anything else. That is, he expects the sum to be entered into a special account for the Chinese so that the latter can credit a corresponding amount in their holdings of foreign exchange but he looks for no actual disbursements to be made from this account.

AGENCE ECONOMIQUE gives ample space to President Roosevelt's denial of any contemplated change in gold policy

RB

-2-#1139, August 11, 4 p. m. from
Paris SECTION THREE

policy and FINANCIAL NEWS today ridicules the views of
the Republican members of the House Banking and Currency
Committee.

BULLITT

SMS

NPL

RE

CODAT

PARIS

Dated August 11, 1937

Rec'd 8:35 p. m.

Secretary of State
Washington.

1139, August 11, 4 p. m. SECTION FOUR

Paris exchange market quiet. French control yielded some sterling at 132.87 and apparently has acquired no foreign exchange during the day. Bank of England reported to have sold some dollars. Belga offered against dollars and continental currencies other than French franc. Cassel of Brussels reported shipping gold to New York. French rentes uneven. Understand that recent purchases thereof have been almost entirely by professional operators who figure that the new rente fund can not afford to let the securities decline and will eventually push them up so these speculators will have a chance to unload at a profit. Commercial interests hope for another reduction in official discount rate. On this point Bank of France contact told me this morning that much of the foreign exchange which
they

RB

-2-#1139, August 11, 4 p. m. SECTION
FOUR From Paris

they had recently acquired had been brought back by French business people who, with the local money market tight, had to sell foreign exchange to get the francs which they needed. To ease the interest situation very far would therefore likely work against capital repatriation. In the same way, boosting rentes too actively before general financial confidence is restored would give investors cash for transfer abroad.

END OF MESSAGE.

BULLITT

SMS

NPL

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 18, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLANDM. D. J. Cameron

I phoned Mr. Bolton at about 11 a.m. and inquired about the market in general and asked if he could throw any light on two gold shipments totalling about \$5,000,000 consigned by Samuel Montagu and Company, London, to the Bank of the Manhattan Company, New York per steamers Westernland and Rotterdam. I mentioned to Mr. Bolton that this was quite a large amount in view of the recent smallness of the gold market and it seemed strange that slow boats were selected while faster boats could have been used. He said that he had heard that £1,000,000 in Russian gold had been transhipped at Antwerp for New York, but I told him confidentially that I did not believe there was any connection because we had advice from the State Bank of such a shipment to us. He said that he would see what information he could get and let me know.

He said the French market was getting a little money but not much, however, they were getting a badly needed rest. He said the only feature in the market, if it could be called one, was the weakness of the belga. He said the Belgians were losing gold at the rate of about £100,000 per day and that the trouble was largely political. He said the Japanese were now enforcing a very rigid control of the yen, holding the rate at 148 2d and that no forward transactions were allowed. He said the Japanese continue to accumulate balances in London which in his opinion is purely a war measure. I asked if he had had any dealings with Argentina on account of the refunding of the City of Buenos Aires bonds as we had sold a small amount of sterling here. He replied they had done nothing.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 12, 1957

CONFIDENTIAL FILMS

SUBJECT: TELEPHONE CONVERSATION WITHFROM D. J. CameronBANK OF ENGLAND

-2-

I phoned Mr. Bolton again at about 12.45 p.m. I told him that we had received a cable from the Central Bank of China asking us if we could provide them with \pounds 21,000,000 sterling spot, as there was a continued demand on them for spot sterling and they did not wish to disturb the New York - London rate.

I told Mr. Bolton that we would have to release gold to him from our account (under tripartite agreement) to obtain the sterling, and as we would not be able to tell him definitely until tomorrow at our opening, we wondered how he felt about taking \pounds 21,000,000 of gold from us tomorrow at his today's price. He said it would be perfectly all right but he could offer us \pounds 200,000 spot at 4.9845 for delivery tomorrow which would only leave \pounds 700,000 to be realized from the sale of gold. I accepted his offer and it was understood between us that if the Central Bank of China accepted our offer for the additional \pounds 700,000 we would cable him at our opening tomorrow to take over the equivalent amount in gold at today's price of 139 sh 4d.

JR

GRAY

London

Dated August 12, 1937

Rec'd 2:06 p.m.

Secretary of State,
Washington.

536. August 12, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

CONFIDENTIAL.

One. Sir Frederick Philipps plans to sail for Canada on September 4 on the EMPRESS OF BRITAIN. He will adhere to the itinerary reported in the final paragraph of my 475, July 15, 3 p.m., coming from Lake Louise to Chicago on September 16 or 17th and arriving in Washington the week end before September 20, the date of his meeting with the Secretary of the Treasury.

Two. As regards the French situation, Philipps said that it was moving along the lines he indicated in his previous conversations; that the French were now "messing about with the forward rates" but they had done little harm and not very much good. As regards spot operations, they were holding their own but not receiving any worthwhile amounts of gold.

Three. Philipps referred to today's press reports quoting the Federal Reserve Board's monthly bulletin on
gold

-2-

JR #536, August 12, 5 p.m., from London.

gold hoardings, in particular the statement that hoarded gold in London "must be less than five hundred million dollars". In this connection, he mentioned his estimate of not more than 95 and not less than 75 million pounds, reported in my 354, June 7, 6 p.m., and said that he thought the time had now come to check up on the figure again but that certainly it must be somewhat lower than that of two months ago. Phillips added that a perhaps more interesting figure was that of a billion dollars for hoarded gold throughout the world and that he intended to write Jacobsen at the B I S for confirmation.

BINGHAM

PEG:RR

RB

GRAY

Paris

Dated August 12, 1937

Rec'd 3:02 p. m.

Secretary of State

Washington.

1149, August 12, 5 p. m.

FROM COCHRAN.

Paris exchange market extremely quiet. French control lost a little sterling at 132.27 and 86. Belga offered but Cassel said still to be operating against dollars with view to shipping gold from Belgium to New York. Market report it that French Caisse had to buy heavily yesterday to hold Government securities about level. Today rentes and other Treasury issues are all offered. Latest rise in cost of living index and this week's increase in local transportation rates cause worry. American bankers in Paris tell me that French banks share their opinion that no significant amounts of capital are returning to France.

Bank of France statement as of August 5 was satisfactory. There were no new advances to the state but a few slight adjustments in two of the items constituting such entries

RB

-2-#1149, August 12, 5 p. m. from
Paris

entries. With a small gold gain and deposits down one
and one-half billions coverage rose from 51.70 to 52.29.

BULLITT

PEG

GW

RECEIVED
AUG 13 1946
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE

JR

GRAY

London

Dated August 12, 1937

Rec'd 2:06 p.m.

Secretary of State,
Washington.

FILE COPY,
A. LOCHHEAD

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FILE COPY,
A. LOCHHEAD

-2-

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BINGHAM

PEG:RR

RB

GRAY

London

Dated August 12, 1937

Rec'd 3:30 p. m.

Secretary of State

Washington.

535, August 12, 4 p. m.

Confidential.

With reference to your ³242, August 9, 7 p. m., I have received from the Foreign Office a confidential letter which supplements the memorandum quoted in my 394, June 24, 2 p. m. The pertinent points of the letter are as follows:

One. That the Chinese authorities have been in communication with the Hong Kong and Shanghai Banking Corporation with a view to settling the terms of the twenty million pound currency loan and that the Foreign Office understands that the Chinese are likely to accept the conditions mentioned in its previous memorandum.

Two. However, the negotiations have not progressed nearly as far as press reports imply and "it is obviously impossible that a loan should be issued during the continuance of the present state of tension in North China".

Three. Reference is made to the resolution adopted
at the

RB

-2-#535, August 12, 4 p.m. from London

at the May 6 meeting of the Consortium Council, to the letter of July 23 addressed by the British group to the other groups regarding the proposals for the Pukow-Siangyang Railway, to which no replies have been received, and in this connection it is stated that "on the 30th July an agreement was reached between the Chinese Government on the one hand and the British and Chinese and China Development Finance Corporation on the other for the issue of a pounds sterling three million loan for the Canton-Meih sien Railway, and on the 4th August a second agreement between the Chinese Government on the one hand and Chinese Central Railways and the China Development Finance Corporation on the other for the issue of a pounds sterling four million loan for the Pukow-Siangyang Railway. The latter agreement contains the following proviso: Notwithstanding any of the provisions hereinbefore contained, none of the clauses in this agreement shall become effective until the present consortium obligations, which are now the subject of discussion between the governments concerned, cease to be binding on the British group".

I have also been given in confidence copy of a letter addressed by Padfield of the Hong Kong and Shanghai Banking Corporation

RB

-3-#535, August 12, 4 p.m. from London

Corporation to Kung under date of July 30 together with the latter's reply of August 3 which are quoted verbatim:

"I write again you this letter for the purpose of placing on record what I understand to be the conclusions to be drawn from the recent discussions with Mr. T. K. Tseng. I should be grateful if you could confirm that the following accurately represent your wishes and intentions:

(one) The Chinese Government contemplate, approaching the London market through the Hong Kong and Shanghai Bank for the issue of a sterling loan for an amount or amounts up to pounds sterling twenty million in all, such loan to be known as the Chinese Government refunding loan of (**).

(two) The proceeds of the loan would be paid to the Central Reserve Bank of China and held by it in sterling in London and used solely for foreign exchange transactions to maintain the stability of the Chinese currency as at present established.

(three) The Chinese dollar counterpart would be used gradually over a period for the redemption of existing domestic

RB

-4-#535, August 12, 4 p.m. from London

domestic bonds.

(four) An adviser to the Central Reserve Bank of China would be appointed in consultation with whom the foregoing disposition of the loan proceeds would be effected.

(five) The security in respect of principal and interest would be the entire revenue of the Chinese Maritime Customs Service after provision for all existing charges.

(six) The administration of the Chinese Maritime Customs Service shall continue as at present constituted during the currency of loan.

With reference to the foregoing I have to say that the Hong Kong and Shanghai Bank would be prepared, subject to the security referred to under paragraph five above proving adequate and to there being no objection on the part of His Majesty's Government, to give favorable consideration to the issue of such a loan provided that the current negotiations in regard to the consortium have removed any obstacles on that account to such a sterling issue. It is understood of course that the actual time of issue and the terms on which the loan could be placed would

RB

-5-#535, August 12, 4p.m. from London

would have to be governed by the London market conditions.

I am sending a copy of this letter to His Majesty's Treasury and to the Foreign Office."

Kung's reply is as follows: "I wish to acknowledge the receipt of your letter of 30th July and to thank you for the interest you have taken in the proposed loan in London. From time to time, Mr. T. K. Tseng and Doctor P. W. Kuo have reported to me the conversations they have had with the officials of the Treasury and of your bank regarding the matter. In general their reports correspond with your observations with the exception of Article five which they understand to be that the proposed loan would be charged on the customs revenue, ranking immediately after the internal consolidated and recovery loans of 1936.

I assure you that I am to receive your understanding of these conversations and that the matter will receive my careful attention".

In the course of a conversation Sir Frederick Phillips reiterated that irrespective of future developments Chinese credit in London had been unfavorably affected by recent events in North China and that neither the proposed currency loan nor the two proposed railway loans can be

effected

RB

-6-#535, August 12, 4 p.m. from London

effected unless market conditions prove favorable and that the present situation in China is likely to have an adverse effect on them for some time to come. Phillips also said that the Chinese had been losing "a fair amount" of sterling; that in his opinion they could hold their currency under present conditions for several months if they wished to do so but that if a real war came "there is no telling".

I gather that similar communications have been given by the Foreign Office to the French and Japanese representatives.

BINGHAM

HPD

RECEIVED
AUG 13 1945
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

MM

CODAT

Paris

Dated August 12, 1937

Rec'd. 7:45pm.

Secretary of State

Washington, D.C.

1152, August 12, 8pm.

Department's 423, August 11, noon.

Cochran obtained following information at Ministry of Finance this evening to supplement my 1148, August 12, 4pm.

The French banking credit to the Central Bank of China is immediately available and runs for one year. The charges therefore are explained as follows: the interest will be at one percent above the current discount rate of the Bank of France with a minimum charge of four percent and the bankers will receive a commission of approximately two thirds percent.

The officials consulted at the Ministry of Finance gave the same impression as that obtained at the Bank of France and set forth in our 1139, August 11, 4pm, in regard to the purpose and real significance of the operation. That is, the credit is solely to bolster the backing of the note issue to the Central Bank of China. It is stipulated that to the extent to which the credit is drawn upon the borrowers must deposit a
pledge

1152, August 12, 8pm from Paris. -2-

pledge of silver in London. Furthermore there is a secret gentlemen's agreement to the effect that the funds available under the credit shall not be taken out of France.

BULLITT

SMS

NPL

RECEIVED
AUG 14 1951
TREASURY DEPARTMENT
Office of the Assistant
Treasurer for International Operations

August 16, 1937.
12:35 p.m.
Hawaii

Magill: After by play back and forth with me they finally quit and.....

H.M.Jr: It'll pay you not to try and handle the hot money.

Magill: Ah - yes, that's right - yeah, yes it did look as if it was a time we could do it very well. Did you get my letter?

H.M.Jr: Yes (laughs)

M: ((Laughs)

H.M.Jr: But listen -

M: Yes.

H.M.Jr: Next time you send me a letter don't warn me three days in advance and have me all tizzy-wizzy worrying what' it is.

M: I didn't know that they were going to.

H.M.Jr: Yes - Coast Guard - Lieutenant Pollio sent word over that you were sending me a very very personal letter.

M: (Hearty laughter)

H.M.Jr: And for three days I wondered what it was all about.

M: You stayed in your room and didn't go swimming at all I suppose.

H.M.Jr: Right.

M: Well that's too bad; I don't know what they did that for.

H.M.Jr: Well anyway your letter was very satisfactory.

- 2 -

M: Well I'm glad it was. I - I think we really got out of a tough situation there quite happily.

H.M.Jr: Were you able to get up^{to} the camp?

M: I - I finally got away for a couple of days there at one point; got away Friday and came back Monday evening.....

H.M.Jr: Yes.

M:but I've been here the rest of the time except week-ends.

H.M.Jr: I see.

M: I hope - I hope they'll get through this week-end and if they do I want to get away for a week or so then.

H.M.Jr: How are you feeling?

M: Very well except it's been hot down here and a good deal of a strain but I think we came out awfully well considering everything.

H.M.Jr: I think so. You must have handled it very well.

M: Well I don't know about that but it's - ah - it's taken a lot of diplomacy at various times to get through alive. Now would you like to talk to Wayne?

H.M.Jr: Yes, and would you just send a message to the operator when I'm through I'd like to talk to Bob McHugh in his room.

M: Yes.

H.M.Jr: When I get through.

M: Yes, I'll do that. Here's Wayne.

Taylor: Hello

H.M.Jr: Hello Wayne.

T: Hello Henry.

- - 3 - -

H.M.Jr: How are you?

T: Oh I'm fine.

H.M.Jr: Ah - Wayne - one of the principal things I wanted was - I have no idea, for instance, what - what is our daily balance right now - our working balance.

T: I've got the figures for you - 855 million.

H.M.Jr: How much?

T: 855.

H.M.Jr: I see. Well now has it been - has it each week or are we eating into it.

(Pause and squeal)

T: Wait a minute - I've got to get around to the other side.

H.M.Jr: Hello - hello

T: Hello

H.M.Jr: Hello.

T: Ah - we'll eat into it a little bit to-day but - on account of special transactions but it will act all right from now on.

H.M.Jr: Ah-ha, well what I'd wish you'd do with Bell would be to send me a cable to-day, giving me the picture to September 15th and then from September 15th to November 15th, do you see?

T: Yes.

H.M.Jr: And the idea - the main thing I want is what is the minimum of new money that we need to carry us to December 15th.

T: O.K.

H.M.Jr: I mean I'd like to get it to get the feel of the thing.

T: Right.

H.M.Jr: For the first time in my life I'm completely out of touch.

T: Well that's what we hoped you'd be.

H.M.Jr: Frankly, I haven't been worrying about anything. But I want to begin to get the feel of the thing, you see?

T: Ah - we'll start with to-day's stuff and then we'll keep you generally in touch.

H.M.Jr: Well I don't - I don't want cables every day but I - but I would like a cable memo - how the thing looks to you and Bell.

T: Right.

H.M.Jr: And - ah - what you think the minimum money is and then - you haven't begun to find out in New York yet.

T: No, we haven't done that yet. Burgess has been away you see and we thought we'd start fussing around with that this week.

H.M.Jr: Ah-ha. Well what are those - the last March 42's - what are they selling at now?

T: Ah - par 18 to 20.

H.M.Jr: How much?

T: Par 18 to 20.

H.M.Jr: Ah-ha. The market has sold off the last week, hasn't it?

T: Yes - ah - mostly in the long bonds.

H.M.Jr: Ah-ha.

T: But they turned on Saturday and they're acting all right to-day too.

H.M.Jr: I see.

T: It was mostly the dealers switching their position a little bit.

H.M.Jr: I see.

T: There was no real liquidation.

H.M.Jr: No, I don't want daily cables but I would like to have one now.

T: Ah - we'll get it to you this afternoon.

H.M.Jr: Yes and then - ah - so I can get some idea how much new money - how she was running. Now on the Japanese thing - ah - did they send us all the gold they said they were going to?

T: Ah - yes - they've - it's slowed up a little bit lately.

H.M.Jr: Ah-ha.

T: Ah - there's only 13 million - ah - that we know about on the water at the present time.

H.M.Jr: How much?

T: 13.

H.M.Jr: That makes a total of how much?

T: It will be 143 which they sent here.

H.M.Jr: 143.

T: Yes.

H.M.Jr: Ah-ha. Any more coming?

T: Ah - 13 on the way and nothing new reported.

H.M.Jr: I wish also in the cable that you'd give me an idea how the people there feel about this Chinese-Japanese show.

T: Ah - perfectly dreadful.

- 6 -

H.M.Jr: Is that the way they feel?

T: What?

H.M.Jr: I say how do they feel there?

T: They think it's perfectly dreadful.

H.M.Jr: What are they doing about it?

T: Ah - main thing up to date is making arrangements to get the women and children out of Shanghai and the rest of China.

H.M.Jr: Besides that?

T: Ah - besides that they put - they're having - ah - whatever transportation can be made available - ah - then it's up to people whether they want to go or not.

H.M.Jr: Then the situation itself.

T: The situation itself looks very bad.

H.M.Jr: They're not doing anything about it.

T: Not yet; they're having a meeting this morning with Secretary Hull and Secretary Woodring at the White House.

H.M.Jr: I see.

T: But nothing has come out about that yet.

H.M.Jr: Well if you get anything on that let me have that,

T: Right.

H.M.Jr: And - ah

T: Well it couldn't be worse.

H.M.Jr: Ah - how was the New York Times index for Sunday; was it up or down?

- 7 -

T: (Has a conversation with George Haas) (Pause)

H.M.Jr: Hello

T: Ah - not much change this last week - ah - practically none but it's a little down from June when you were here - July rather.

H.M.Jr: Tell George he can get me off a letter airmail giving me a little review of the business situation.

T: Right.

H.M.Jr: Suppose he gets me off a letter airmail - George Haas.

T: Yes.

H.M.Jr: See.

T: O.K.

H.M.Jr: Have you any feelings yet on financing?

T: Ah - no bonds.

H.M.Jr: Ah-ha.

T: And then whatever happens to fit on the notes .

H.M.Jr : You what?

T: Whatever happens to fit on notes I think either - any note would go all right.

H.M.Jr: All right. Anything else?

T: Ah -

H.M.Jr: How is your health?

T: My health is excellent.

H.M.Jr: Good.

T: Ah - the foreign exchanges outside of this Far Eastern stuff has been acting all right.

- 8 -

H.M.Jr: What?

T: Foreign exchanges outside of the Far East have been acting all right.

H.M.Jr: Ah-ha.

T: Ah - generally quiet; France has been gaining foreign exchange - not much but doing a little better to hold its own and their bond market is better.

H.M.Jr: Well let me talk a minute to Bell and then to Archie.

T: All right.

Bell: Hello

H.M.Jr: Hello Dan.

B: Good morning.

H.M.Jr: Good morning. Ah - how is the spending going - is it ahead or behind our estimates?

B: Ah - well it's a little behind and balances have picked up over our estimates for the month of July and up to date but that has largely been due to Jesse Jones of obligations.

H.M.Jr: I see.

B: Ah - the emergency was off about 40 million dollars from our estimate; the others are about the same. The gold was off about 40 million - 38 million.

H.M.Jr: Would you mind getting me off by airmail a little review?

B: All right.

H.M.Jr: I mean a little review of the spending outlook?

B: All right. We sent quite a report last week on the July expenditures as compared with last year's July expenditures to the President. I mean last week.

- 9 -

H.M.Jr: Well send me a copy of that.

B: Ah - yes. He brought it up at Cabinet Meeting and asked Wayne to give him an explanation of it so he could make it public.....

H.M.Jr: Yes.

B:but when we took it over we talked him out of it.

H.M.Jr: Ah-ha.

B: We thought it better to keep still.

H.M.Jr: Let me have a copy of it and bring it up to date.

B: All right.

H.M.Jr: How are you feeling?

B: I'm feeling pretty good; kind of anxious for Congress to get away.

H.M.Jr: Yes, well take care of yourself.

B: All right. Do you want Archie now?

H.M.Jr: Anything else you want to tell me?

B: No, there isn't much change in the situation so far as the Budget is concerned. Department hung on to the Interior Bill for quite a while with a view to vetoing it but he finally decided not to because he had word that they'd pass it over his veto immediately. Everybody's in a pretty bad temper; they want to go home so badly that they don't want to reconsider anything.

H.M.Jr: Yes.

B: So he decided to sign it.

H.M.Jr: Well up to date I mean on the legislation he didn't pass anything that would cost us any great money to it, did he?

B: No.

- 10 -

H.M.Jr: What?

B: No, there isn't anything that we need worry about so far as '38 is concerned.

H.M.Jr: I see. Do you think they'll pass the Housing Bill?

B: I really don't know. (Aside: "Did you hear anything of the Housing Bill"?) Mac says that he can't find anybody that's got any idea from it. The House has it and hasn't reported yet.

H.M.Jr: I didn't hear what you said - the phone wasn't working.

B: I say Mac says that he hasn't seen anybody that knows anything about the status of the Housing Bill.

H.M.Jr: Who says that?

B: Mac.

H.M.Jr: I see.

B: The House has it and the Committee hasn't reported it.

H.M.Jr: I see.

B: We're all hoping that it will hang over.

H.M.Jr: Well if - ah - we'll see what happens.

B: Yes.

H.M.Jr: Well if you'll get me off a letter airmail I'll appreciate it.

B: All right, Goodbye.

H.M.Jr: Thank you.

B: Here's Archie.

Lochhead: Hello

H.M.Jr: Hello Archie

- 11 -

- L: Well the exchanges have been absolutely inactive;.....
- H.M.Jr: Yes.
- L:sterling is holding strong and the francs, as Mr. Taylor said, are holding quiet; they're not gaining anything real but they're holding their own.
- H.M.Jr: Ah-ha.
- L: Ah - the other exchanges are not doing much; Belgium is inclined to be a little weak but there - there's been no questions brought up at all. The Chinese have managed to hold that exchange so far; of course, it has cost them money; it hasn't come out yet but it's costing them money.
- H.M.Jr: How much of the one billion two is inactive.
- L: Just a minute. (Aside: "What is the inactive fund right now?") One billion 277.
- H.M.Jr: I see.
- L: Now that seems to have quieted down again. There's little dribs and drabs come over from England and Belgium just now but there's no heavy shipments and very little coming in from the market over in London.
- H.M.Jr: How are you feeling?
- L: I'm feeling fine and things have been so quiet I've been away most of the time that you've been away.
- H.M.Jr: Good for you.
- L: Yes.
- H.M.Jr: All right.
- L: All right, now do you want to speak to Mr. McReynolds?
- H.M.Jr: Yes. That's about everybody, isn't it?
- L: Ah - Mr. McReynolds and Mr. Haas here.

- 12 -

H.M.Jr: All right, I'll say "Hello" to both of them.

L: Right.

McReynolds: Hello Secretary.

H.M.Jr: Hello Mac. How are things going?

McR: Right fast.

H.M.Jr: No troubles?

McR: No troubles.

H.M.Jr: Good, I'll have to think up some.

McR: Well I've no doubt you will.

H.M.Jr: Yes.

McR: We had - the only trouble we had was Wayne and Dan and I got in a golf game the other day and had a little difficulty.

H.M.Jr: You did.

McR: Not bad, you understand, but Dan won our money.

H.M.Jr: I see.

McR: (Laughs)

H.M.Jr: Well that's good.

McR: The devil it is - I lost it.

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

McR: (Laughs)

H.M.Jr: Everything's quiet, eh?

McR: Yes, everything's quiet.

H.M.Jr: Good.

- 13 -

McR: And nothing to worry about at all.

H.M.Jr: O.K.

McR: O.K. Here's George.

Haas: Hello Mr. Secretary.

H.M.Jr: Hello George. How are things with you?

H: Oh everything moving along fine and think we'll make the schedule on the several jobs we had when you left.

H.M.Jr: Good.

H: And the other thing - I'll get off that letter on the general business situation. In general, it's just about as it was when you left.

H.M.Jr: Ah-ha.

H: Ah - the index - the weekly one is down a little bit but nothing disturbing.

H.M.Jr: You're going to have something for me on the little business man.

H: Yes sir.

H.M.Jr: Good.

H: I'll have that.

H.M.Jr: May I talk to Magill once more?

H: Yes sir.

Magill: Hello

H.M.Jr: Ros, have you seen the President recently?

M: No I have not, no sir, I've - well the last time I saw him was at Cabinet two or three weeks ago.

H.M.Jr: Has Taylor seen him?

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- M: Yes, he's - well he's seen him at Cabinet too. I don't know whether he's seen him in between or not.
- H.M.Jr: I mean I want to know how he feels.
- M: Well - ah - ah - very well I should say. He - there's been a lot of discussion about the Congressional situation, etc.
- H.M.Jr: Do you think there's any chance of their getting away before Labor Day?
- M: Oh yes, my own guess would be, from the way they talk to me, that they're, pretty sure to be away by the 25th and there's a possibility they'll be away by the end of this week.
- H.M.Jr: I see.
- M: That's the way it looks to me; I don't think there's any change.
- H.M.Jr: Now Ros -
- M: Yes sir.
- H.M.Jr: I want to tell you. There's no need of your being there over Labor Day week-end.
- M: Well that's very good of you. I thought I would - I would try to get away and come back the day after Labor Day probably, if that was agreeable to you.
- H.M.Jr: I just want the people to be there that help me on my financing.
- M: Well I - I imagined that you'd be busy on that and that you wouldn't want me to be reporting to you till a little later.
- H.M.Jr: Well I mean I'd like to see you but I mean that would be a good chance for you to get away.
- M: Well I'd like to do it; I've been - it's just been impossible to get away here with this bill in the state that it's been.....
- H.M.Jr: Yes.

- 16 -

H.M.Jr: I - I really haven't been working at all and I've had a complete rest.

M: Well that's - I'm glad you have because that's fine.

H.M.Jr: And I'm really in good shape.

M: Well now have you got anything you want to-day?

H.M.Jr: No.

M: I've spoken to Mac - Bob McHugh - I guess he'll take you up - the operator will take you up on that.

H.M.Jr: All right.

M: Thank you. Goodbye.

H.M.Jr: Goodbye to all of you.

M: Good luck.

- 15 -

M:except the week-ends but I - I'm feeling perfectly good but I would be glad to get a week or so down to camp.

H.M.Jr: Well that would be a good time to get it.

M: Yes - yes, that would be fine. How - how are you feeling, Henry?

H.M.Jr: Ah - you see because I want on my financing - ah - I need Wayne, I need Bell - I need George and his people.....

M: Yes.

H.M.Jr:and I'd like Archie to be around.

M: I think they're all planning to be here.

H.M.Jr: All right.

M: When would you plan to get here?

H.M.Jr: Well I hope to get in there Friday night or Saturday morning.

M: I see. Well I probably won't be here then and I'll check in after Labor Day.

H.M.Jr: All right.

M: Well how are you?

H.M.Jr: I've had a grand vacation.

M: And have Mrs. Morgenthau and the children been well all the while?

H.M.Jr: Well they've had colds; I had a little cold but it's been a perfect rest.

M: Well that's fine. I'm - I'm glad you can get a rest out of it without taking things here too hard.

JR

GR:Y

66

Paris

Dated August 17, 1937

Rec'd 3:34 p.m.

Secretary of State,
Washington.

1168. August 17, 4 p.m.

FROM COCHRAN.

Paris exchange market very quiet. French control acquired small amount sterling 132.83. Forward franc more offered and intervention through British control to hold three months rate at 3 and one-eighth apparently withdrawn this afternoon. Rentes slightly lower. International shares hard hit by Shanghai trouble. Further increase in foreign exchange holdings of Swiss National Bank as of August 14 presumed to have resulted from tourist influx.

Press report from Prague says Chinese Minister of Finance Kung has concluded arrangements with Skoda works for 10,000,000 pound credit to China for purchase of "industrial goods" in Czechoslovakia. Press report from Basel states Dutch Swiss banking credit which I mentioned yesterday was placed through Luescher and Company, Basel, amounting to 100,000,000 Swiss francs is secured by Chinese silver deposits.

BULLITT

TWC:DDM

RE

CODAT

PARIS

Dated August 18, 1937

Rec'd 7:05 p. m.

Secretary of State
Washington.

1173, August 18, 5 p. m.

FROM COCHRAN.

French control yielded sterling throughout the day at from 132.87 to 94. While turnover was not heavy the pressure was steady. Three months rate weakened to four francs against sterling. French rentes definitely lower. No special cause for unsatisfactory feeling but contributing factors are: rising cost of living, labor troubles which caused cancellation of ILE DE FRANCE cruise, realization of deficient French industrial production and Far East situation.

German Reich announces issue at 98.75 of 700,000,000 reichsmarks of four and one-half treasury bonds reimbursable within fifteen years.

Press reports visit by Kung, Minister of Finance of China, to Austrian munition works Hirtenberg before proceeding to Genoa to embark for China. In commenting upon

Kung's

RB

-2-#1173, August 18, 5 p. m. from
Paris

Kung's reported arrangements in Europe Financial News today concludes:

"While the sympathies of financial circles in London and other western European centres are with China there is a great difference between sympathy and the granting of credits while the risk is so exceptionally high as it is at present. There can of course be no question of any issue of a public loan either in London or in other centres unless it is under the guarantee of the governments of the lending countries which does not seem to be forthcoming. The schemes for Chinese financial transactions under the Trade Facilities Act or the export credits guarantee scheme will have to await the advent of quieter times".

Referring to British customs figures showing arrival in London past week of one million two hundred fifteen thousand pounds sterling of Chinese gold, Financial News says in part:

"China has sold a considerable proportion of her precious silver stock to the American Treasury in recent months to fulfil her plan to adopt a gold -- GYM-- foreign exchange base for the currency. Some of the gold acquired has been converted into dollars and some into sterling. The acquisition of sterling assets explains the arrival of Chinese gold in London".

BULLITT

August 19, 1937.
Thursday.
From Hawaii
12:35 P.M.

H.M.Jr: Well what are you going to do - get away now?

Magill: Well I think I will. I think as soon as we get this bill situation wound up - I want to talk to Doughton a little about the work of the Joint Committee.....

H.M.Jr: Yes.

M:in connection with the tax program in the fall.

H.M.Jr: I see.

M: But I can do that I think tomorrow morning and then if everything is quiet I think I'll get away.

H.M.Jr: Good. Well can you stay away until after Labor Day?

M: If it's agreeable to you, I'll plan to come back the day after Labor Day.

H.M.Jr: Why don't you do that.

M: Yes. Well I'd like to do it. If I get that two weeks it would be fine.

H.M.Jr: I'd do that.

M: Yes.

H.M.Jr: Ah - Ross.

M: Yes sir.

H.M.Jr: Ah - just tell somebody when I'm through with this I want to talk to McHugh in his office.

M: Well he wants to talk to you so he's got that in mind. I'll see that the operator gets the message.

H.M.Jr: Yes, I want to - have you got - have you got - is Taylor and Bell there?

M: Taylor and Bell are here. Do you want Taylor? Which do you want? Hello

- 2 -

H.M.Jr: Yes.

M: Ah - do you want Taylor?

H.M.Jr: If you please.

M: All right. Just a minute; he's coming on.

H.M.Jr: Ross.

M: Yes sir.

H.M.Jr: I think that you ought to feel awfully happy that you're able to get this thing through because there's so few things have been gotten through.

M: Well I - I do feel rather good about it because - ah - we had a lot of fights in the Committee about it and it took a lot of strategy and figuring around and so forth and - and I - I am really quite happy that we got it through without any more trouble.

H.M.Jr: Well you get away now and then when we come back - as soon as my financing is over I expect to spend most of my time on this tax business.

M: Good. Good - well I'll try to be all freshened up for you.

H.M.Jr: Good.

M: All right, I'll put Wayne on.

H.M.Jr: Right.

Taylor: Hello Henry.

H.M.Jr: Hello Wayne - I - in studying your cable I don't think there is any question but what paragraph 1 - the first one is the thing to do.

T: Ah - it looks more that way all the time, Henry.

H.M.Jr: Yes. Now what I want to ask you is this. I've got a column in front of me. Ah - if we offered an issue of Friday before Labor Day at percentage.....

T: Yes.

- 3 -

H.M.Jr:payment on the 8th, is that right. You do it on percentage for payment on the 8th? They pay on Wednesday, don't they?

T: No this is - this is - ah - payment on the - you talking about bills?

H.M.Jr: Yes' - I mean you couldn't offer it on Monday, the 6th, you see?

T: No that wouldn't quite figure ^{that} away. (Talks aside to Bell)

H.M.Jr: Hello - hello.

T: That would go out on Wednesday which is the first, you see?

H.M.Jr: The first - now would that - does that make 400 million?

T: That would make four (talks aside again with Bell)

H.M.Jr: If we sold one on Wednesday the 1st?
(Taylor is still talking aside to Bell)

T: The payment would be on September one.

H.M.Jr: What's that?

T: The payment would be on September one.

H.M.Jr: Yes, well does that make 400 million?

T: Yes that makes 400.

H.M.Jr: Well is there any reason why we can't sell two more?

T: No.

H.M.Jr: What?

T: No.

H.M.Jr: Because I don't like - ah - I'd like to do that and then, as I get it, I want to see if I was figuring right - there'd be one on the 8th and one on the 15th?

- 4 -

T: That's right.

H.M.Jr: And then on the 22d we could start a new series.

T: Well we could either do that or we could skip the rest of September and start right with the first of October.

H.M.Jr: Hello

T: Yes it would be the 6th of October.

H.M.Jr: I don't think I'd want to - well it -

T: But that's up to you. We're all right by doing the two on the 8th and the 15th.

H.M.Jr: You are all right?

T: Yes and that would give us a total of 500.

H.M.Jr: On the 8th and the 15th.

T: What?

H.M.Jr: I say let's count definitely on doing it.

T: Well that checks completely with the way we feel.

H.M.Jr: On the 8th and the 15th.

T: Yes, and that will give us time to look around. If we want to keep on with them - fine - otherwise we could - what?

H.M.Jr: We up to the new series after I come back.

T: That's right.

H.M.Jr: ^{you see,} ~~say~~ I don't know what price your bills have sold for the last two issues because I haven't had any newspapers.

T: Well we've been all right on them. The short bills - ah - have been going - ah - around 22.

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H.M.Jr: Have they got any - has it been going better or.....

T: They went better than the long ones up to the last time.....

H.M.Jr: Yes.

T:and the last time it switched a little bit.

H.M.Jr: I see. I see. Ah - what rate did you get the last time on the long ones?

T: About forty (aside to Bell: 46, wasn't it?) 46.

H.M.Jr: I see. Well that's a good rate.

T: Yes.

H.M.Jr: That's a good rate.

T: Ah - we've helped by an account of - we've allowed payment by credit, you see?

H.M.Jr: I see.

T: And that helped a little bit on the short ones particularly.

H.M.Jr: Well you'd want to tell - ah - ah - on Monday the 30th I think we ought to say something, don't you think so?

T: Ah - yes, at least then.

H.M.Jr: What?

T: I think at least then.

H.M.Jr: At least then.

T: Yes. In other words, not later than that?

H.M.Jr: What?

T: Not later than that. In other words, if we could - if we could say that we weren't going to ask for any cash.....

H.M.Jr: Yes.

T:fairly soon,I think it would help the market because the boys are guessing - ah - they're figuring that we're going to refund those 350 bills, you see?

H.M.Jr: I see.

T: And they're talking about an issue which will be anywhere from a billion one up to a billion three.

H.M.Jr: Well I'll talk to you again next Tuesday or Wednesday.

T: Right, but we - we check completely on the two more bills in Septem - ah - two more issues in September into December.

H.M.Jr: Ah - we check on that?

T: Absolutely.

H.M.Jr: Good.

T: And that gives you - that puts us in nice shape so that the maximum amount at any one time.....

H.M.Jr: Yes.

T:would be two billion eight.

H.M.Jr: Ah-ha.

T: And then that one could work down at periods, you see?

H.M.Jr: Yes. Well that sounds all right. Now - ah - what are my March '42 - what are they selling at?

T: Ah - on a 163 basis but the feeling isn't terribly good at the minute.

H.M.Jr: You say the what?

T: They're selling on a 163 basis.

H.M.Jr: What does that make them - ah - par what - par 20?

- 7 -

T: Par 16.

H.M.Jr: Par what?

T: It's about par and a half.

H.M.Jr: Oh they're off a little bit, aren't they?

T: Yes, they're off since you last - ah - since we last talked to you and we had another speech that didn't help the market too much but it had it's (laughs).....

H.M.Jr: Well hello.

T: Yes.

H.M.Jr: Ah.....

T: It wasn't a Green Bay one but it was.....

H.M.Jr: With Congress gone and out of the way I think the market ought to improve.

T: What?

H.M.Jr: The market ought to improve as soon as Congress goes home.

T: It won't hurt it any.

H.M.Jr: All right. Now what about gold?

T: Ah - gold's about the same; we've got a little bit more coming from Japan now - I think its six million.

H.M.Jr: Ah-ha.

T ; Ah - and pounds act awfully strong.

H.M.Jr: They do.

T: Yes. They're - they might hit \$5.00 to-day.

H.M.Jr: Really?

- 8 -

T: Yes.

H.M.Jr: Any more gold coming from

T: From where?

H.M.Jr:

T: Ah - six.

H.M.Jr: New?

T: Yes.

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

T: It isn't much any one place but it's - ah -

H.M.Jr: It trickles in.

T: Yes and particularly with the strong pound, you see? It - ah - ah - it - if the pound were a little lower and the gold rate had been about as it is why the - ah - the gold would go there instead of here.

H.M.Jr: I see. All right, can I say hello to Dan?

T: He's right here.

Bell: Hello

H.M.Jr: Hello Dan.

B: How are you?

H.M.Jr: Fine. Aren't you perfectly happy about that suggestion?

B: Yes, it's O.K. I agree with it entirely.

H.M.Jr: You - you feel all right?

B: Yes. I apologize for not getting off a report on Monday but I missed the plane.

H.M.Jr: Well -

B: So I'll have one next Monday and you can read it on the boat.

H.M.Jr: Good.

B: Ah - let's see you're leaving there when - Saturday?

H.M.Jr: I leave here on the 28th?

B: That's - ah -

H.M.Jr: There's one more plane will catch me.

B: Yes, well I'll get the next plane sure.

H.M.Jr: Right.

B: All right.

H.M.Jr: Are you going to get any vacation now?

B: Well (laughs) I haven't given much thought to it. But there may be a possibility after this financing is over.

H.M.Jr: I see.

B: I'll have to skip some of the Budget Hearings and just let the boys go ahead with it in order to get any.

H.M.Jr: You ought to figure on it right after the financing.

B: Well I will a little but our Budget Hearings will start about the 20th. But I guess I can arrange the schedule and then go off and let the boys do the trick.

H.M.Jr: I think you'll have to.

B: Yes.

H.M.Jr: Ah-ha.

B: Well I'll have to think about it anyhow.

H.M.Jr: I forgot to ask Wayne how is he standing it physically?
B: (Laughs) Fine, he says.
H.M.Jr: He is.
B: Yes. It doesn't look as though he lost any weight.
H.M.Jr: Anything you want to say to me?
B: How's that?
H.M.Jr: Anything you want to say to me?
B: No I think everything is running along pretty good.
Ah - if we get Congress out of here why some of our
worries are over and.....
H.M.Jr: That Bill the way I read it in the New
York Times I don't think they're going to build many
houses.
B: No - no they won't.
H.M.Jr: What?
B: No, that's right.
H.M.Jr: That's what I thought.
B: Yes. There's one thing up there that's bothering
me a little and that's this cotton business.
H.M.Jr: Yes. That's one of those things who told what last,
eh?
B: Yes, I got some stuff that Senator Byrnes
is trying to use some of the Customs money to - ah -
make a gift of about 3¢.
H.M.Jr: I see.
B: That means that the Budget is sunk to the extent of
about 65 million, I understand.

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H.M.Jr: Well is there anything you can do about it?

B: Ah - I don't think so. I understand that it's had the approval of higher-ups.

H.M.Jr: Ah-ha. Well it's a lot of money.

B: Well I'm just hoping that it will get caught in the cog and they'll go home before anything's done.

H.M.Jr: Ah-ha. I hope so too.

B: Yes. Well we'll talk to you next week, eh?

H.M.Jr: Next week.

B: All right, good-bye.

H.M.Jr: Wait a minute.

B: Yes.

(Pause)

B: Yes.

H.M.Jr: Wayne?

B: Oh just a minute.

Taylor: Hello.

H.M.Jr: Are you standing it all right physically?

T: I certainly am.

H.M.Jr: And it hasn't been too hot?

T: No it's - ah - the last couple of days it's been pretty rough - I mean as far as the weather goes - but it's really been all right.

H.M.Jr: O.K.

T: In case of need I have an extra guilder and that seems to work out.

H.M.Jr: All right. (Laughs)
T: (Laughs)
H.M.Jr: Goodbye.
T: Goodbye.

TREASURY DEPARTMENT

WASHINGTON

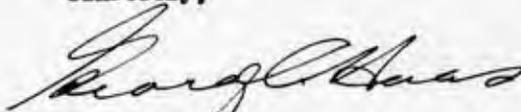
August 19, 1937

My dear Mr. Secretary:

In accordance with your telephone request, there is attached a current business situation memorandum and some accompanying charts. I was glad to hear that you are having a good rest and enjoying your vacation.

My best wishes for a pleasant return voyage,

Sincerely,



George C. Haas,
Director of Research and Statistics.

Honorable Henry Morgenthau, Jr.,
Royal Hawaiian Hotel,
Honolulu,
Territory of Hawaii.

Enclosure

TREASURY DEPARTMENT

CONFIDENTIAL

82

INTER OFFICE COMMUNICATION

DATE August 18, 1937

TO Secretary Morgenthau
FROM Mr. Haas *JH*
Subject: The Business Situation

Business activity during July and early August has on the whole been well maintained. In large measure, however, it has been maintained on backlogs of unfilled orders built up in earlier months, while the volume of new buying has continued small relative to the current level of production. It seems evident that unless increased buying appears, to replace backlogs as they become exhausted, a slackening in business activity and possibly a temporary decline is to be expected. In our revenue estimates we have made allowance for a temporary decline of this nature, since we believed it likely that a period of adjustment would follow the high production levels of last spring, which were apparently excessive as compared with the movement of goods into consumption. The longer term outlook, however, continues to favor a general upward trend in business, encouraged by low interest rates, improved capital markets, a deficiency in building, and increasing purchasing power of farm and factory workers. The effect of these may be offset to some extent, however, by a decrease in the net volume of Federal spending.

Some tendency toward a lull in business was seen during July. The Federal Reserve Board preliminary estimate of industrial production for that month shows a gain in the index of only 2 points from the strike-depressed June level of 114 (revised), despite a recovery in steel production to the highest level (seasonally adjusted) since January. A sharp decline in textile activity was the most important adverse factor. In comparison, the index stood at 118 during the months of March, April, and May. The New York Times index (Chart 1) showed some tendency of business to weaken during the latter part of July and early August, despite well-maintained steel activity.

Factors in the Business Outlook

The relatively light volume of new buying appears to us of outstanding importance in the near-term business outlook. The volume of new orders in most industries, judging

from our confidential figures from reporting companies and from various trade reports, has been insufficient to maintain industrial production at its present level. In terms of physical volume, new orders appear to be running at about the same level as last year at this time, or somewhat lower. The level of industrial production during the fall months of last year, as measured by the FRB index, was about 12 percent below the present level.

Industrial production has been maintained this summer largely on backlogs of orders built up during earlier months. The volume of such orders must have been unusually large. In cotton textiles, for example, new orders have been running at a lower level than production almost continually since March, yet it was not until July that backlogs were reduced sufficiently to drop production to a sharply lower level. Cotton consumption by mills during July was 15 percent below that in June, and lower than the consumption in July of last year.

A similar situation appears to exist in the steel industry. Production has been maintained at recent levels largely because of an unusually heavy volume of old orders. New buying has been light since the latter part of April. Although expressions of confidence in the fall outlook for steel have been quite numerous recently, no definite signs of an upturn in steel buying have so far appeared. The Iron Age says that only at Chicago has there been a reversal of the downward trend of new orders, and that even there the change has been moderate.

A marked increase in payrolls in recent months is considered by business observers as one of the outstanding favorable factors in the business outlook. This may already be having an influence on retail buying, since department store sales and variety store sales during July (both seasonally adjusted) showed an increase over earlier months. During August so far, retail sales are reported to be somewhat disappointing, though definite data are not available. Dollar sales of merchandise in small towns and rural areas during July, according to the Department of Commerce index (seasonally adjusted), declined 4 percent from the June figures, following a previous slight decline from the peak established in May. The July sales were 4 percent higher than during the corresponding month of last year.

Purchases of automobiles in recent months have shown a tendency to lag, new car registrations during April, May, and June being lower than last year. Some upturn appears likely during July as a result of prospective price increases for 1938 models, but the increased prices may later have an adverse effect on new car buying.

A continued rise in rents during the summer is a factor favoring increased building activity. The sharpest upturns in residential rents during July occurred in large industrial cities, according to reports from the Department of Labor. The advance in rents is expected to be accelerated after October 1, the date when leases on dwellings are generally renewed. More stable building costs will also favor an upturn in construction. Five of twenty-six cities reporting to the Federal Home Loan Banks report that residential building costs declined in July for the first time in many months. Total construction in 37 Eastern States during July, according to the F. W. Dodge figures, reached a new high for any month since April 1931, making a gain of 9 percent over the corresponding month of last year. The most pronounced gain, 44 percent, was in non-residential construction awards (largely commercial), which reached the highest level since July 1930. Residential construction awards during July were 12.5 percent higher than in July of last year, while public works and utility awards showed a 19 percent decline.

A continued upward movement in commercial loans appears a favorable factor in the business picture. The volume of commercial paper outstanding at the end of July was the highest since January 1931, and made the best July showing since 1930. Commercial borrowing this year has not shown the usual summer slackening, but instead has continued to increase. It is reported that a substantial part of the borrowing is for the financing of plant expansion.

New capital flotations during July did not hold the sharp gain registered in June, but for the first half year they made a very favorable comparison with the corresponding period of 1936, although total security flotations have declined. Estimated gross proceeds from securities registered with the SEC during the first half of 1937 were about 15 percent less than during the corresponding period of 1936. The estimated net proceeds

to be used for plant expansion and working capital, however, both in percentage of the total and in aggregate amount, was the highest for any first half year since registration began under the Securities Act of 1933. New corporate security flotations as reported by the Commercial and Financial Chronicle, amounted to only \$139 millions in July 1937, as compared with \$294 millions in July 1936, but the amount of such flotations for new capital as contrasted with refunding purposes amounted to \$82 millions in July 1937, as compared with only \$70 millions in July 1936. During the last several weeks the new issue market has been quiet.

Commodity and Security Prices

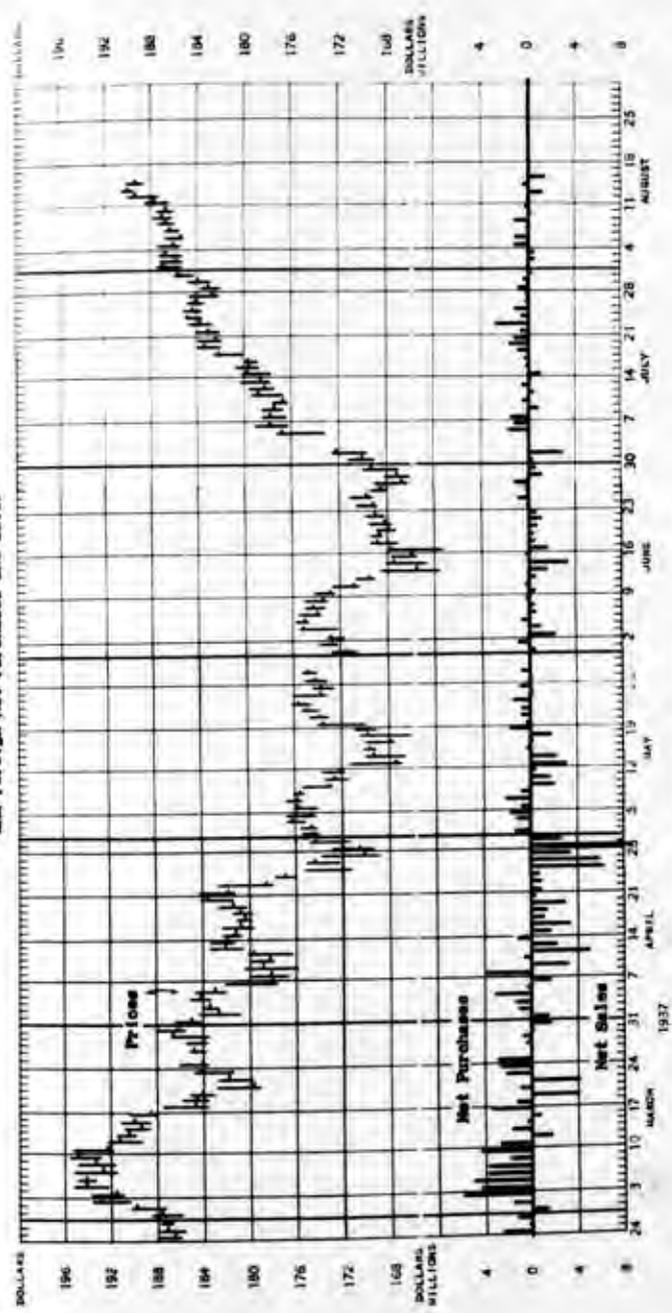
Commodity prices (Chart 2) have recently tended downward. Commodity futures, as represented by the Dow-Jones Futures Index, have reached new low levels on the general decline which began in March, while the BLS index of 30 sensitive commodities has held above its earlier lows.

Declining prices for cotton and grains due to large crop prospects have recently been an important factor in the futures index. The total wheat crop is now estimated at 890 million bushels, as compared with 626 millions last year. Despite the increased production, however, prices have been sustained at a higher level than last year by heavy crop deterioration in Canada, where conditions are reported to be the worst in 30 years, and by poor crops in other wheat countries. Farm prices for wheat on July 15 averaged about \$1.13, as compared with a crop-year average of \$1.00 for the 1936 crop.

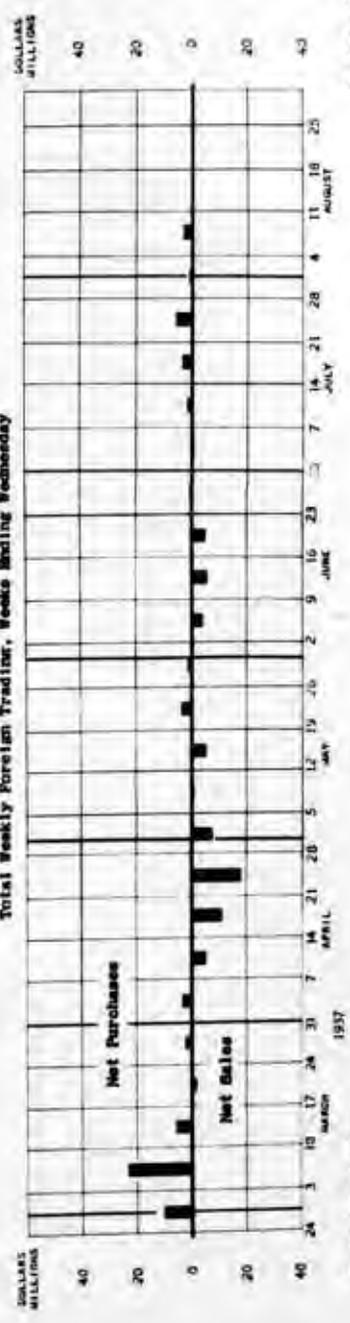
The Government's August cotton crop estimate of 15.6 million bales, as compared with 12.4 millions last year, made the average yield per acre the highest on record. Increased foreign crop prospects, together with the large estimate of the domestic crop, have reduced futures prices to near the 10-cent level. Present prospects indicate that the larger crop may bring farmers little, if any, more income than the smaller crop of last year. It appears likely, however, that a crop loan, or more probably a loan and adjustment payment plan, will be applied to this year's crop, which would add to the incomes of cotton farmers. The President has consented to a crop loan, provided Congress would put crop control legislation first on the calendar next session. The Senate has adopted a resolution to this effect, which the House Agriculture Committee has accepted.

Security prices have shown divergent trends. Government bonds and notes (Chart 3) showed a general upward movement during July, most groups exceeding their May-June highs. A moderate recession has taken place during August. Corporate bond prices, as measured by the Dow-Jones combined average, have held steady, with a slightly sagging tendency, since the sharp recovery early in July. Industrial and utility bonds have shown greater strength than railroad issues. In the stock market, price trends have been mixed. Industrial stocks (Chart 4) have shown a steady rise since the middle of June, reaching nearly to the high levels of early March. Utilities have shown a moderate gain, but have sagged somewhat during the past three weeks. Railroad stocks have shown very little improvement, and are now but slightly above their June lows. Foreign transactions (shown on Chart 4) continued moderately on the buying side during July, but more recently the buying and selling has been practically equal.

**STOCK PRICES AND FOREIGN TRADING
IN DOMESTIC STOCKS**
Daily Movement, Dow-Jones Industrials
and Foreign Net Purchases and Sales



Total Weekly Foreign Trading, Weeks Ending Wednesday

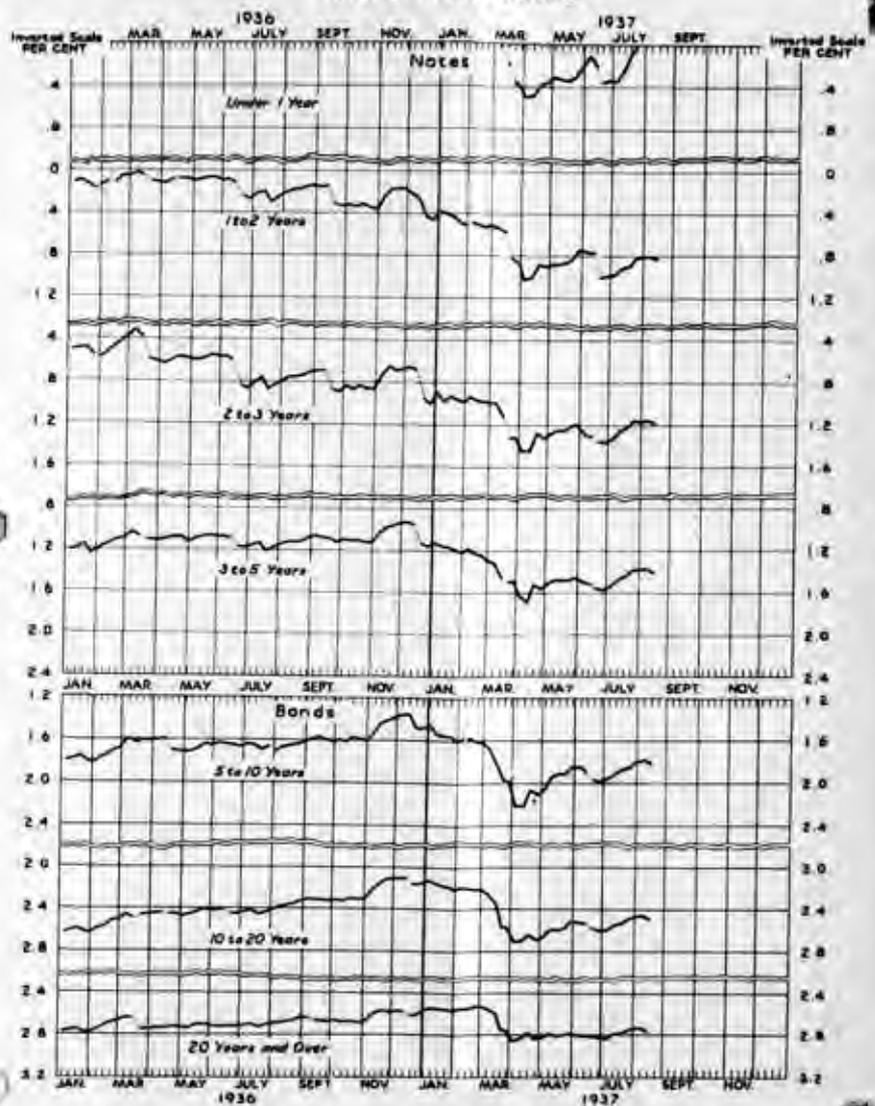
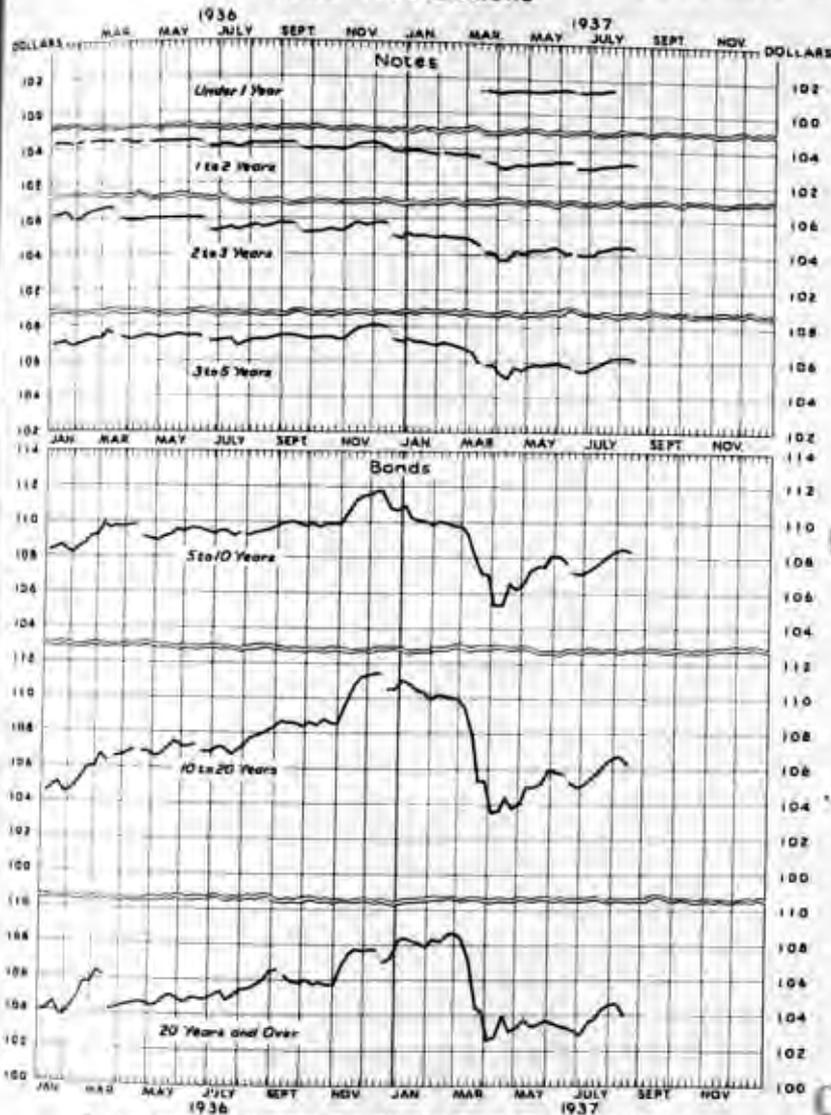


Office of the Secretary of the Treasury
Bureau of Economic Warfare

U.S. SECURITIES BY MATURITY CLASSES

Price Fluctuations*

Yield Fluctuations**

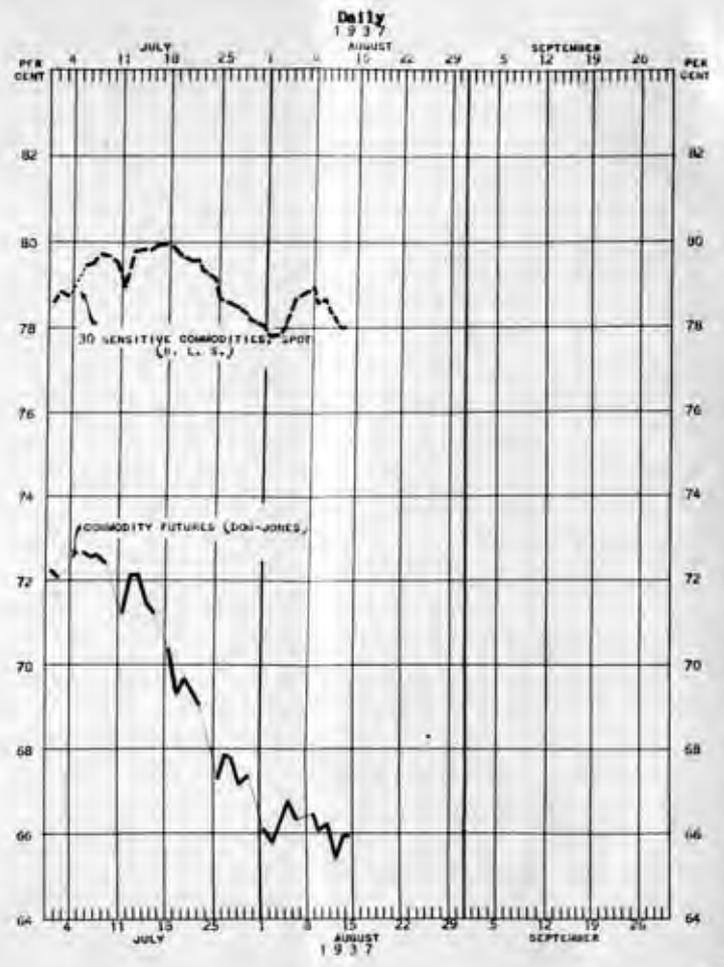
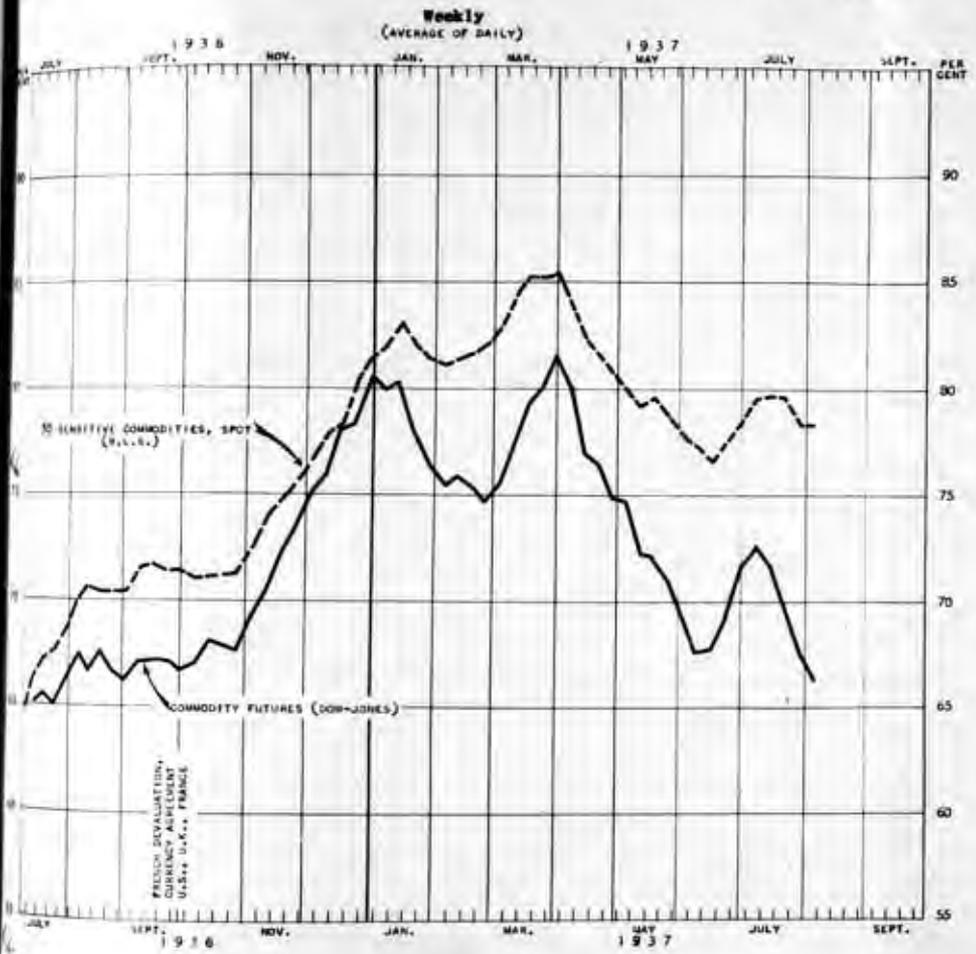


* Unit price is computed as follows: The yields of all Treasury bonds or notes falling due within the specified maturity period are first averaged. This average is then converted into the dollar price of a three percent obligation due at maturity at the end of the maturity class. Classifications are by final maturity dates. Yields are computed to sell 100% of securities selling above par, and to final maturity at those selling below par.

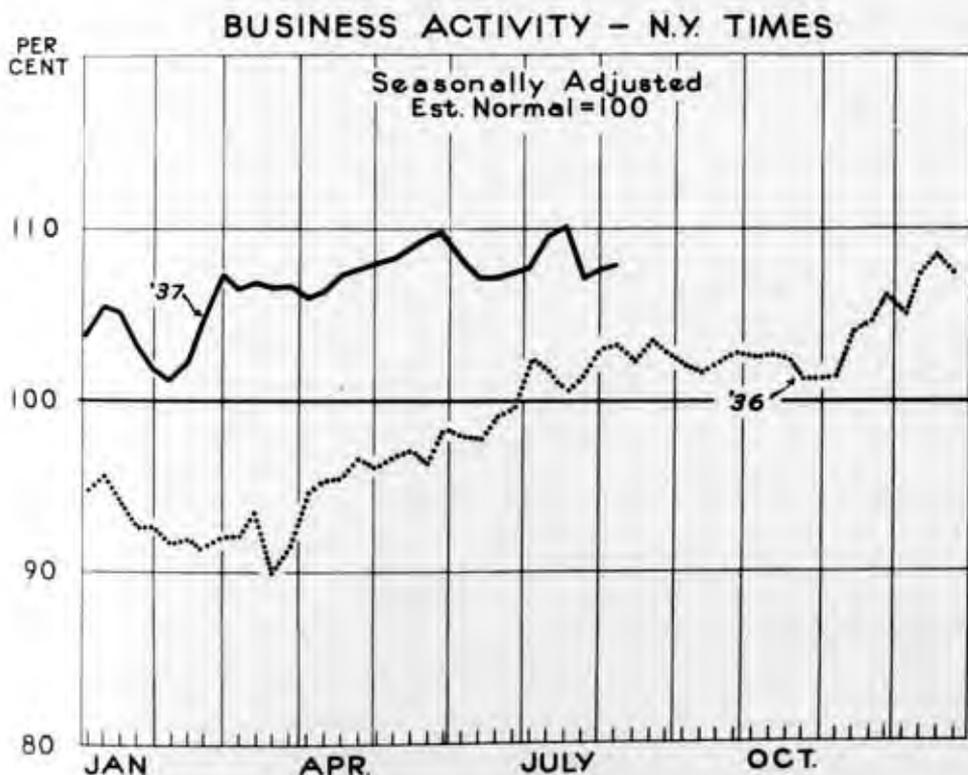
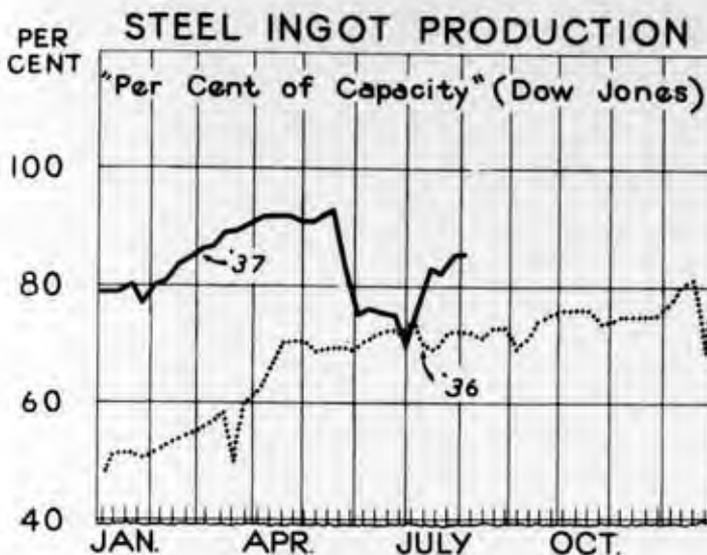
** Classifications are by final maturity dates. Yields are computed to sell 100% of securities selling above par, and to final maturity at those selling below par.

Note: Breaks in the lines indicate the dropping or picking up of issues in a maturity class.

INDICES OF WHOLESALE COMMODITY PRICES
1924 - '26=100



Bureau of Economic Warfare
Division of Economic Warfare



RE

CODAT

Paris

Dated August 19, 1937

Rec'd 3:41 p. m.

Secretary of State

Washington.

1176, August 19, 5 p. m.

FROM COCHRAN.

French control had rather heavy day supporting through purchases by Comptoir spot franc against sterling at one thirty two point nine fifty five to ninety-two. Intervention in three months franc was made at London through Societe Generale to reduce discount from four and seven eighths to four and five eighths. All currencies weak against sterling. Bank of France statement as of August twelve showed no important changes. French rentes lower. Market estimates that French fund has averaged purchases of one hundred million francs each of past three days to prevent more serious slump in French Government securities. Market pessimism today is due in part to rumor of differences between Chautemps and Blum on railway reorganization which may split Cabinet.

Sentiment

RB

-2-#1178, August 19, 5 p.m. from Paris

Sentiment is also influenced by financial writers who are beginning to think that French breathing spell may be nearing an end. FINANCIAL NEWS London for instance says today in part: "As a matter of fact the prospects of the franc have not become worse during the last few days simply because they have never really become better. Taking a long view, the outlook is the same as it was a month or two ago. M. Bonnet's measures have failed to bring about a fundamental restoration of confidence. The volume of repatriations has been negligible even though the outflow of capital has come to a halt. If the best the franc can do during the holiday season is to remain 'neutral' it is likely to become worse after the holiday season when the seasonal influx of revenue has subsided and when the politicians have once more become restive".

Period for subscription to four percent nineteen thirty seven Treasury bonds to convert four and one half percent nineteen thirty-four issue, which expired today, is extended to twenty third.

RECEIVED
 OCT 28 1934
 BULLITT
 THE FOREIGN BUREAU OF THE U.S. DEPARTMENT OF STATE

KLP

RB

CODAT

PARIS

Dated August 20, 1937

Rec'd 2:25 p. m.

Secretary of State
Washington.

1182, August 20, 5 p. m.

FROM COCHRAN.

Better sentiment prevails on Paris market today. French control has acquired some sterling at one thirty-two point eighty-six and a few dollars at twenty-six point sixty-four. Forward rate has been held at four and one half. With only slight assistance from the fund rentes have remained practically unchanged.

French adverse trade balance for first seven months 1937 amounted to ten and one half billion francs as compared with five and one half billion same period last year. While tourist trade is supporting franc at present the heavy deficit in the trade balance if continued will surely have repercussions on the currency.

Discussing dollar's weakness FINANCIAL NEWS LONDON today said in part: "Whatever may happen to the dollar
in the

RE

-2-#1182, August 20, 5 p. m. from
Paris

in the short run, in the somewhat longer run the factor that will have most influence in deciding its tendency will be the measures taken against the influx of 'hot money'. Any drastic steps whether in the form of discriminatory taxation or in the form of disclosing information on foreign dollar assets would inevitably lead to a lasting weakening of the dollar especially as similar steps are not expected to be taken in this country. Since, however, President Roosevelt has been threatening with anti- 'hot money' measures ever since November 1936 and nothing has so far been done about it the market is naturally inclined to minimize the probable importance of this factor".

BULLITT

GW

KLP

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AUG 21 1936
U. S. DEPARTMENT OF STATE

RB

CODAT

Paris

Dated August 23, 1937

Rec'd 3:45 p. m.

Secretary of State

Washington.

1193, August 23, 6 p. m.

FROM COCHRAN.

Little business and no important changes on Paris exchange market. Slightly better sentiment and small improvement in forward franc and French rentes attributed to week-end speech by Bonnet who said at least three billion francs (out of five point four billion outstanding) of the four and one half Germain Martin bonds had been converted into the new four percent issue and pointed out other developments which were likewise making the Treasury situation easier.

LONDON TIMES today contrasts latest French and German foreign trade returns. In spite of depreciated currency French foreign trade deficit increasing because of higher costs of production and prices. FINANCIAL NEWS today stresses seriousness of the French price situation and recommends peaceful negotiation toward releasing industry

RB

-2-#1193, August 23, 6 p. m. from
Paris

industry from rigid forty hour week. French Cabinet will meet tomorrow to begin study of final set of decrees under authority expiring August 31.

Press reports Chinese Minister of Finance Kung has cancelled sailing from Genoa and returned to Bad Nauheim for cure.

BULLITT

KLP

RECEIVED
AUG 24 1946
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

August 23, 1937.
12:32 p.m.
From Hawaii

Taylor: Hello Henry.

H.M.Jr: Good morning.

T: Good morning to you.

H.M.Jr: Ah - Wayne - ah - the main thing that I'm calling up about is - i - I'd like to talk to Bell first, if I could.

T: He's right here.

H.M.Jr: Thank you.

Bell: Hello

H.M.Jr: Hello - Dan?

B ; Yes.

H.M.Jr: Good morning. In the first place, I never got your summary - hello

B: Yes.

H.M.Jr: You know you were going to send me a summary up to the 15th of July or something like that?

B: Yes but as I told you, when I talked to you last week, I missed the plane.

H.M.Jr: Oh did you miss last week's plane?

B: I missed the plane, yes, and it's going out of here to-day and will catch Wednesday's plane.

H.M.Jr: Oh you're going to send it this week?

B: Yes, and you'll get it, I take it, Friday.

H.M.Jr: I didn't get George Haas' either.

B: How's that?

- 2 -

H.M.Jr: George Haas was going to mail me a review of the business situation.

B: Well I don't know - well he sent that. Wayne says that he sent it.

H.M.Jr: What's that?

B: Wayne says that he has sent that.

H.M.Jr: Well I never got it.

B: I see. Well it probably missed the plane also.

H.M.Jr: Now Dan.

B: Yes.

H.M.Jr: Ah - I see that they got through that 60 million dollars for the cotton.

B: They sure did.

H.M.Jr: And they dropped out this other money.

B: They dropped out what?

H.M.Jr: The money for the sugar.

B: Ah - yes, except 250 thousand dollars for administrative expenses.

H.M.Jr: Yes.

B: They'll drop that.....

H.M.Jr: I'm really calling up for this. What would happen if the President vetoed the Third Deficiency Bill?

B: Well in one or two places it would probably do some harm, in a small way.

H.M.Jr: Well you remember last year we didn't get our last Deficiency Bill through.

- 3 -

B: No, it was a couple of years ago - Huey Long's
fillibuster the .

H.M.Jr: Yes, and we went along all right.

B: Yes.

H.M.Jr: I wish you'd think about seriously whether we could
recommend to the President that he veto that.

B: Ah - you mean - ah - merely because of the 60 million?

H.M.Jr: Yes.

B: For cotton loan?

H.M.Jr: Yes.

B: Well - ah (laughs) I think that - ah - he's agreed
to it.

H.M.Jr: Well that's what I was afraid of.

B: Oh yes, he's agreed to it - ah - really had agreed
to it before I ever got in on it; knew anything about
it.

H.M.Jr: Ah-ha.

B: And they had quite a time over the facts; had three-way
conversations between Billy Byrnes and McIntyre and
myself and Cliff Woodruff - ah - McIntyre and myself
and apparently the President had committed himself
on it and there wasn't anything we could do about it.

H.M.Jr: Ah-ha.

B: I tried to get it out.

H.M.Jr: Well now is that a straight grant?

B: It's a straight grant, yes.

H.M.Jr: A straight grant.

- B: It would be a benefit payment - ah
- H.M.Jr: What's that?
- B: It would be a benefit payment of not to exceed 3¢ a pound.
- H.M.Jr: Ah - 3¢.
- B: Yes, you see they're figuring on 12¢ a pound. The loan will be either 9¢ or 10¢.
- H.M.Jr: Oh it's going to be a loan?
- B: Well the loan will be from the Commodity Credit of either 9¢ or 10¢ and then the differential will be the benefit payment. If you get a loan at 10¢ then the differential is only 2¢ but if you get a loan of 9¢ then the benefit payment will be 3¢.
- H.M.Jr: 11¢ - if cotton sells at 11¢ they get 3¢.
- B: So I understand, yes. They get a benefit payment.
- H.M.Jr: You mean the higher the price the more they get?
- B: Ah - the other way Wayne says.
- H.M.Jr: Yes that's what I should think but I mean - but I won't go into details but from the standpoint of getting the veto it's water over the dam.
- B: Oh I think so. I think the President had a conference on it - ah - ah - a week ago Friday.
- H.M.Jr: I see.
- B: And I didn't know anything about it until - ah - Friday morning.....
- H.M.Jr: Ah-ha.
- B:when I was trying to get Cliff Woodruff to get it out in Conference and I was told by the Secretary of Agriculture that it was all agreed to and - at a previous week's conference.

H.M.Jr: Well -

B: It's all set in everything apparently.

H.M.Jr: Well it's just as well I'm in Honolulu.

B: Well I think (laughs) you probably are resting much easier.

H.M.Jr: Yes.

B: This has been a terrible place in the last week.....

H.M.Jr: Ah-ha.

B:and our budget's been hurt materially - both '38 and '39.

H.M.Jr: Has it?

B: Yes. 365 million, I think, in each year on that account alone.

H.M.Jr: Yes.

B: And - ah - if this sugar bill goes through - ah - it won't quite pay for itself and - ah - the way the thing is working out now - if it's vetoed now why it will reenact at the next session and, it will cost us money because we'll lose a half year's revenue, whereas the benefit payments will go in for the whole year.

H.M.Jr: I see.

B: See?

H.M.Jr: Well that's that.

B: Do you want me to give you the picture here from the last of Saturday night, based on what we talked about last week - 150 million dollars in Treasury bills up to the 15th of September on maturity in December?

H.M.Jr: Yes.

B: 100 million extra in September for maturity in March.

H.M.Jr: Yes.

B: And 200 million from the period in March to be issued in October.

H.M.Jr: Yes.

B: On that basis we'd go out in August with a balance of about 804.

H.M.Jr: Yes.

B: Out of September with 819.

H.M.Jr: Yes.

B: And out of October 784 million.

H.M.Jr: Yes.

B: And out of November 644 million.

H.M.Jr: Yes.

B: And then we have a 600 million dollar third issue in December.

H.M.Jr: Yes.

B: We would go out of there with about 859 million.

H.M.Jr: If we sold how many bills?

B: Ah -

B:M.Jr: Just do that again.

B: Well you see we've got our program all the way through to September 15th - the present program - did you get that?

H.M.Jr: That would be five hundred.....

- 7 -

B: That would be 500 million in - ah - December.

H.M.Jr: Yes.

B: Then we would issue another 100 million in September.....

H.M.Jr: Yes.

B:on the 22d and the 29th.....

H.M.Jr: Yes.

HEfor maturity in March.....,

H.M.Jr: Yes.

B:and continue that series through to the end of October.....

H.M.Jr: I see.

B:giving you 300 for the period in March.

H.M.Jr: On that basis we 'd have the following figures.

B: Yes.

H.M.Jr: Well that sounds very good.

B: Very good and that's allowing 110 million dollars for gold in August and 75 million in each of the other three months.

H.M.Jr: I see, well that gives us plenty of leeway.

B: Plenty unless this gold starts back.

H.M.Jr: That will increase our bills.

B: Yes.

H.M.Jr: I think that sounds all right.

B: Well I think Wayne agrees to that.

H.M.Jr: Yes.

- 8 -

B: I think Wayne agrees to that program too.

H.M.Jr: Who?

B: Wayne.

H.M.Jr: All right. How - how is our - those last five year notes - what - what are they selling at?

B: They closed Saturday with a slant to 12 and I understand they're off a little this morning for about a 7 to 10.

H.M.Jr: Ah-ha.

B: They had an AP story this morning that we were going to buy about a billion and a quarter and that didn't help the market any. I think the sooner we announce that we're not going to have any new cash in September the better our market will be.

H.M.Jr: I - have you got anything else?

B: But Wayne will talk to you about that.

H.M.Jr: All right.

B: No, that's all I have.

H.M.Jr: What?

B: That's all I have.

H.M.Jr: Thank you.

B: All right.

Taylor: I think this - what Dan was telling you at the end is quite important; that the one good thing that we can do as far as the market is to indicate that we're just going to turn over that 017.

H.M.Jr: Yes.

Taylor: I'd like to do that as soon as possible.

- 9 -

H.M.Jr: Well do it tonight for tomorrow morning's papers.

T: O.K.

H.M.Jr: And, if you don't mind, I'd just as leave have you say, when you did it, that you consulted with me by telephone.

T: Right.

H.M.Jr: See?

T: Right.

H.M.Jr: And I'd do it tonight, for tomorrow morning's papers and I think, while you're doing it, you might as well tell them that this - that present bill issue is going to be 500 million.

T: Ah - into December the debt will be 500.

H.M.Jr: Yes, then they have the whole picture.

T: Yes.

H.M.Jr: I'd do the whole thing.

T: Do it right that way.

H.M.Jr: Yes.

T: Because they'll ask the question about the bills immediately.

H.M.Jr: Well I'd tell them the whole thing.

T: Yes.

H.M.Jr: And you can tell them that you were talking it over with me.

T: Right.

H.M.Jr: I think the quicker we do it now the better.

T: I'll do it this evening for tomorrow's papers.

H.M.Jr: Now what else?

- 10 -

T: Ah - gold - ah - every - all the exchanges and so on have been very quiet. We've got about ten million more, however, coming from the Japs.

H.M.Jr: How much more?

T: Ten - two lots of five.

H.M.Jr: Ah-ha. What do they do with all that money anyway?

T: Using most of it to buy sterling to pay debts with.

H.M.Jr: Pay who?

T: Pay debts.

H.M.Jr: I see.

T: They got a lot - still got a lot of paper out in that London market.

H.M.Jr: Ah-ha. Now what else?

T: Ah - that's about all. There's one - by the way - there's one thing on this damn sugar bill.

H.M.Jr: Yes.

T: Ah - we've been brought in as part of a committee.....

H.M.Jr: Yes.

T:ah - to prepare a veto message.

H.M.Jr: Yes.

T: Ah - I have taken the position that we will not comment on the merits of the legislation.

H.M.Jr: On the what?

T: On the merits of the legislation.

H.M.Jr: Yes.

T: Ah - consistent with what you did before.

- 11 -

H.M.Jr: That's right.

T: Ah - but the only thing that we will do is call attention to this question of the figures.

H.M.Jr: That's right. You mean on the - on the taxes?

T: Yes.

H.M.Jr: That - that's right - that's good sense.

T: Ah - I wanted to check that with you because I said that very hard this morning. I told Dan that and our own people. Now that isn't going to suit the other people. They're trying to drag us back in again but I think we're out and we ought to stay out.

H.M.Jr: Yes, well the President told me to stay out.

T: Right.

H.M.Jr: He was very emphatic that I should keep out of it.

T: Well that suits me fine.

H.M.Jr: He said, "Henry, the only interest is whether we gain or loses money".

T: Yes.

H.M.Jr: And that's our only interest.

T: Well that's what we're - that's what we're saying in our comment.

H.M.Jr: Attaboy. Ah - now Wayne - would you have again tonight and they needn't bother coding it - send me a message - because I don't get the quotations on those notes, you see - hello

T: Yes.

H.M.Jr: Ah - send me - I think I'd select two notes - whichever ones you think are the most significant, you see?

T: Yes.

- 12 -

H.M.Jr: I'd certainly use the last one as one of them.

T: Yes.

H.M.Jr: And I'd like every night that the notes - I don't want it on a yield basis. I want it on a price basis.

T: Price basis.

H.M.Jr: Selling at 101 or 101 and so many thirty-seconds, see?

T: Yes.

H.M.Jr: And then always say up or down so much, you see? Hello

T: We'll send you - there are about six of them, I think. That won't be too many, will it?

H.M.Jr: Six what?

T: Six notes. Six maturities.

H.M.Jr: I don't care.

T: Well we'll pick some out and.....

H.M.Jr: Send me a - send me a - the only bond they quote here is the 2-7/8's.

T: Yes.

H.M.Jr: So send me a short bond.

T: Well we'll send that to you every evening from now until you - ah - till you get back.

H.M.Jr: Yes and - and tell Schwartz - Gaston isn't there, is he?

T: No.

H.M.Jr: Ah - very significant news - financial news, you see?

T: Yes.

- 13 -

H.M.Jr: Put that in because we get very little here.

T: Right.

H.M.Jr: And also any - I mean any significant political news, you see?

T: Ah - it's all bad.

H.M.Jr: Well I mean he can put it in, you see?

T: All right.

H.M.Jr: What?

T: All right.

H.M.Jr: I mean it comes government radio - it doesn't cost anything. You say it's all bad?

T: Yes.

H.M.Jr: Really?

T: Yes.

H.M.Jr: Well I'm - I'm wearing pink-colored glasses.

T: (Laughs) Ah - it'll look better by the time you get back but it's lousy.

H.M.Jr: What's the matter?

T: A cat and dog fight.

H.M.Jr: You mean on between the Hill and

T: Yes.

H.M.Jr: Ah-ha. Well tell Schwartz to pick out anything very significant and - ah - political news and then give me something on the financial. I get the stocks and the other bonds but I don't get those bills and these government bonds, you see?

T: Right.

- 14 -

H.M.Jr: Hello

T: All right.

H.M.Jr: And also I'd like the price of gold - I mean like if it's 34.77 or 34.76, you see?

T: Right.

H.M.Jr: I'd like that price; I don't get that price.

T: Ah - you get the sterling rates, don't you?

H.M.Jr: What's that?

T: You get the quotations that are on exchange.

H.M.Jr: No, I don't get anything here.

T: Yes.

H.M.Jr: I mean I'd like whatever the price of gold is in terms of sterling, you see in London?

T: Right.

H.M.Jr: See?

T: Right.

H.M.Jr: And - ah - that's about all. Ah -

T: Want to talk to Archie?

H.M.Jr: Yes I'd like to.

T: All right.

Lochhead: Hello

H.M.Jr: Hello Archie.

L: Yes sir, things have been very quiet on the European front.

H.M.Jr: Yes.

- 15 -

- L: So I think the French will wait off until about the first week in September and then we'll be starting in to hear a new story.
- H.M.Jr: Well that will give me something to do - otherwise I won't have anything to do when I come back.
- L: You'll be surprised - they'll find something.
- H.M.Jr: Who will?
- L: Oh just anybody. (Laughs) Mr. Taylor says you've got a tax reorganization program on.
- H.M.Jr: Archie, I wish you'd make a study and get it to me if you can by mail - if there's still time - I don't know whether there is or not but at least have it when I come back - how much foreign government money is on deposit outside of the Federal Reserve Banks.
- L: Outside the Federal Reserve Banks.
- H.M.Jr: I mean really money - in the Russian case I mean money that they control, see?
- L: I see.
- H.M.Jr: I mean money that we might get out of the banks and put into the Federal Reserve because it's government own - government money.
- L: Well now I'll tell you - in order to get that the Federal Reserve will have to issue new regulations and have them split up their whole account - it's going to cause quite a lot of comment.
- H.M.Jr: Well then don't do it until after our financing.
- L: I - I think not. It would - it would stir up a lot of - a lot of conjecture, I think.
- H.M.Jr: Well we can do it when we get back.
- L: Incidentally, Russia sent over five million dollars worth of gold and put it on earmark with the Federal.
- H.M.Jr: They did do that.

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L: They did do that. They sent over five million.

H.M.Jr: Yes, well keep it in mind when I come back.

L: Yes, well now that other story - there's not an awful lot as far as - we - we checked around privately now and again.

H.M.Jr: Yes.

L: But you see to get the two figures we'd have to ask every bank alike.

H.M.Jr: Well we can wait.

L: Yes, but we'll keep that in mind and anything we can get on that we'll follow through on.

H.M.Jr: All right.

L: O.K. then. Goodbye.

H.M.Jr: Yes.

L: Do you want to speak to McHugh?

H.M.Jr: Yes please.

L: Just a second.

O: Hello.

L: The Secretary wants to speak to Mr. McHugh.

O: All right, just a minute.



TREASURY DEPARTMENT

WASHINGTON

August 23, 1937

Honorable Henry Morgenthau, Jr.,
The Royal Hawaiian Hotel,
Honolulu, Territory of Hawaii.

My dear Mr. Secretary:

In accordance with your telephone request I am submitting herewith comments on the financial situation as it has developed so far this fiscal year.

Total expenditures of the Government for the first month of the fiscal year were \$658,000,000 as compared with \$417,000,000 for the same period last year, showing a deficit of \$249,000,000 for the first month this year as compared with \$123,000,000 for the same period last year.

There was a great deal of comment in the press regarding these totals and most of the comments failed to explain the reasons for the difference. One or two papers, however, did point out the main cause of the increases in this year over last year. At the cabinet meeting of the week ended August 7th, the President asked Mr. Taylor to give him an explanation of these increases so that he could explain the matter at his press conference on Tuesday, August 10. We prepared a memorandum for him on the matter and I took it over and explained the whole situation to him. I told him, however, that in my opinion he should make no comments whatever on the July figures, that the Daily Statement was now set up so that it showed clearly where the difference was and any financial writer who wanted to ascertain the facts could very easily get them from that statement. I told him that any statement made by him would necessarily call for further comment by the press, which in turn would lead to further comment from the Administration.

It is my view that you cannot compare July, 1937, with July, 1936, without commenting on the special situation with respect to revenues coming in under the Social Security Act, expenditures going out under that Act, and the net expenditures in the revolving fund which in July of this year only showed a \$2,000,000 net credit, whereas in July of last year it showed a net credit of \$216,000,000 due to large repayments coming in last year for the account of the Reconstruction Finance Corporation and a financial transaction of the Commodity Credit Corporation. An explanation of these items

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is set out in the memorandum submitted to the President, a copy of which I enclose herewith. I am also enclosing a copy of the Daily Statement of the United States Treasury for July 31, 1937, on page 2 of which you will notice the various items of receipts and expenditures, together with the increases and decreases, as compared with the same period last year.

In this connection I am enclosing a copy of the Daily Statement for August 19, on page 2 of which you can see the current budget picture. For your convenient reference the totals are set out below in millions of dollars:

	August 19, 1937			
	This month	Same period last year	Total fiscal year 1938	Same period fiscal year 1937
Revenue	330	256	739	550
Expenditures:				
General	224	222	561	471
Recovery and Relief	111	163	309	465
Revolving funds..	3	- 16	1	- 232
Trust accounts (inv.).....	61	3	186	80
Debt retirement..	-	16	-	21
Total	399	388	1,067	805
Deficit	69	132	318	255

The significant feature of this picture is that the Works Progress Administration expenditures for the current fiscal year to date show a drop of about \$56,000,000 over last year, and the first 19 days of the month of August show a drop of \$21,000,000 over the same period last year.

You will notice on the statement of the 19th that the public debt for that day was \$36,952,000,000. This is an increase of \$527,000,000 since June 30th. It will be over the \$37,000,000,000 mark by the first of September due to two more issues of bills coming in, United States Savings bonds and Unemployment Trust funds.

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I am also enclosing the ten-day statements usually furnished you and the President, showing comparative expenditures and obligations of the major organizations on a checks-issued basis. You will note that the expenditures on this basis by the Works Progress Administration were \$30,000,000 for the first ten days of August and that the total expenditures for all agencies using emergency funds was \$45,000,000. Some of the agencies, such as the Civilian Conservation Corps, and the river and harbor and public highway work should fall off pretty fast during this fiscal year as expenditures for account of these items have now been shifted to the regular expenditures of the Government.

With reference to the proposed financing in September, there is enclosed a revised estimate of the cash position for the months of August to December, both inclusive. You will note that this contemplates continuing the present Treasury bill program through to December 15 with total maturities between December 15th and 20th of \$500,000,000. It also includes Treasury bill issues of \$100,000,000 between September 16 and 30, and \$200,000,000 in October, a total of \$300,000,000, to mature in March, 1938. On the basis of these estimates and program, our balance will be about \$644,000,000 going into December. We can borrow \$600,000,000 on notes in December, leaving our balance \$959,000,000 going into January.

This is a very flexible program and can be changed at any time to meet the situation. It may be that you will decide in November to issue an additional \$100,000,000 of bills for maturity in March. On the basis of our present budget estimates there will be approximately \$500,000,000 in excess revenue over expenditures in March and it would do no harm to have at least \$400,000,000 of Treasury bills maturing at that time. I am making this statement on the assumption that \$455,000,000 Treasury notes maturing on March 15th will be refunded into other notes.

There is also a maturity of \$277,000,000 Treasury notes on February 1, 1938 which could be refunded in connection with the December 15 financing or we could have four Treasury bill issues at \$50,000,000 each in January and pay the Treasury note maturity off in cash, using \$77,000,000 of our balance. Such Treasury bills would mature in June. It would probably be necessary to put another \$100,000,000 on top of this for maturity in June because our present estimates show that we may have as much as \$400,000,000 excess revenue in that month. There is, however, a Treasury note maturity in June of \$618,000,000, but again I am assuming that this will be refunded.

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For your information I am enclosing the following statements:

- I. Estimate of cash position for the period August to December, both months inclusive.
- II. Statement showing the present Treasury bill program through September 15 and dates on which they will mature in December.
- III Statement showing total amount of Treasury bills which will be outstanding on various dates on the basis of the program set out in the cash position estimate.
- IV Statement showing the public debt maturing between September, 1937, and the end of June, 1938, exclusive of the regular weekly Treasury bills.
- V Statement showing public debt maturities on quarterly tax-payment dates (with intermediate dates noted) including the present Treasury bill program of \$500,000,000 but excluding the regular Treasury bill program and the special issues to trust funds, etc.
- VI Statement showing the prices and yields by days from July 28 to August 21, 1937, of certain issues of Treasury bonds.
- VII Statement showing the prices and yields by days from July 28 to August 21, 1937, of certain issues of Treasury notes.
- VIII Prices and discount rates of Treasury bill issues since July 14.

In connection with statement No. V, you will notice that September 15, 1940, 1941 and 1942, and June 15, 1942, are all open dates. Present indications seem to point to a note issue of between three and five years. The March, 1942, 1-3/4% notes selling Saturday at 100-10/32 to 100-12/32 on a basis to yield 1.67%, indicates the difficulty of issuing a five-year note on the basis of these prices unless we go above 1-3/4%, but in view of the probability of only an exchange issue we will not have to allow as much leeway as if we were raising a substantial amount of cash in addition to the refunding. The market has declined substantially during the past week, regained

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some on Saturday, but unless it comes back on the announcement next week that no new cash will be required in connection with the September 15 financing, it looks more like a three or four year note at 1-3/4%.

For your further information there are enclosed the usual statement given to you at the close of business each day, showing the gold in the general fund, the debt increase since December 22, 1936 and the working balance, and the daily sheet showing the prices and yields of Government securities at the close of business August 21.

Faithfully yours,

AWB

OFFICE OF THE SECRETARY OF THE TREASURY
COMMISSIONER OF ACCOUNTS AND DEPOSITS

August 21, 1937

TO THE SECRETARY:

GOLD

ESTIMATED GOLD IN GENERAL FUND BALANCE:

Free gold	\$	157,900,000	
Held to retire Nat. Bank Notes. . . .		47,844,000	
Increment resulting from reduction of gold dollar.		141,000,000	
Inactive (Policy announced 12/22/36) .		<u>1,306,500,000</u>	
			<u>1,653,244,000</u>

FUNDS BORROWED SINCE DEC. 22, 1936:

Treasury Bills. . .	\$1,100,000,000		
do (retired).	<u>600,000,000</u>		500,000,000
<u>Other borrowings:</u>			
Try. notes dated			
6/15/37	853,000,000		
U.S. Savings Bonds.	411,000,000		
Special Issues . .	<u>1,268,000,000</u>		
	2,532,000,000		
Less debt retired. .	<u>370,000,000</u>		2,162,000,000
Increase in gross debt since Dec. 22, 1936			<u>2,662,000,000</u>

WORKING BALANCE - CLOSE OF BUSINESS AUGUST 20, 1937:

Federal Reserve Banks	\$	150,157,000
Special Depositories		<u>650,283,000</u>
Total Working Balance August 20, 1937.	\$	<u>800,440,000</u>

SWB

ESTIMATE OF CASH POSITION

August - December

1937

(In millions of dollars)

	1937 Aug.	Sept.	Oct.	Nov.	Dec.	Total
Balances at beginning of periods ...	734	804	819	784	644	734
Receipts:						
General revenue.....	430	800	365	425	775	2,795
Unemployment trust fund.....	55	40	40	40	40	215
U. S. Savings bonds.....	35	30	30	30	35	160
Treasury bills (special).....		150 Dec.				650
Treasury bonds and notes.....	200 Dec.	100 Mar.	200 Mar.	-	-	600
Sales - R.F.C., C.C.C., H.L.B., notes	75	-	-	-	-	75
Total available.....	1,529	1,924	1,454	1,279	2,094	5,229
Expenditures:						
General.....	305	310	325	325	310	1,575
Emergency.....	190	180	180	180	180	910
Interest on public debt.....	20	160	70	10	155	415
Special transactions.....	65	-	-	25	-	90
Debt redemptions.....	20	380	20	20	515	955
Gold purchases.....	110	75	75	75	75	410
Investments.....	15	-	-	-	-	15
Total expenditures.....	725	1,105	670	635	1,235	4,370
Balances at end of period.....	804	819	784	644	859	859
Refunding operations:						
Treasury bills:						
Regular.....	200	250	200	200	250	1,100
Special.....	-	350	-	-	500	850
Treasury notes.....	-	817	-	-	-	817
	200	1,417	200	200	750	2,767

II

Special bills for December

Issued and which mature December 16						\$100 M
" " " " " 17						100
" " " " " 18	\$50 M					-
" " " " " 18	50					-
To be issued on 8/25 and mature Dec. 18	<u>50</u>					150
" " " " 9/1 " " "	20	50				
" " " " 9/8 " " "	20	50				
" " " " 9/15 " " "	20	<u>50</u>				<u>150</u>
Total special bills for December						<u><u>500</u></u>

III

Treasury Bills Outstanding
on basis of program set out
in Cash Position Estimate

August 18	\$2,603 M
September 1	2,703
September 15 (8th and 15th)	2,803
September 18 (\$350M maturing 9/16, 17 & 18)	2,453
September 30 (22nd and 29th)	2,553
October 31 (6th, 13th, 20th and 27th)	2,753
December 20 (\$500M maturing Dec. 16,17,18 & 20)	2,253

Treasury bill payment dates:

Sept. 1 - 8 - 15 - 22 - 29	=	\$ 250*M
Oct. 6 - 13 - 20 - 27	=	200*
Nov. 3 - 10 - 17 - 24	=	200'
Dec. 1 - 8 - 15 - 22 - 29	=	200'

* In proposed program.

' Not in program.

August 20, 1937

IV

Maturing Debt
 September, 1937 - June, -1938
 (Exclusive of regular
 weekly bills)

	<u>Treasury Notes</u>	<u>Special Treasury Bills</u>	<u>Total Refunding</u>
September 15, 1937	\$817 M	\$350 M	\$1,117 M
December 15, 1937	-	500	500
February 1, 1938	277	-	277
March 15, 1938	455	300	755
June 15, 1938	618	-	618

August 20, 1937

V

TREASURY FINANCING

(Exclusive of regular Treasury Bills and special obligations issued directly to trust funds)

(In millions of dollars)

		March 15	June 15	Sept. 15	Dec. 15	Total
1937	Bills	-	-	351	500	1,568
	Notes	-	-	817	-	
1938	All notes	277 (2/1)	618	596	-	1,946
		455				
1939	All notes	942	1,294	427	526	3,189
1940	Notes	1,378	N 738 B 353	-	N 737	3,206
1941	Notes	677	N 504	-	N 204	2,764
	Bonds	545	B 834 (8/1)			
1942	Notes	426	-	-	-	426
1943	All bonds	-	454	1,401 (10/15)	-	1,855
1944	" "	1,519 (4/15)	-	-	1,037	2,556
1945	" "	-	-	1,214	-	1,214
1946	" "	489	1,855	-	-	2,344
1947	" "	-	-	759 (10/15)	-	759
1948	" "	1,223	-	-	-	1,223
1949	" "	-	-	-	2,278	2,278
1950	" "	-	-	-	-	-
1951	" "	-	1,627	755	-	2,382
1952	" "	-	-	-	-	-
1953	" "	-	-	-	-	-
1954	" "	-	-	-	-	-
1955	" "	2,611	-	-	-	2,611
1956	" "	-	-	982	-	982
		10,542	8,277	7,302	5,282	31,403

PRICES AND YIELDS ON

VARIOUS TREASURY BONDS

July 28 to August 21, 1937

125

Coupon rate:	2-3/4%	3%	2-1/8%	2-3/4%	2-1/8%	2-1/2%	2-3/4%	3%	2-7/8%	2-3/4%
Call & maturity date:	1945-47	1946-48	1946-49	1948-51	1948-52	1949-53	1951-54	1951-55	1955-60	1956-59

Prices:

1937										
July 28	103.06	104.25	105.15	101.16	105.16	98.31	100.16	103.18	101.09	100.13
29	103.11	104.02	105.20*	101.19*	105.18*	99.02	100.18	103.16	101.16	100.15
30	103.12	104.30*	105.21	101.17	105.20	99.01	100.17	103.16*	101.16	100.14
31	103.09*	104.30	105.21	101.16	105.16*	99.02	100.16	103.20	101.16	100.14
Aug. 2	103.10	104.30	105.21	101.15	105.14	99.00	100.15	103.19	101.14	100.14
3	103.15	104.27*	105.25	101.17	105.13*	99.00	100.18	103.19	101.14	100.15*
4	103.08	104.28	105.24	101.19	105.19	99.01	100.15	103.19	101.14	100.12
5	103.11	104.28*	105.21	101.19	105.20	99.00	100.17	103.20	101.16	100.16
6	103.10	104.29*	105.22	101.17	105.19*	99.04	100.18	103.21	101.14	100.16
7	103.09*	104.26*	105.24*	101.20	105.18*	99.04	100.20	103.20*	101.17	100.17
9	103.11	104.31	105.26	101.21	105.19*	99.04	100.21	103.20*	101.15	100.16
10	103.11	104.31	105.20*	101.20	105.21	99.01	100.19	103.21	101.15	100.14
11	103.06*	104.25	105.16	101.14	105.14*	98.81	100.14	103.16	101.09	100.10
12	103.06	104.16	105.17	101.06	105.08	98.85	100.08	103.08	101.04	100.01
13	103.00	104.11	105.09	101.00	105.05	98.82	100.00	103.07	101.01	100.00
14	102.28	104.12*	105.13	101.05*	105.01*	98.83	100.04	103.08	100.81	100.00*
15	103.00	104.14	105.11*	101.05	105.07	98.86	100.04	103.10	101.03	100.06
17	102.29	104.14	105.14	101.02	105.04	98.84	100.05	103.07	101.04	100.05
18	102.29*	104.12	105.11	101.03	105.00	98.84	100.02	103.05	101.00	100.02
19	102.22	104.06	105.07	100.28	104.27	98.19	99.28	103.00	100.26	99.28
20	102.09	104.05	104.29*	100.10	104.14	98.08	99.15	102.16	100.10	99.12
21	102.14	104.02*	105.00	100.15	104.10*	98.06	99.24	102.18	100.18	99.17

* Bid price - no sale.

Yields (to call date):

1937										
July 28	2.317	2.399	2.436	2.581	2.602	2.598	2.706	2.695	2.782	2.725
29	2.294	2.364	2.417	2.577	2.596	2.589	2.701	2.700	2.767	2.718
30	2.292	2.379	2.415	2.584	2.590	2.592	2.704	2.695	2.767	2.720
31	2.305	2.379	2.413	2.580	2.602	2.589	2.701	2.689	2.767	2.720
Aug. 2	2.300	2.379	2.412	2.591	2.607	2.595	2.709	2.692	2.771	2.720
3	2.287	2.390	2.397	2.584	2.610	2.595	2.701	2.692	2.771	2.725
4	2.304	2.366	2.401	2.577	2.593	2.592	2.709	2.691	2.771	2.725
5	2.295	2.386	2.412	2.577	2.590	2.595	2.703	2.689	2.767	2.716
6	2.300	2.382	2.408	2.584	2.598	2.583	2.701	2.687	2.771	2.716
7	2.304	2.393	2.400	2.574	2.595	2.583	2.695	2.689	2.765	2.714
9	2.296	2.374	2.392	2.570	2.592	2.583	2.693	2.689	2.769	2.716
10	2.296	2.374	2.415	2.574	2.587	2.592	2.698	2.687	2.769	2.720
11	2.307	2.396	2.430	2.594	2.607	2.598	2.711	2.700	2.782	2.729
12	2.315	2.431	2.426	2.620	2.624	2.616	2.728	2.720	2.793	2.748
13	2.340	2.450	2.456	2.641	2.633	2.625	2.750	2.723	2.800	2.750
14	2.357	2.446	2.440	2.630	2.644	2.616	2.739	2.720	2.806	2.750
15	2.340	2.438	2.448	2.624	2.626	2.713	2.739	2.715	2.796	2.737
17	2.353	2.438	2.436	2.634	2.635	2.619	2.736	2.723	2.793	2.739
18	2.353	2.445	2.448	2.631	2.647	2.619	2.744	2.728	2.802	2.746
19	2.362	2.448	2.463	2.654	2.661	2.634	2.741	2.742	2.816	2.769
20	2.436	2.480	2.501	2.715	2.699	2.667	2.795	2.762	2.852	2.798
21	2.418	2.404	2.489	2.699	2.710	2.673	2.772	2.779	2.834	2.782

PRICES AND YIELDS ON
VARIOUS TREASURY NOTES

July 28 to August 21, 1937

127

Coupon rate:	1-5/8%	1-1/2%	1-1/2%	1-1/2%	1-3/8%	1-1/4%	1-3/4%
Maturity date:	Mar. 15, 1940	June 15, 1940	Dec. 15, 1940	Mar. 15, 1941	June 15, 1941	Dec. 15, 1941	Mar. 15, 1942

127 Prices (average between bid and offer):

1937								
July	28	101.01	100.21	100.19	100.16	100.01	99.24	100.26
	29	101.02	100.22	100.19	100.17	100.02	99.25	100.27
	30	101.02	100.22	100.19	100.17	100.02	99.25	100.27
	31	101.01	100.21	100.19	100.17	100.01	99.24½	100.26
Aug.	2	101.01	100.20	100.18	100.17	100.01	99.25	100.25
	3	101.00	100.20	100.18	100.16	100.01	99.25	100.25
	4	100.30	100.19	100.18	100.16	100.01	99.24	100.24
	5	100.31	100.20	100.18	100.16	100.01	99.25	100.24
	6	101.01	100.21	100.19	100.17	100.02	99.24	100.24
	7	101.01	100.21	100.19	100.17	100.02	99.27	100.24
	9	101.01	100.21	100.19	100.17	100.02	99.26½	100.24
	10	101.02	100.21	100.19	100.17	100.02	99.25½	100.24
	11	101.01	100.20	100.18	100.16	100.01	99.25	100.22
	12	101.00	100.19	100.17	100.15	100.00	99.23	100.20
	13	100.30	100.19	100.16	100.14	99.31	99.22	100.19
	14	100.30	100.19	100.18	100.14	99.31	99.22½	100.19
	16	100.31	100.20	100.17	100.15	100.00	99.23½	100.20
	17	100.31	100.20	100.17	100.15	100.00	99.23½	100.20
	18	100.30	100.19	100.16	100.13	99.31	99.21	100.19
	19	100.26	100.14	100.11	100.09	99.27	99.14½	100.14
	20	100.22½	100.09	100.07½	100.01½	99.24½	99.08	100.09½
	21	100.25	100.12	100.09	100.05	99.27	99.11	100.11

Yields:

1937								
July	28	1.226	1.267	1.320	1.358	1.367	1.309	1.567
	29	1.213	1.256	1.320	1.349	1.358	1.302	1.560
	30	1.213	1.256	1.320	1.349	1.358	1.302	1.560
	31	1.224	1.267	1.319	1.349	1.367	1.305	1.567
Aug.	2	1.224	1.277	1.329	1.349	1.367	1.302	1.574
	3	1.235	1.277	1.328	1.358	1.367	1.302	1.574
	4	1.259	1.286	1.328	1.358	1.366	1.309	1.581
	5	1.247	1.277	1.328	1.358	1.366	1.308	1.581
	6	1.222	1.265	1.319	1.349	1.358	1.294	1.581
	7	1.221	1.265	1.318	1.348	1.358	1.297	1.581
	9	1.221	1.265	1.318	1.348	1.358	1.291	1.580
	10	1.208	1.264	1.318	1.348	1.358	1.291	1.580
	11	1.220	1.275	1.326	1.357	1.366	1.302	1.594
	12	1.232	1.286	1.337	1.366	1.375	1.317	1.608
	13	1.256	1.286	1.346	1.375	1.383	1.324	1.615
	14	1.255	1.286	1.346	1.374	1.383	1.321	1.615
	16	1.242	1.274	1.336	1.365	1.375	1.313	1.608
	17	1.242	1.274	1.336	1.365	1.375	1.313	1.608
	18	1.254	1.285	1.346	1.383	1.383	1.332	1.615
	19	1.303	1.341	1.393	1.419	1.417	1.382	1.650
	20	1.346	1.392	1.427	1.486	1.438	1.429	1.690
	21	1.315	1.364	1.412	1.472	1.417	1.407	1.672

VIII

TREASURY BILL ISSUES

July 14 - August 18, 1937

Date	No. of days	Average Price	Average Rate
<u>SHORT TERM</u>			
July 14	155	99.819	.419
21	148	99.837	.397
28	142	99.853	.372
Aug. 4	135	99.915	.228*
11	129	99.924	.211*
18	122	99.927	.216*
* Payment by credit in war loan account.			
<u>LONG TERM</u>			
July 14	273	99.610	.514
21	273	99.620	.502
28	273	99.632	.485
Aug. 4	273	99.646	.467
11	273	99.638	.478
18	273	99.652	.459

Accounts and Deposits
August 23, 1937.

COMPARATIVE ANALYSIS OF RECEIPTS AND EXPENDITURES

AUGUST 19, 1937

	This month	Corresponding period last year	Fiscal year 1935	Corresponding period fiscal year 1937
GENERAL AND SPECIAL ACCOUNTS				
Receipts:				
Internal revenue:				
Income tax:	\$19,661,472.15	\$19,690,792.02	\$76,745,448.87	\$29,211,024.29
Manufacturers' Internal Revenue:	231,664,481.23	207,000,007.72	452,478,453.86	459,790,137.01
United warrentment tax:	144,000.12	250,000.00	250,000.00	250,000.00
Taxes under Social Security Act:	47,834,040.03	47,834,040.03	100,906,479.43	100,906,479.43
Taxes upon carriers and their employees:	19,018.50	19,018.50	71,157.82	71,157.82
Carriage:	23,565,208.95	21,191,543.84	64,214,108.28	52,762,362.67
Miscellaneous receipts:				
Proceeds of Government-owned securities:				
Principal—Foreign obligations:				
Interest—Foreign obligations:				
All other:	1,325,817.17	1,520,500.00	17,809,255.09	11,915,807.32
Patents, Canal tolls, etc.:	860,248.29	815,000.00	3,020,052.07	3,215,209.29
Seigniorage:	3,303,597.28	3,303,597.28	3,787,505.36	3,787,505.36
Other miscellaneous:	3,796,343.77	2,523,731.32	17,378,418.00	7,098,242.74
Total receipts:	300,076,922.29	256,724,289.23	720,107,518.84	649,642,058.05
Expenditures:				
I. General:				
Departmental:				
Public buildings:	52,922,708.26	38,469,201.74	60,091,496.11	78,067,003.71
Public highways:	3,121,570.47	3,277,178.07	6,754,965.23	3,795,469.97
Rivers and harbor work and flood control:	6,874,838.45	5,473,544.63	20,330,020.29	11,427,746.22
Recreation projects:	9,428,166.78	5,808,208.09	23,172,007.15	14,507,254.83
Seigniorage:	1,963,625.02	1,963,625.02	3,134,120.89	3,134,120.89
Various funds:	428,540.01	414,901.47	2,010,226.50	1,716,618.13
Postal delivery:	10,000,000.00	10,000,000.00	9,265,728.00	9,265,728.00
Postal retirement Act:	100,000.00	100,000.00	800,000.00	184,316.00
Social Security Act:	10,710,723.17	10,710,723.17	40,228,207.70	24,025,373.02
United States Customs (U. S. share):	304,718.24	3,468,077.81	2,040,000.00	3,000,000.00
National defense:				
Army:	25,971,477.91	26,071,978.87	58,923,042.00	58,788,412.33
Navy:	27,374,684.74	28,023,000.10	74,204,651.54	64,444,542.88
Veterans Administration:	41,247,168.82	40,419,827.27	60,218,100.00	66,206,368.00
Agricultural Adjustment Program:	3,686,812.00	18,300,000.00	32,106,131.80	66,514,107.00
Forest Conservation Corps:	22,172,661.40	18,700,000.00	34,000,000.00	17,000,000.00
Farm Credit Administration:	2,505,825.46	441,000.00	1,472,498.63	72,367.04
Business Valley Authority:	3,167,648.49	3,167,648.49	5,818,442.73	5,178,092.48
Interest on public debt:	10,655,514.00	24,629,219.97	20,971,845.24	22,942,085.85
Refunds:				
Internal revenue:	153,721.30	491,627.30	1,504,111.00	2,588,023.65
Internal revenue:	3,140,252.31	1,711,188.99	4,873,975.62	4,719,773.48
Processing tax on farm products:	112,949.11	6,297.12	703,190.87	11,003.46
Subtotal:	224,274,217.21	221,569,421.54	561,604,043.24	479,274,890.24
II. Recovery and relief:				
Agricultural and Federal land banks:				
Bank:	3,600,443.62	9,734,428.00	6,473,486.43	31,231,977.43
Public works (including work relief):	777,954.97	6,732,438.00	4,478,586.11	43,750,052.89
Public buildings:	1,393,740.00	1,323,874.29	4,178,397.87	3,203,574.62
Rivers and harbor work and flood control:	3,524,221.45	17,207,917.16	14,429,214.79	47,254,048.09
Rural Reconstruction Administration:	3,690,210.00	9,450,000.00	3,207,927.86	22,052,480.18
Public Works Administration:	327,720.94	100,000.00	3,162,310.29	847,126.73
All other:	66,960,343.80	90,224,108.17	106,238,224.17	232,575,120.21
AM to loan owner:	10,438,010.77	17,527,816.87	54,442,088.82	54,442,088.82
Home loan system:	140.43	4,275.00	1,816,840.16	2,505,323.01
Emergency housing:	3,811,314.30	1,274,724.22	10,204,813.92	4,158,111.92
Federal Housing Administration:	742,311.85	2,544,621.18	2,874,478.80	3,100,209.91
Resettlement Administration:	6,169,056.31	5,841,717.30	27,758,971.42	10,951,945.24
Miscellaneous:	30.58	11,940.34	45,477.24	17,220.10
Subtotal:	110,880,377.34	163,668,812.87	268,869,871.38	404,476,230.80
III. Revolving funds (cash):				
Agricultural act:				
Commodity Credit Corporation:	4,215,020.21	205,848.81	7,411,854.50	68,808,110.85
Public works:	41,260,901.83	42,076,708.00	3,416,868.05	48,600,479.03
Loans and grants to States, municipalities, etc.:	60,888,820.48	12,627,600.00	36,009,151.44	62,173,245.11
Loans to individuals:		45,470.00	79,479.88	760,470.17
Miscellaneous:				
Export-Import Bank of Washington:	430,648.20	276,150.00	199,276.50	480,400.17
Reconstruction Finance Corporation:	46,320,541.91	427,709,079.84	428,098,594.87	428,341,397.47
Street loans and expenditures:				
Subtotal:	2,913,457.82	48,806,705.43	783,223.74	422,602,877.84
IV. Transfers to trust accounts, etc.:				
Old-age reserve account:	41,000,000.00		83,000,000.00	
Unemployment insurance:	20,000,000.00		20,000,000.00	
Adjusted service certificate fund:		3,093,718.74		33,026,796.23
Government employees' retirement funds (United States share):			78,255,066.00	64,748,801.00
Subtotal:	81,000,000.00	3,093,718.74	181,255,066.00	80,392,093.23
V. Debt retirement (sinking fund, etc.):				
Total expenditures:	309,038,245.91	297,950,972.74	1,057,573,380.31	894,638,901.00
Excess of receipts:	90,998,676.38	268,763,316.49	162,534,148.53	154,943,157.05
Excess of expenditures:	(8,961,323.62)	(41,226,683.51)	(38,465,861.47)	(44,996,842.95)
SUMMARY				
Excess of receipts:	82,037,352.76	227,536,632.98	124,068,287.06	110,946,314.10
Less public debt retirements:	68,991,029.02	111,711,349.72	218,973,890.54	225,018,812.80
Excess of expenditures (including public debt retirements):	(6,953,676.26)	(11,174,716.74)	(94,905,603.48)	(114,072,498.70)
Trust accounts (increment on gold, etc., excess of receipts (-) or expenditures (+)):	25,083,676.00	4,002,707.27	-70,167,234.90	+74,487,966.56
Less national debt debt retirements:	30,014,216.74	178,798,061.99	318,238,094.55	308,200,161.35
Total excess of expenditures:	+208,156,664.77	-172,862,043.49	-209,087,151.73	-208,078,174.23
Income (+) or decrease (-) in public debt:	+236,811,335.01	-37,444,029.50	+127,088,200.20	-72,192,560.30
Public debt at beginning of month or year:	36,715,693,703.94	35,445,795,207.72	36,428,612,702.29	35,178,843,460.73
Public debt debt date:	36,952,505,038.95	35,408,341,178.22	36,555,700,902.49	35,106,650,900.43

* Additional expenditures on these accounts for the month and the fiscal year are included only "Recovery and relief expenditures", the classification of which will be shown in the statement of classified receipts and expenditures appearing on p. 7 of the daily Treasury statement.

* General expenditures under this caption for the fiscal year 1937 are included in "Departmental," "Recovery and relief expenditures" under this caption for the fiscal year 1937 include only Boulder Canyon project, other reclamation projects for that year being included in "Public Works—Relief."

* The expenditures under this classification for the fiscal year 1935 have been revised by \$54,269.02 on account of the transfer of that amount by the Post Office Department to the U. S. Maritime Commission pursuant to the act of June 29, 1935 (49 Stat. 1590). Those of the month or "Departmental," U. S. Maritime Commission, and so on p. 7 of the daily Treasury statement.

* Details are shown in supplementary statement on p. 4.

COMPARATIVE ANALYSIS OF RECEIPTS AND EXPENDITURES—Continued

AUGUST 19, 1937

	This month	Corresponding period last year	Fiscal year 1935	Corresponding period fiscal year 1937
TRUST ACCOUNTS, INCREMENT ON GOLD, ETC.				
Receipts:				
Trust accounts:				
Increment resulting from inclusion in the weight of the gold dollar:	\$10,118,028.38	\$10,543,002.92	\$21,910,546.82	\$20,244,000.00
Unemployment trust fund:	15,048.86	37,384.01	48,373.09	25,000.00
Seigniorage:	2,085,401.29	4,934,070.41	16,235,013.00	6,522,571.11
Unemployment trust fund:	30,043,100.50	3,095,956.04	69,248,370.00	10,700,710.00
Total:	41,779,288.71	19,612,413.38	109,442,269.91	47,492,281.11
Expenditures:				
Trust accounts:				
Transactions in checking accounts of governmental agencies (net):	6,811,402.00	9,143,053.70	30,882,397.43	29,161,000.00
Charitable capital increment on gold:	17,841,255.75	67,261,077.32	58,991,607.72	58,120,000.00
Mining loans, etc.:				
Parcels to Federal Reserve banks (see 134, Federal Reserve Act, as amended):	3,830,885.99	674,005.00	30,140.74	511,188.00
For retirement of national bank notes:				
Unemployment trust fund:	3,830,885.99	674,005.00	30,140.74	511,188.00
Investments and transfers (net):	30,164,000.00	4,406,000.00	58,247,000.00	10,000,000.00
Benefit payments:	73,507.53	110,254.80	1,000,000.00	3,000,000.00
Investments and transfers (net):	10,000,000.00	3,000,000.00	30,000,000.00	10,000,000.00
Benefit payments:	19,208,141.67	81,790,042.22	38,563,203.81	123,025,000.00
Total:	32,477,146.94	92,765,327.27	139,107,224.20	74,892,500.00
Excess of receipts or credits:	9,302,141.77	10,347,086.11	(29,187,674.29)	(27,400,218.89)
Excess of expenditures:	(8,357,858.57)	(72,418,241.15)	(110,914,898.49)	(27,400,218.89)
PUBLIC DEBT ACCOUNTS				
Receipts:				
Market operations:				
Cash:				
Treasury bills:	501,250,000.00	150,173,000.00	630,122,000.00	490,271,000.00
Treasury savings securities:	42.20		42.20	
United States savings bonds (including unclassified sales):	20,781,876.71	26,750,711.30	28,879,291.38	41,836,740.00
Subtotal:	522,032,118.91	176,923,711.30	759,029,291.70	532,107,740.00
Adjusted service bonds:	860,230.00	16,915,400.00	2,470,500.00	78,501,000.00
Subtotal:	522,912,348.91	193,839,111.30	761,500,000.00	610,608,740.00
Special series:				
Unemployment trust fund (certificates):	20,181,000.00	4,400,000.00	30,247,000.00	10,715,000.00
Old-age reserve account (net):	41,000,000.00		41,000,000.00	
Unemployment trust fund (net):	10,000,000.00		10,000,000.00	
Civil service retirement fund (net):			71,200,000.00	13,700,000.00
Foreign Service retirement fund (net):			367,000.00	363,000.00
Canal Zone retirement fund (net):			400,000.00	300,000.00
Alaska National retirement fund (net):			280,000.00	
Subtotal:	81,181,000.00	4,400,000.00	254,574,000.00	25,078,000.00
Total public debt receipts:	603,213,368.91	197,714,111.30	1,016,074,291.70	557,686,740.00
Expenditures:				
Market operations:				
Cash:				
Treasury bills:	198,018,500.00	154,784,900.00	262,772,000.00	397,323,000.00
Certificates of indebtedness:	204,200.00	78,200.00	431,150.00	211,700.00
Treasury notes:	170,250.00	16,815,800.00	1,713,400.00	14,422,800.00
United States savings bonds:			10,000.00	
Adjusted service bonds:	3,544,323.75	695,521.25	7,025,110.75	2,700,700.00
First Liberty bonds:	3,500,000.00	27,045,400.00	16,031,000.00	401,000,000.00
Fourth Liberty bonds:	143,000.00	309,150.00	684,000.00	1,000,000.00
Public Savings bonds:	602,450.00	1,120,500.00	1,297,000.00	2,730,100.00
Other debt issues:	882.00	3,020.00	713,200.00	601,400.00
National bank notes and Federal Reserve bank notes:	34,874.22	30,784.77	42,885.22	67,862.50
Subtotal:	3,482,806.00	2,448,000.00	19,088,540.00	22,079,862.50
Special series:				
Adjusted service certificate fund (certificates):	1,500,000.00	15,000,000.00	2,000,000.00	20,000,000.00
Unemployment trust fund (certificates):	1,000,000.00			

Daily Statement of the United States Treasury

COMPILED FROM LATEST PROVED REPORTS FROM TREASURY OFFICES AND DEPOSITARIES

JULY 31, 1937

CURRENT ASSETS AND LIABILITIES

GOLD

ASSETS		LIABILITIES	
	\$12,444,662,870.14		
		Sold certificates:	
		Outstanding (outside of Treasury).....	\$2,902,722,879.00
		Sold certificate fund—Board of Govern- ment, Federal Reserve System.....	6,018,442,436.78
		Redemption fund—Federal Reserve notes.....	9,261,911.75
		Gold reserve:	156,629,430.85
		<small>From—Deposits against \$100,000 in United States bonds and \$100,000 of Treasury notes of 1926 and outstanding Treasury notes of 1926 are accounted for separately in the Treasury.</small>	
		Exchange stabilization fund:	1,400,000,000.00
			10,880,510,168.40
		Gold in general fund:	
		Reserve.....	\$1,212,246,148.54
		Balance of increment resulting from re- duction in weight of the gold dollar.....	142,990,414.46
		In working balance.....	605,024,146.89
			1,959,260,711.89
Total	12,444,662,870.14	Total	12,444,662,870.14

SILVER

ASSETS		LIABILITIES	
	\$502,088,421.73		
Silver.....	502,088,421.73	Silver certificates outstanding.....	\$1,321,557,722.00
Silver dollars.....	805,271,314.00	Treasury notes of 1890 outstanding.....	1,171,922.00
		Silver in general fund.....	44,660,491.73
Total	1,307,360,135.73	Total	1,307,360,135.73

GENERAL FUND

ASSETS		LIABILITIES	
	\$1,538,146,731.65		
Gold (as above).....	44,660,491.73	Treasurer's checks outstanding.....	\$10,681,005.00
Silver (as above).....	2,032,708.00	Deposits of Government officers: Post Office Department.....	2,743,079.35
Federal Reserve notes.....	14,285,890.00	Board of trustees, Federal Reserve System: 3-percent reserve, lawful money.....	50,300,000.00
Federal Reserve bank notes.....	257,047.50	Other deposits.....	2,638,576.64
National bank notes.....	391,671.50	Postmasters, clerks of courts, disbursing officers, etc.....	70,707,708.87
Subsidiary silver coin.....	3,023,004.05	Deposits for: Redemption of national bank notes (3- percent fund, lawful money).....	408,460.00
Silver coin.....	3,256,373.73	Stocks (same exchanges, etc.....	22,041,470.53
Silver dollars (working value).....	359,655,076.43		
Silver dollars (working value).....	990,138.08	Balance today: Inactive gold (as above).....	179,820,940.83
Unclassified—Colombian, etc.....	2,472,520.04	Increment on gold (as above).....	\$1,212,246,148.54
Deposits in: Federal Reserve banks.....	247,092,154.65	Edgewise (silver).....	140,966,414.46
Special depositaries abroad of sales of Government securities.....	500,915,000.00	Working balance.....	918,443,418.94
National and other bank depositaries: To credit of Treasurer United States.....	12,307,045.43		
To credit of other Government officers.....	30,695,985.27		
Foreign depositaries: To credit of Treasurer United States.....	500,073.58		
To credit of other Government officers.....	2,330,347.46		
Philippine treasury: To credit of Treasurer United States.....	1,064,787.89		
Total	2,819,724,625.48	Total	2,819,724,625.48

RECEIPTS AND EXPENDITURES THIS DAY

Receipts:		Expenditures:	
Internal revenue:		General:	
Income tax.....	8066,272.12	Departmental.....	\$5,419,351.31
Miscellaneous internal revenue.....	10,087,400.30	Interest on public debt.....	1,456,625.87
Cajal collection tax.....	1,943.09	All other.....	6,402,878.22
Taxes under Social Security Act.....	1,849,463.91	Recovery and relief.....	5,354,947.26
Taxes upon carriers and their em- ployees.....	100.02	Surviving funds.....	40,329,339.52
Customs.....	1,068,279.85	Treasurer to trust accounts, etc.....	68,962,940.18
Miscellaneous receipts.....	273,661.77		
		Trust accounts, increment on gold, etc.....	* 38,362,855.31
Trust accounts, increment on gold, etc.....	1,019,786.06	Public debt.....	1,101,085.25
Public debt.....	6,890,125.30	Balance today (see above).....	2,638,004,384.83
Balance previous day.....	2,647,374,624.78	Total	2,670,605,544.97
Total	2,670,605,544.97		

* (Excess of credits (deduct).)

Note 1.—This item represents edgewise resulting from the issuance of silver certificates equal to the sum of the silver stipulated under the Silver Purchase Act of 1934 and the amount returned for the silver received under the President's proclamation dated Aug. 8, 1934.

Note 2.—The amount to the credit of disbursing officers and clerks expires today was \$2,373,627,296.95.

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COMPARATIVE ANALYSIS OF RECEIPTS AND EXPENDITURES
JULY 31, 1937

	This month	Corresponding period last year	Fiscal year 1936	Corresponding period fiscal year 1937
GENERAL AND SPECIAL ACCOUNTS				
Receipts:				
Internal revenue:				
Alcohol tax	\$37,140,972.23	\$39,130,832.55	\$47,140,972.23	\$39,130,832.55
Excise tax	221,071,874.23	209,869,838.29	211,071,874.23	209,869,838.29
Internal revenue (total)	258,212,846.46	248,999,670.84	258,212,846.46	248,999,670.84
Transfer from Treasury Dept.	58,691,736.88		58,691,736.88	
Transfers from other departments	62,170.15		62,170.15	
Other receipts	10,083,811.43	4,165,452.27	46,848,461.22	21,540,452.27
Total receipts	408,100,645.55	253,165,153.23	403,715,215.23	270,540,173.23
Expenditures:				
I. General:				
Departmental:				
Public Health	10,166,742.15	36,217,731.96	10,166,742.15	36,217,731.96
Public Welfare	14,165,850.81	5,584,210.39	14,165,850.81	5,584,210.39
River and harbor work	13,742,857.39	6,540,938.21	13,742,857.39	6,540,938.21
Reclamation work	4,476,855.26	807,311.73	4,476,855.26	807,311.73
Public Health	1,579,746.24	2,027,337.52	1,579,746.24	2,027,337.52
Public Welfare	628,296.60	84,710.99	628,296.60	84,710.99
Reclamation	29,462,521.62	11,431,552.11	29,462,521.62	11,431,552.11
Public Health	4,035,261.79	3,310,082.98	4,035,261.79	3,310,082.98
Public Welfare	32,036,074.90	33,111,438.48	32,036,074.90	33,111,438.48
Reclamation	48,863,049.45	49,304,303.78	48,863,049.45	49,304,303.78
Agricultural Adjustment Program	23,903,645.14	37,227,595.05	23,903,645.14	37,227,595.05
Living Conservation Corps	31,362,691.62	1,868,257.52	31,362,691.62	1,868,257.52
Public Health	4,302,636.72	110,373.81	4,302,636.72	110,373.81
Public Welfare	3,702,732.24	30,861.95	3,702,732.24	30,861.95
Reclamation	12,290,324.57	9,462,652.58	12,290,324.57	9,462,652.58
Other	1,305,265.84	2,107,186.62	1,305,265.84	2,107,186.62
Internal revenue	4,714,573.11	2,462,602.82	4,714,573.11	2,462,602.82
Transfers from other departments	345,255.28	1,744.94	345,255.28	1,744.94
Subtotal	237,380,172.05	249,280,878.99	237,380,172.05	249,280,878.99
II. Recovery and relief:				
Agricultural relief	745,052.87	1,858,848.44	745,052.87	1,858,848.44
Public Health	654,813.08	25,672,848.24	654,813.08	25,672,848.24
Public Welfare	2,646,428.22	1,428,908.65	2,646,428.22	1,428,908.65
River and harbor work	2,042,032.29	260,611,521.18	2,042,032.29	260,611,521.18
Reclamation	3,658,311.79	13,426,514.15	3,658,311.79	13,426,514.15
Public Health	2,586,776.70	318,351.89	2,586,776.70	318,351.89
Public Welfare	127,640,140.27	162,961,984.04	127,640,140.27	162,961,984.04
Reclamation	22,436,801.87	38,422,363.51	22,436,801.87	38,422,363.51
Other	1,518,471.13	2,891,078.81	1,518,471.13	2,891,078.81
Internal revenue	2,263,020.42	2,883,367.70	2,263,020.42	2,883,367.70
Transfers from other departments	1,646,467.88	3,614,148.73	1,646,467.88	3,614,148.73
Public Health	16,176,046.62	13,330,348.22	16,176,046.62	13,330,348.22
Public Welfare	4,816.22	3,036.70	4,816.22	3,036.70
Subtotal	169,009,434.20	301,638,246.22	169,009,434.20	301,638,246.22
III. Service from States:				
Agricultural relief	4,302,636.72	442,211,984.56	4,302,636.72	442,211,984.56
Public Health	1,211,248.73	42,852,747.57	1,211,248.73	42,852,747.57
Public Welfare	16,184,815.78	28,227,015.18	16,184,815.78	28,227,015.18
Reclamation	476,076.88	729,244.48	476,076.88	729,244.48
Other	448,734.87	442,244.27	448,734.87	442,244.27
Internal revenue	418,771,028.56	412,572,575.63	418,771,028.56	412,572,575.63
Subtotal	419,180,128.78	413,866,272.41	419,180,128.78	413,866,272.41
IV. Transfers to trust accounts, etc.:				
Old-age reserve account	42,000,000.00		42,000,000.00	
Unemployment reserve account	10,000,000.00		10,000,000.00	
Adjusted service certificate fund	30,116,000.00		30,116,000.00	
Government employees retirement funds (United States claim)	78,232,000.00		78,232,000.00	
Subtotal	160,368,000.00	160,368,000.00	160,368,000.00	160,368,000.00
V. Debt retirement (including trust funds, etc.)	30,330.00	5,039,400.00	30,330.00	5,039,400.00
Total expenditures	638,545,642.47	617,108,643.31	638,545,642.47	617,108,643.31
Excess of receipts over expenditures	249,554,903.08	135,956,509.92	249,554,903.08	135,956,509.92
SUMMARY				
Excess of receipts over expenditures	249,554,903.08	135,956,509.92	249,554,903.08	135,956,509.92
Less national debt retirement	82,649.00	2,000,000.00	82,649.00	2,000,000.00
Excess of receipts over expenditures (including public debt retirement)	249,472,254.08	133,956,509.92	249,472,254.08	133,956,509.92
Trust accounts, increase on gold, etc., excess of receipts over expenditures	-27,800,976.11	-11,707,741.88	-27,800,976.11	-11,707,741.88
Less national debt retirement	211,671,277.97	122,248,768.04	211,671,277.97	122,248,768.04
Total excess of receipts over expenditures	30,000,000.00	0.00	30,000,000.00	0.00
Increase (+) or decrease (-) in general fund balance	+30,000,000.00	-451,807,541.54	+30,000,000.00	-451,807,541.54
Increase (+) or decrease (-) in public debt	-231,000,000.00	-234,778,254.08	-231,000,000.00	-234,778,254.08
Public debt at beginning of month or year	36,424,612,732.29	36,778,541,492.78	36,424,612,732.29	36,778,541,492.78
Public debt this date	36,193,612,732.29	36,346,763,238.70	36,193,612,732.29	36,346,763,238.70

1. Additional expenditures on these accounts for the month and the fiscal year are included under "Recovery and relief expenditures", the classification of which will be shown in the statement of classified receipts and expenditures appearing on page 7 of the daily Treasury statement for the 15th of each month.

2. General expenditures under this heading for the fiscal year 1937 are included in "Departmental", "Recovery and relief expenditures" under the heading for the fiscal year 1937 include only Boulder Canyon project, other reclamation projects for that year being included in "Public Works—All other".

3. The expenditures under this classification for the month and the fiscal year 1936 have been reduced by \$23,268.02 on account of the transfer of that amount by the Post Office Department to the U. S. Maritime Commission pursuant to the act of June 29, 1936 (49 Stat. 2086). These transferred funds when expended by the U. S. Maritime Commission will be classified on this page as "Departmental", and on page 10 of the 15th of the month as "Departmental—U. S. Maritime Commission".

4. Details are shown in supplementary statement on page 4.

COMPARATIVE ANALYSIS OF RECEIPTS AND EXPENDITURES—Continued
JULY 31, 1937

	This month	Corresponding period last year	Fiscal year 1936	Corresponding period fiscal year 1937
TRUST ACCOUNTS, INCREMENT ON GOLD, ETC.				
Receipts:				
Trust accounts:				
Increment resulting from reduction in the weight of the gold dollar	\$11,790,972.23	\$18,411,969.26	\$11,790,972.23	\$18,411,969.26
Unemployment trust fund:				
Unemployment trust fund	31,324.00	201,070.53	31,324.00	201,070.53
Unemployment trust fund	18,348,523.83	5,625,977.79	18,348,523.83	5,625,977.79
Unemployment trust fund	28,532,359.84	6,846,147.32	28,532,359.84	6,846,147.32
Total	54,902,229.89	25,089,117.88	54,902,229.89	25,089,117.88
Expenditures:				
Trust accounts:				
Transfers to checking accounts of governmental agencies (net)	29,271,864.58	28,986,162.61	29,271,864.58	28,986,162.61
Transfers to Federal Reserve banks (inc. 1936)	7,410,281.87	5,410,281.80	7,410,281.87	5,410,281.80
Charges against increment on gold:				
Mining loans, etc.	30,162.74	111,189.87	30,162.74	111,189.87
Transfer to Federal Reserve banks (inc. 1936)				
Federal Reserve Act, as amended	6,073,295.00	14,266,975.00	6,073,295.00	14,266,975.00
Unemployment trust fund:				
Unemployment trust fund	28,532,359.84	4,205,000.00	28,532,359.84	4,205,000.00
Other:				
Dividend reserve account	11,000,000.00		11,000,000.00	
Investments and transfers (net)	48,327.61		48,327.61	
Interest payments	10,502,000.00		10,502,000.00	
Investments and transfers (net)	3,120,000.00		3,120,000.00	
Total	17,208,151.48	49,547,458.48	17,208,151.48	49,547,458.48
Excess of receipts over credits	37,694,078.41	25,541,659.40	37,694,078.41	25,541,659.40
Excess of expenditures	11,107,741.88		11,107,741.88	
PUBLIC DEBT ACCOUNTS				
Market operations:				
Cash:				
Treasury bills	130,260,000.00	250,194,000.00	130,260,000.00	250,194,000.00
Treasury notes				
Treasury bonds				
United States savings bonds (including floating "savings" bonds)				
Adjusted service bonds				
Subtotal	130,260,000.00	250,194,000.00	130,260,000.00	250,194,000.00
Special series:				
Unemployment trust fund (certificates)	21,000,000.00	6,242,000.00	21,000,000.00	6,242,000.00
Living Conservation Corps (notes)	41,000,000.00		41,000,000.00	
Civil service retirement fund (notes)	71,200,000.00	43,700,000.00	71,200,000.00	43,700,000.00
Foreign Service retirement fund (notes)	297,000.00		297,000.00	
Canal Zone retirement fund (notes)	600,000.00	700,000.00	600,000.00	700,000.00
Alaska Railroad retirement fund (notes)	180,000.00		180,000.00	
Postal Savings System (notes)				
Government life insurance fund (adjusted service bonds)				
Subtotal	142,200,000.00	50,942,000.00	142,200,000.00	50,942,000.00
Total public debt receipts	272,460,000.00	301,136,000.00	272,460,000.00	301,136,000.00
Expenditures:				
Market operations:				
Cash:				
Treasury bills	212,414,000.00	284,538,000.00	212,414,000.00	284,538,000.00
Certificates of indebtedness	100,000.00	153,200.00	100,000.00	153,200.00
Treasury notes	978,100.00	1,141,000.00	978,100.00	1,141,000.00
Treasury bonds	10,000.00	10,000.00	10,000.00	10,000.00
United States savings bonds (including floating "savings" bonds)	4,498,177.00	1,778,248.75	4,498,177.00	1,778,248.75
Adjusted service bonds	11,000,000.00	600,000.00	11,000,000.00	600,000.00
Postal Savings System (notes)	330,000.00	2,494,200.00	330,000.00	2,494,200.00
Public Liberty bonds	814,000.00	2,024,000.00	814,000.00	2,024,000.00
Federal Reserve bonds	712,462.00	680,320.00	712,462.00	680,320.00
Other debt issues	18,612.00	46,200.75	18,612.00	46,200.75
National bank notes and Federal Reserve bank notes	7,212,645.88	13,624,275.00	7,212,645.88	13,624,275.00
Subtotal	219,765,494.20	348,278,295.00	219,765,494.20	348,278,295.00
Exchange:				
Treasury bills				
Treasury notes				
Treasury bonds				
Subtotal				
Special series:				
Adjusted service certificate fund (certificates)	1,500,000.00	25,000,000.00	1,500,000.00	25,000,000.00
Unemployment trust fund (certificates)		50,000.00		50,000.00
Civil service retirement fund (notes)				
Foreign Service retirement fund (notes)	18,000.00		18,000.00	
Canal Zone retirement fund (notes)				
Postal Savings System (notes)				
Federal Deposit Insurance Corporation (notes)				
Subtotal	1,518,000.00	25,050,000.00	1,518,000.00	25,050,000.00
Total public debt expenditures	221,283,494.20	373,328,295.00	221,283,494.20	373,328,295.00
Excess of receipts over expenditures	51,176,505.80	28,807,705.00	51,176,505.80	28,807,705.00
Increase (+) or decrease (-) in public debt:				
Market operations:				
Treasury bills	+137,412,000.00	-4,482,000.00	+137,412,000.00	-4,482,000.00
Certificates of indebtedness	-100,000.00	-153,200.00	-100,000.00	-153,200.00
Treasury notes	-879,000.00	-7,141,000.00	-879,000.00	-7,141,000.00

DISBURSED STATEMENT OF ASSETS AND LIABILITIES OF GOVERNMENT CORPORATIONS AND CREDIT AGENCIES OF THE UNITED STATES

COMPILED FROM LATEST REPORTS RECEIVED BY THE TREASURY

JUNE 30, 1947

SUMMARY

Summary table showing Assets and Liabilities of Government Corporations and Credit Agencies. Columns include Assets (Cash, Investments, Receivables, etc.) and Liabilities (Federal Reserve, Treasury, etc.).

DETAILS

Details table providing a breakdown of assets and liabilities. It is divided into 'Assets' and 'Liabilities' sections, with sub-sections for 'Planned wholly from Government funds' and 'Planned partly from Government funds and partly from private funds'.

Footnote section containing explanatory notes and references for the data presented in the tables, including references to specific government agencies and financial reports.

1. CALL MONEY:-

Low	None.	Low	None.	Loaned	
Medium	Closed	None.	Loaned	Loaned	None.
High	Average		Loaned outside	Unloaned	

Condition of Stock Market at close:
 Compared with previous day's close:
 Trend of Stock Market:
 Stock Market sales: _____ shares.

No rates received on Saturdays.

2. TREASURY BONDS, PANAMAS & CONVERSIONS:

		CLOSING QUOTATIONS			
		Decimals in 32nds :		Yield	
		Today	Change	To call	To matur-
		:	:	date	ity date
		:	:	:	:
Treasury 3-3/8s	40-43	105.20	+2	1.333	2.335
Treasury 3-3/8s	41-43	106.04	+3	1.603	2.200
Treasury 3-1/4s	1941	106.08	+5		1.609
Treasury 3-3/8s	43-47	107.02	-4	2.072	2.557
Treasury 4-1/2s & 5 1/2s	43-45	106.10	+2	2.148	2.392
Treasury 3-1/4s	44-46	*106.02 bid	-	2.363	2.467
Treasury 4s	44-54	111.20	+2	2.266	3.125
Treasury 2-3/4s	45-47	102.14	+5	2.415	2.475
Treasury 3-3/4s	46-56	110.10	+10	2.410	3.020
Treasury 3s	46-48	*104.02 bid	-1	2.454	2.567
Treasury 3-1/8s	46-49	105.	+3	2.499	2.630
Treasury 4-1/4s	47-52	*115. bid	-6	2.469	2.933
Treasury 2-3/4s	48-51	100.15	+5	2.699	2.708
Treasury 3-1/8s	49-52	*104.10 bid	-4	2.710	2.777
Treasury 2-1/2s	49-53	98.06	+2	2.673	2.637
Treasury 3-3/4s	51-54	99.24	+9	2.772	2.769
Treasury 3s	51-55	102.18	+2	2.779	2.818
Treasury 2-7/8s	55-60	100.18	+8	2.824	2.841
Treasury 2-3/4s	56-59	99.17	+5	2.782	2.779
Panamas 3%	1961	113. to 117.			2.198
Conversions 3%	1946	108. to 111.			1.775
Conversions 3%	1947	109. to 111.			1.835

* No sale.

3. SHORT-TERM OBLIGATIONS:

		Bid		Offer	
Treasury Notes:					
Notes A - 1927 - 3-1/4%	maturing	Sept. 15, 1937	100.13	100.15	negative
Notes A - 1938 - 2-5/8%	"	Feb. 1, 1938	100.31	101.01	.377
Notes C - 1932 - 3%	"	Mar. 15, 1938	101.17	101.19	.245
Notes B - 1938 - 2-7/8%	"	June 15, 1938	102.	102.02	.382
Notes D - 1938 - 2 1/2%	"	Sept. 15, 1938	102.02	102.04	.531
Notes C - 1939 - 1 1/2%	"	Mar. 15, 1939	100.24	100.26	.996
Notes A - 1939 - 2 1/2%	"	June 15, 1939	101.25	101.27	1.114
Notes D - 1939 - 1 1/2%	"	Sept. 15, 1939	100.12	100.14	1.176
Notes B - 1939 - 1 1/2%	"	Dec. 15, 1939	100.11	100.13	1.210
Notes A - 1940 - 1 1/2%	"	Mar. 15, 1940	100.24	100.26	1.015
Notes B - 1940 - 1 1/2%	"	June 15, 1940	100.11	100.13	1.364
Notes C - 1940 - 1 1/2%	"	Dec. 15, 1940	100.08	100.10	1.412
Notes A - 1941 - 1 1/2%	"	Mar. 15, 1941	100.02	100.04	1.472
Notes B - 1941 - 1 1/2%	"	June 15, 1941	99.26	99.28	1.417
Notes C - 1941 - 1 1/2%	"	Dec. 15, 1941	99.10	99.12	1.407
Notes A - 1942 - 1 1/2%	"	Mar. 15, 1942	100.10	100.12	1.672
Treasury Bills: maturing . . .					
"	"	Aug. 25, 1937	.28%		.284
"	"	Sept 1, 1937	.30%		.305
"	"	Sept 8, 1937	.30%		.305
"	"	Sept 15, 1937	.30%		.305
"	"	Sept 16, 1937 (2)	.30%		.305
"	"	Sept 17, 1937 (2)	.30%		.305
"	"	Sept 18, 1937 (3)	.30%		.305
"	"	Sept 22, 1937	.30%		.305
"	"	Sept 29, 1937	.30%		.305
"	"	Oct. 6, 1937	.32%		.325
"	"	Oct. 13, 1937	.32%		.325
"	"	Oct. 20, 1937	.32%		.325
"	"	Oct. 27, 1937	.32%		.325
"	"	Nov. 3, 1937	.33%		.335
"	"	Nov. 10, 1937	.33%		.335
"	"	Nov. 17, 1937	.33%		.335
"	"	Nov. 24, 1937	.33%		.335
"	"	Dec. 1, 1937	.35%		.355
"	"	Dec. 8, 1937	.35%		.355
"	"	Dec. 15, 1937	.35%		.406
"	"	Dec. 16, 1937 (2)	.40%		.406
"	"	Dec. 17, 1937 (2)	.40%		.406
"	"	Dec. 18, 1937 (2)	.40%		.406
"	"	Dec. 22, 1937	.40%		.406
"	"	Dec. 29, 1937	.40%		.406

Continued from page 1.

Treasury Bills maturing		Bid	Asked	Yield
	Jan. 5, 1938	.40%		.406
	Jan. 12, 1938	.40%		.406
	Jan. 19, 1938	.42%		.426
	Jan. 26, 1938	.42%		.426
	Feb. 2, 1938	.44%		.447
	Feb. 9, 1938	.44%		.447
	Feb. 16, 1938	.44%		.447
	Feb. 23, 1938	.47%		.478
	Mar. 2, 1938	.47%		.478
	Mar. 9, 1938	.47%		.478
	Mar. 16, 1938	.47%		.478
	Mar. 23, 1938	.47%		.478
	Mar. 30, 1938	.47%		.478
	Apr. 6, 1938	.48%		.488
	Apr. 13, 1938	.48%		.488
	Apr. 20, 1938	.48%		.488
	Apr. 27, 1938	.48%		.488
	May 4, 1938	.50%		.508
	May 11, 1938	.50%		.508
	May 18, 1938	.50%		.508

4. SECURITIES GUARANTEED BY THE UNITED STATES

	CLOSING QUOTATIONS			
	Decimals in 32nds Today	Change	To call date	Yield To maturity date
FED.F.M. 1 1/2 - 1939	100.18 to 100.16			1.273
FED.F.M. 3/8 - 1942-47	*103. bid	+12	3.279	2.837
FED.F.M. 3/8 - 1942-47	*101.24 bid	+4	2.340	2.542
FED.F.M. 3/8 - 1944-54	*102.22 bid	-4	3.799	3.101
FED.F.M. 3/8 - 1944-49	102.18	+3	2.682	2.743
HOLD 1/2 - E-1938	101.07 to 101.11			.691
HOLD 1 1/2 - F-1939	100.13 to 100.16			1.241
HOLD 2 1/2 - 1939-49	100.16	+8	2.484	2.701
HOLD 3 1/2 - 1943-44	*100.02 bid	+2	2.236	2.240
HOLD 3 1/2 - 1943-44	102.14	+8	2.600	2.807
HOLD 3 1/2 - 1944-52	*100.10 bid		.811	1.114
R.F.C. 1 1/2 (Series K) 12/15/38				

* No sales.

5. DEPOSITS:-

In Federal Reserve Banks	Aug. 30, 1937	150,167,000
In Special Depositaries:		238,000
s/c Balance called issues unpaid		500,159,000
s/c Treasury issues dated June 15, 1937		149,876,000
s/c Treasury bills dated 8/1-11-18, 1937		
Total Aug. 30, 1937		880,440,000

Call of Aug. 23, 1937 None.

6. GOLD IMPORTS AND EXPORTS (NET):-

Aug. 30, 1937, (N.Y. &)	\$ 12,793,000 Imports
	5,827,000 Exported Russia
	231,000 Exported Mexico
Aug. 1 to 30, 1937	76,930,000 Net imports, prelim.
Jan. 1 to Aug. 31, 1937	1,198,861,000 Net imports.

\$	3,205,000 from Canada
\$	2,808,000 from England
\$	946,000 from India
\$	278,000 from Holland
\$	4,627,000 from Russia
\$	231,000 from Mexico

Aug. 31, 1937 - Accts. & Deposits.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

August 23, 1937.

MEMORANDUM:

TO - Mr. Taylor
FROM - Chairman Eccles

As I will not be here during the final consideration of the September financing, I told the Secretary that before I left, I would leave a memorandum for him covering broadly and in a general way my views of the situation as they existed at the time I left.

I am, therefore, enclosing such a letter, which I will appreciate your bringing to the attention of the Secretary at the proper time.

M. L. E.
v.e.

enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

August 21, 1937.

OFFICE OF THE CHAIRMAN

My dear Mr. Secretary:

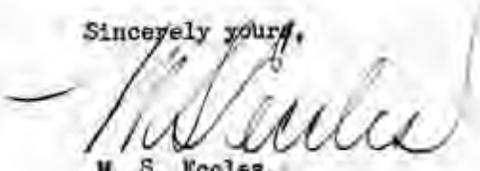
On the basis of present conditions, it is my belief that it would be advisable in the September financing to issue Treasury notes in exchange for the maturing notes and to raise no additional cash.

From the present cash position of the Treasury and budgetary prospects it appears that, if no cash is raised in the September financing, the working balance will decline to a minimum of around \$550,000,000 at the end of October and will amount to about \$600,000,000 at the end of November. This estimate assumes purchases of \$400,000,000 of gold between the middle of August and the end of November and the issuance of a similar amount of Treasury bills to mature around the March tax date. Additional cash can be raised at the time of the December financing if necessary. If purchases of gold exceed the \$400,000,000 mentioned above, the inactive gold account will approach \$2,000,000,000. Under these circumstances, it will likely be not only desirable but necessary to find some other way to deal with the gold import problem.

In refunding the September notes it does not seem to me that the market would be receptive to an issue of bonds. Member banks are still liquidating Government securities, and it is understood that some of them are anxious to sell the long bonds in particular on favorable markets, since their holdings are still at a relatively high level.

As to details of the new issues, notes maturing in about five years, either in June or September, 1942, or an issue maturing in December, 1938, might be offered in exchange for the maturing notes. Or the holders of maturing notes might be given the option to exchange for either of these issues. I do not feel that I can at this time express an opinion as to which of these alternatives would be most desirable, since that will depend, of course, on market conditions at the time of the announcement.

Sincerely yours,


M. S. Eccles,
Chairman.

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

JR

CODAT

Paris

Dated August 24, 1937

Rec'd 1:35 p.m.

Secretary of State,
Washington.

1196, August 24, 6 p.m.

FROM COCHRAN.

Improved sentiment which prevailed yesterday on Paris market continued today. French control gained good amount of sterling at 132.80 to 83 and some dollars at 26.63. Forward franc more bid and discount down to 3 3/8 for three months against sterling. Rentes up well on report that effective August 31 Government will remove 10 per cent coupon tax from Government rentes.

BULLITT

DDM:KLP

RECEIVED
AUG 25 1937
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

RB

SPECIAL GRAY AND GRAY

London

Dated August 24, 1937

Rec'd 2:40 p. m.

Secretary of State

Washington.

554, August 24, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

CONFIDENTIAL.

FILE COPY
A. LOCHHEAD

One. I saw Sir Frederick Philipps today who said that his plans, reported in No. 536, August 12, 5 p. m. remain unchanged. He added "How long are you going to keep me in Washington? Will I be able to get away by September 27th?" In reply I said that naturally I did not know -- that I presumed he himself was the best judge as to how long he would have to be there.

I quote the above verbatim as having a possible bearing in the matter of the initiative and scope of the forthcoming conversations.

Two. Philipps also said that in his opinion the only important aspect of the present French situation was that while they are not losing gold they are not gaining any substantial amount at time when they should be acquiring a large quantity.

Three. Philipps made a noncommittal reference to the actions

FILE COPY
A. LOCHHEAD

RB

-2-#554, August 24, 6 p. m. from
London

the actions of the Federal Reserve Banks of Atlanta and Chicago in reducing their discount rates from 2 to $1\frac{1}{2}\%$ but in view of the approaching Washington conversation I made no attempt to press him on this or other subjects. However, the concluding portion of today's FINANCIAL TIMES editorial is representative of other press comment on this question.

"The majority of member banks have reserves in excess of the minimum requirements which average about 20% of deposits and thus the banks are in need of extra money. But some -- and they are almost all in the agricultural districts -- had a certain amount of difficulty at the time of the raising of the reserve percentage in finding the necessary funds so that some heavy liquidation of gilt-edged securities ensued. Thus to enable them to lend more money to farmers on their now excellent prospects and to save them from having to unload their investments the Federal Reserve Board is offering them rediscounts and advances at a rate considerably nearer market realities than that previously prevailing. In the short run this has obvious advantages both to the banking system and
to the

RB

-3-#554, August 24, 6 p. m. from
London

to the country. But in the long run from the banking point of view there are drawbacks. To begin with it encourages just those banks which can least afford it to overlend and while repayment following this year's crop seems assured the past records of the agricultural banks qualify complete confidence in their general loan policy. Moreover, cheap money provides in itself a strong incentive to grant larger advances as the keen competition it entails cuts earnings down to a very low margin. And as was pointed out in a recent article in the *ECONOMIST* the stagnation of the bond market combined with the disappearance of such non-recurrent items as bad debts recovered has reduced American banking profits to well below last year's level. The danger of over lending is exaggerated in the United States by the loose organization of the banking system which consists not of a few powerful joint stock banks with many branches as in this country but of a large number of small banks, a high proportion of which are private. Consequently while the lowering of the discount rate has immediate advantages it also contains the seeds of a danger which must be guarded against. On the other hand the advantages of cheap money

from

RE

-4-#554, August 24, 6 p. m. from
London

from the point of view of the Government and of commerce
generally are too well known by their effects in this
country to require comment."

JOHNSON

KLP

HPD

RECEIVED
AUG 27 1931
TREASURY DEPARTMENT
U. S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

FEDERAL RESERVE BANK
OF NEW YORK

140

OFFICE CORRESPONDENCE

DATE August 25, 1937.

CONFIDENTIAL FILES

SUBJECT: Telephone Conversation with

D. J. Cameron

Bank of England.

I called Mr. Bolton today and I was connected at 10:27 a.m. I asked Mr. Bolton what was going on and he said there was absolutely no business. The London market was "still on holiday". I asked if any further Russian gold had come to London and he said that they had received £1,000,000 yesterday which was earmarked for Russian account but that the last sale of gold in the market took place about a fortnight ago. I told Mr. Bolton that Japanese gold was still coming here and that we had heard that £800,000 in gold had been shipped direct to London. He said he had heard about it from the insurance people but did not understand why they were shipping it to London, except as an experiment, as it was much more expensive, especially now in view of the high rates for war risk insurance on shipments via the Mediterranean. (It appears more like a gesture on the part of the Japanese for our benefit). Mr. Bolton mentioned the arrangement which they had made with the Yokohama Specie Bank (with which he said I was probably familiar as the payments go through his account on our books) under which the Bank of England takes dollars from the Yokohama Specie Bank. He said there was nothing binding on their part, but they were only doing it to give the Japanese a decent price as the market is so narrow even a small offering has a depressing affect. I referred to the press report of the Argentina shipment from London of 1,980,000 ounces of gold. He said that this gold would be shipped to Buenos Aires, but they had not as yet received definite instructions, only inquiries as to freight rates,

OFFICE CORRESPONDENCE

DATE August 25, 1937.

TO CONFIDENTIAL FILES

SUBJECT: Telephone Conversation with

FROM D. J. Cameron

Bank of England.

-2-

insurance, etc. He said Argentina's exports had been very good and that it was only natural for them to bring any surplus gold home. He said we all do that.

I asked Mr. Bolton if he had any information on the two shipments of gold by Samuel Montagu & Company to the Manhattan Company amounting to about \$5,000,000, about which I inquired during our last telephone conversation, as there were two similar shipments reported as coming forward from London totaling about \$5,000,000 on the steamers Volendam and Pennland. Mr. Bolton said that it is very likely that these gold shipments originate in Antwerp and are shipped to London first, thence to New York. The Belgians are still losing gold steadily and he understands Montagu is very close to them. One of the directors of Samuel Montagu & Company is a relative of Governor Franck of the National Bank of Belgium and he thought that some special arrangement had been made. He said that Montagu had become more active recently in the London gold market and that practically all of the business was being done by Montagu and Rothschild.

RB

CODAT

Paris

Dated August 25, 1937

Rec'd 3:13 p. m.

Secretary of State

Washington.

119E, August 25, 5 p. m.

FROM GOCHRAN.

Forward franc and French rentes continue to improve. No evidence of operations by French control in today's quiet exchange market. Official funds sold some rentes. Certain details of plans made in today's meeting of Council of Ministers for further financial decrees were received too late to influence market. Swiss National Bank continues to lose gold and gain foreign exchange. No great significance is attached by European financial press to Argentine decision to withdraw important part of gold holdings from Bank of England.

FINANCIAL NEWS London says six hundred seventy-nine million pounds sterling of gold received in Great Britain second half of last week from China "doubtless represents metal collected internally or purchased from the United States

RB

-2-#1198, August 25, 5 p. m. from
Paris

States against silver which the Chinese authorities are converting into sterling assets to form part of the new reserve of foreign currency for the note issue". This article adds that some eight hundred and seven million pounds "of gold also arrived from Germany presumably Russian gold sent to London via Berlin in accordance with the Russian Government's recent practice".

BULLITT

JLS

KLP

RECEIVED
AUG 28 1937
TREASURY DEPARTMENT
CHIEF OF BUREAU
FEDERAL RESERVE SYSTEM

August 26, 1937.
12:32 p.m. - Thursday.
From Hawaii

O: Go ahead.

Taylor: Hello

H.M.Jr: Hello Wayne.

T: Hello Henry.

H.M.Jr: Good morning.

T: Good morning to you.

H.M.Jr: How do things look back home?

T: Ah - couldn't look much worse.

H.M.Jr: Oh - really?

T: Yes.

H.M.Jr: What's the matter?

T: Well you got the news I suppose about British Ambassador being shot.

H.M.Jr: No.

T: British Ambassador to China was shot. He.....

H.M.Jr: British who?

T: British Ambassador to China was shot by a Japanese airplane.

H.M.Jr: No.

T: Ah - that - there has been an apology which doesn't explain too much.

H.M.Jr: I mean how was he - in the street?

TE: No he was motoring to Shanghai from Nanking.....

H.M.Jr: Yes.

T:and a Jap plane comes along and - ah - machine guns the road and then drops a bomb on him.

H.M.Jr: Oh for heaven's sakes.

T: And that had - I mean had quite an effect on all the markets.

H.M.Jr: Ah-ha

T: Ah - stocks - everybody is talk - I mean the market is very nervous anyhow.....

H.M.Jr: Yes.

T:and your industrial stocks are off - ah - oh three and three quarters points.....

H.M.Jr: Yes.

T:everything else is off. Bonds acted very badly.

H.M.Jr: They have.

T: Yes.

H.M.Jr: How about our 5-year old bills?

T: Ah (Has conversation aside) Three to five - par three to five.

H.M.Jr: Well they're not off so much.

T: No - ah - notes have acted comparatively well but they're off.....

H.M.Jr: Wayne what are they nervous about? I mean - ah - what - what could happen as far as we're concerned?

T: Ah - I don't think anything but that - ah - the markets are just nervous.

H.M.Jr: I see. The President is at Hyde Park, isn't he?

T: No he's - he's going there tonight, I believe.

H.M.Jr: Oh, I see. The radio said he was going up there Thursday. Is he going to be away for a while?

T: Yes.

H.M.Jr: For how long - do you know?

T: Until the 15th.

H.M.Jr: The 15th?

T: Yes.

H.M.Jr: Of September?

T: Yes.

H.M.Jr: Well is he going to stay at Hyde Park?

T: I understand so.

H.M.Jr: What?

T: I understand so.

H.M.Jr: I see. Well - ah - you might, in addition to the information you've been sending me, send me the quotations every day on - on four bonds - the government bonds - whichever are the most significant.

T: Yes.

H.M.Jr: Pick out four bonds.....

T: Right.

H.M.Jr:and send it to me. Because it's been helpful for me to have that, you see?

T: Ah - Burgess is back.....

H.M.Jr: Yes.

T:and - ah - he's - ah - I'm glad he is.

H.M.Jr: Yes.

T: But it's - ah - he thinks that this is just one of those things that happen.....

H.M.Jr: Ah-ha.

T:and he's glad that it's happening this week instead of next week.

H.M.Jr: I see.

T: Ah - they have got some bids in the market.

H.M.Jr: Ah-ha.

T: Not very heavy because there isn't much volume but it got to be a little bit panicky here this morning.

H.M.Jr: Well how does he feel about our financing?

T: Well he - ah - doesn't think we're going to have any trouble. I mean as long as we - ah - get the right maturity and so on.

H.M.Jr: I tell you what you do - ask him to send me a little - what - what he thinks we can do and have it coded and send it to me, will you?

T: Yes I will.

H.M.Jr: To-day.

T: Yes.

H.M.Jr: Please.

T: Right.

H.M.Jr: Have him write out a little statement of how it looks to him and what he thinks we could do as the thing looks today and have the thing put in code and send it over to me.

T: Yes. Now there's one other thing.

H.M.Jr: Yes. I mean just what his opinion is.

T: That's right. Now to get to another subject.

H.M.Jr: Go ahead.

T: On this Far Eastern situation.

H.M.Jr: On the which?

T: On the Far Eastern situation.

H.M.Jr: Yes.

T: There was a special message that came to you last night - ah - through Buck.....

H.M.Jr: Yes.

T:which went to the other interested Department.....

H.M.Jr: Yes.

T:and do you want me to - ah - let Buck know that you are not in this country?

H.M.Jr: Yes, why not?

T: I think it's - I think it's advisable to do it because it was rather an urgent appeal, you see?

H.M.Jr: Ah-ha.

T: Nothing that you could do anything about.

H.M.Jr: Ah-ha. But supposing you send the message over to me anyway.

T: Yes I'll do that.

H.M.Jr: But don't tell him that but simply I would tell him that I'm not in the country.....

T: Yes.

H.M.Jr:until Saturday a week.

T: And that the message was delivered to where it ought to go.

H.M.Jr: Well whatever you think.

T: Yes.

H.M.Jr: What?

T: Yes. He's already been told that the message has been received.

H.M.Jr: Well there isn't much use of sending it to me, is there?

T: I don't think so.

H.M.Jr: What?

T: I don't think so.

H.M.Jr: No. There's nothing I can do, is there?

T: Not a damn thing.

H.M.Jr: Well then I would advise him I'm not here.

T: Yes.

H.M.Jr: (Laughs) I'm here - not there. (Laughs)

T: That's right.

H.M.Jr: Yes, I would. Ah - an appeal for help?

T: Ah - yes.

H.M.Jr: Ah-ha. Well there's nothing we can do, is there?

T: Nothing.

H.M.Jr: Fine. What else?

T: That's about all.

H.M.Jr: When did Magill get away?

T: Why he got away - ah - ah - last Friday night.

H.M.Jr: What - this last Friday?

T: What?

H.M.Jr: He just got away last Friday.

T: Yes.

H.M.Jr: Ah-ha. Well he'll get two weeks in anyway.

T: Yes, he'll - he's planning on coming back after Labor Day so he'll get two full weeks there.

H.M.Jr: He gets a full two weeks, doesn't he?

T: Yes.

H.M.Jr: Well that's good. Now what else cheerful have you got?

T: Ah (laughs) it's stopped raining. It's been raining for five days and it just stopped. (Laughs)

H.M.Jr: Really?

T: Yes.

H.M.Jr: All up and down the coast?

T: Ah - pretty much.

H.M.Jr: Ah-ha.

T: Ah - there's a slight premium on gold in London.

H.M.Jr: What was that?

T: There 's a slight premium on gold in London.

H.M.Jr: Have we lost any?

T: Nothing.

H.M.Jr: Ah-ha. What - what is our sterilization fund - a million what

T: A million three - a million three naught nine.

H.M.Jr: Ah-ha. Now the only suggestion I have is - in the New York Times on August 16th, which just arrived, they had an article by John Crieder - C-r-i-e-d-e-r on the front page.....

T: Yes.

H.M.Jr:entitled, "Roosevelt Insists on Budget Balance". I don't know how they got that story. It quotes a lot of stuff from the Treasury, see?

T: Yes.

H.M.Jr: It's good. I wondered if you and Bell couldn't work up something else like that.....

T: Ah.

H.M.Jr:on this spending showing the decrease in the spending under the Relief Agencies.

T: Ah - we'll do what we can.

H.M.Jr: But take a look at that article.

T: Yes, we - ah - I suspect that we had nothing to do with that one.

H.M.Jr: Well take a look at it. I don't know who put it in the paper but it was good.

T: Yes.

H.M.Jr: But reduced costs of the Relief Agencies, see?

T: Yes.

H.M.Jr: And - ah - what else? Is that all?

T: Ah - that's about all we have.

H.M.Jr: All right, gad you're about as cheerful as a mourner at a.....

T: (Hearty laughter) Maybe it's the five days' rain.

H.M.Jr: All right. Now is Bell there?

T: He is - right here.

H.M.Jr: Right.

Bell: Hello

H.M.Jr: Hello Dan.

B: Good morning.

H.M.Jr: How are you?

B: Pretty good. How are you?

H.M.Jr: Is Hopkins' living up to his bargain on his spending since the first of July?

B: Well he's living pretty well within his own figures as to employment and down to about the mark that he agreed upon. Now something's been done in the last week for these - ah - marchers in town and I haven't been able to get the low-down on it but I understand that Hopkins and the President agreed that there'd be no more lay-offs.

H.M.Jr: That's what it had on the radio.

B: Yes at the present time. Well apparently they called the leader or something; I don't know just what it was and.....

H.M.Jr: The radio said that they promised this fellow Lassiter...

B: Yes.

H.M.Jr: No more lay-offs.

B: That's right.

H.M.Jr: Yes.

B: Well I understood that there was a letter delivered to him by the President.

H.M.Jr: Ah-ha.

B: He'd been trying to see the President for two weeks and he wouldn't see him and then I think he held out so long that they had to give him something.

H.M.Jr: Well how about - ah - is - is it much over 100 million a month?

B: Well expenditures for WPA up to the 24th.....

H.M.Jr: Yes.

B:of August.....

H.M.Jr: Yes.

B:just for the month 86 million.

H.M.Jr: 86.

B: Yes, and then 32 - that's 32 million less than the same period last year and total for the year is 213 million as compared with 280 or 67 million less than fiscal year '37.

H.M.Jr: Well are you still spending last year's money or will that all come out of the billion and a half?

B: Well it's all made a part of the billion and a half now, you see? It was all thrown together.

H.M.Jr: I see.

B: Ah - of course, there will be a liquidation in a lot of those old obligations incurred in 1937 - this year.....

H.M.Jr: Yes.

B:but - ah - there will be possibly about a hundred - about a billion 650 million dollars unobligated balances including the billion and a half available for expenditure in 1938.

- 11 -

H.M.Jr: Well I don't think the story's got across the papers at all the big reductions in emergency expenditure, see?

B: Ah-ha.

H.M.Jr: And if you and Wayne Taylor could work out something to get that over I think it would be helpful at this time, don't you?

B: All right, we'll look at it. Well - ah

H.M.Jr: What's my working balance to-day?

B: 792 - ah - million.

H.M.Jr: How much.

B: 792 million Tuesday night.

H.M.Jr: Yes.

B: And that will go up - ah - tonight - that will go up from yesterday evening about 40 million.

H.M.Jr: Ah-ha.

B: Ah - the statements I sent you indicate that we might have as much as 804 million going out of August but I think that will increase to about 815 or 20 because we estimated they'd give 55 million to unemployment trusts and I believe it's going to 70.

H.M.Jr: Really?

B: Ah-ha. On this budget thing, I don't know that I'd talk much about it.

H.M.Jr: You don't?

B: I'll tell you - the picture is going to look pretty bad when the summation comes out. I'm terribly disappointed about it.

H.M.Jr: When is the summation coming out?

- 12 -

- B: Well certainly not till after financing. (Laughs)
- H. M.Jr: All right.
- B: (Still laughing) That would be physically impossible.
- H.M.Jr: I wouldn't say anything.
- B: No I - I tell you - they added a lot of things in the Congress and I'm afraid we're not going to get much below that 418 million deficit that we showed in April.
- H.M.Jr: You mean for the whole year?
- B: Yep.
- H.M.Jr: Oh my heavens that's terrible.
- B: Well I thought we could probably wipe that out but I'm afraid that there's been enough added - see we had a 30 million dollar credit in from Commodity Credit.
- H.M.Jr: Yes.
- B: I'm now told that that's going to be a black figure of 230 - 200 million which makes it a loss in the budget of 230 million.
- H.M.Jr: Well why?
- B: Loans to cotton. Those things hurt.
- H.M.Jr: Yes.
- B: 200 million over and above what we - ah - figured on in April.
- H.M.Jr: Well the President agreed to that, didn't he?
- B: Oh yes, it's agreed to - there isn't any question about it.
- H.M.Jr: What's that?

- 13 -

B: Yes he agreed to it, I'm sure.

H.M.Jr: Well - it is pretty tough.

B: Yes but he told me yesterday - I told him that that I thought it was going to be a bad picture in '38 and I didn't think that he could tell the American people in 1939 that there wasn't going to be a balanced budget.....

H.M.Jr: Yes.

B:even if he had to say we were going to ask for new taxes.

H.M.Jr: Yes.

B: Well he agreed and he said I'm going to get you a balanced budget (laughs) in 1939.

H.M.Jr: He's going to do what?

B: Get me a balanced budget in 1939.

H.M.Jr: I still don't hear it.

B: I say he told me that he was going to get me a balanced budget in 1939.....

H.M.Jr: Yes.

B:including - ah - 600 million of debt retirement. Well I said, "We'll be satisfied with that".

H.M.Jr: Yes. Well I'm terribly disappointed over this.

B: Well I am too. Maybe it won't look as bad when I get into it but I'm afraid it's a pretty bad picture.

H.M.Jr: Yes. How does the President seem?

B: Seems in very good spirits.

H.M.Jr: Yes.

B: Yes. Going away tonight to Hyde Park and.....

H.M.Jr: What's that?

B: He's going away tonight to Hyde Park.....

H.M.Jr: Ah-ha.

B:and be back here probably the 15th and 16th for the antietam celebration and the constitutional.....

H.M.Jr: I see.

B:celebration and then - ah - I think he's going away; no one knows where.

H.M.Jr: After the 15th?

B: Yes. Told me that he'd be away for about a month.

H.M.Jr: Really?

B: Yes up to about October 15th.

H.M.Jr: October 15th.

B: Yes.

H.M.Jr: Ah-ha.

B: Said that would be a good time for me to take a vacation. (Laughs)

H.M.Jr: Good. Good. He's going away for a month, eh?

B: Yep.

H.M.Jr: Ah-ha.

B: But he didn't say where.

H.M.Jr: Ah-ha. On the 16th. I see.

B: Yes.

H.M.Jr: All right. Do you want to say anything?

- 15 -

B: I haven't got a thing other than that.

H.M.Jr: Does Archie want to say anything?

B: Archie isn't here - ah - he's - ah - (Aside to Taylor: Where is he?) He's in Baltimore. Deitrich's here. (To Deitrich: Got anything?) Deitrich says he hasn't anything other than what Wayne told you.

H.M.Jr: Well if you people want to get any mail to me when I land send it to Captain Parker of the Coast Guard at San Francisco.

B: Captain - ah -

H.M.Jr: Parker.

B: (Aside to Taylor: Do you know that?)

H.M.Jr: Captain Parker - Coast Guard - San Francisco.

B: All right.

H.M.Jr: I don't know whether I'll call you again but I may before I go - I'm leaving Saturday you know.

B: Ah - Wayne wants to know what day you expect to be in Washington.

H.M.Jr: Next week ?

B: Yes.

H.M.Jr: I expect to be there Saturday and Sunday.

B: Ah - you won't get here before what - Saturday morning late?

H.M.Jr: I'll either get there late Friday night or very early Saturday morning.

B: I see.

H.M.Jr: Why? What's Wayne got on his mind?

B: Well he wanted to know if you wanted to see the Open Market Committee and, if so, when?

H.M.Jr: Oh I don't - do we want to see them?

B: I don't believe so - ah (Aside to Taylor: I don't believe it's necessary, do you?) Three of the members are here.

H.M.Jr: Well if I see them I'd see them Saturday.

B: Well - ah - three of the members are here and - ah Harrison says he'll come down Saturday if you want him.

H.M.Jr: George Harrison?

B: Yes.

H.M.Jr: And - and Burgess?

B: Well Burgess - ah - questioned whether you wanted him to stay in New York - he could come down Saturday afternoon after the market closed.

H.M.Jr: Well I - I certainly would want to see him after the market closes.

B: Wait a minute.

H.M.Jr: I'll be in the office about 11 o'clock Saturday.

B: Oh - ah - Harris tells me the market will be closed Saturday.

H.M.Jr: Oh.

B: Chances are it will be.

H.M.Jr: Well then have - ah....

B: So Burgess could come down here Saturday.

H.M.Jr: I'd have the boys get together - who ever's here, yes.

B: 11 o'clock Saturday.

H.M.Jr: Yes.

- 17 -

B: (Aside to Taylor: You - ah - anybody from the West?)
All right we'll - we'll call Eccles and leave it to him.

H.M.Jr: Is Eccles in town?

B: Well it will be Ransom, Wayne tells me.

H.M.Jr: I thought Eccles was away.

B: Yes he is.

H.M.Jr: Ah-ha.

B: Well we'll have some of the group here then at 11 o'clock Saturday morning.

H.M.Jr: All right.

B: Goodbye.

H.M.Jr: All right, thank you.

B: Goodbye.

H.M.Jr: Goodbye.

RE

CODAT

Paris

Dated August 26, 1937

Rec'd 4:51 p. m.

Secretary of State

Washington.

1203, August 26, 4 p. m.

FROM COCHRAN.

Trading still very light on Paris exchange. Forward franc continues to be wanted and rates better. Bank of France statement as of August 19 showed no new advances to Government but Treasury account down to 72,000,000 francs; with circulation lower coverage was 53.14 versus 52.78. Market found nothing particularly disturbing in new series of decrees mentioned below but inclined to consider them artificial rather than productive.

Under the special authority accorded the Government by the law of June 30, 1937 a further series of financial decrees was promulgated in today's Journal Officiel providing chiefly for the following:

One. An immediate inquiry into production embracing 13 branches of industry. The Inquiry Committee will include in addition to officials of Government departments, representatives of employers and of labor. Its task will be to propose such measures as may be necessary to improve production

RB

-2-#1203, August 26, 4 p. m. from
Paris

production and in a general manner the situation of agriculture, industry, and commerce.

Two. Improvement of commercial and industrial equipment of commercial and industrial equipment for the rapid increase of production through Government aid. This includes technical assistance from the Credit National by means of the allotment preferably to smaller trade and industry of interest rebates for a period of four years at most and to a maximum annual amount of 35,000,000 francs not to exceed 4 percent nor be more than 50 percent of the interest actually paid on the mortgage. The rebates will be turned over to a special account opened with the Credit National in the name of the firm concerned and which can only be debited for the payment of the interest due.

Three. Promotion of the building industry through lower money rates, interest rebates as above with assistance of Credit Foncier to a maximum of 40,000,000 francs and certain tax exemptions;

Four. Easier formalities for mobilization of Government securities to permit quicker obtaining of advances from the Bank of France on registered state securities. Other

DECREES

RB

-3-#1203, August 26, 4 p. m. from
Paris

DECREES relate to various branches of state credit price control, reenforcement of supervision over insurance and investment companies, pensions, price of wheat. The decree relating to the suppression of the ten percent levy on rental coupons though approved is held over perhaps to include other securities such as those of the Credit National and railways.

BULLITT

SMS

NPL

RECEIVED
AUG 26 1946
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

EDA

CODAT

PARIS

Dated August 27, 1937

Received 5:50 p.m.

Secretary of State

Washington

1209, August 27, 6 p.m.

French control yielding sterling throughout the day at 132.95 to 92. Forward rate also tended to weaken and intervention was apparently effected at London to hold three months sterling at three and five eighths. On the fear that latest developments increase likelihood of British intervention in Far East sterling was today offered against all leading currencies except the French franc. French rentes lower and international shares followed downward trend of London and New York.

Another series of French financial decrees appeared today. While it is too early for these and the ones I reported yesterday to be analyzed and understood by the market the impression grew today (and caused the weakness in the franc) that these measures are in opposition to the economy decrees recently issued indicate the lack of faith of the Government in achieving cheap money rates by repatriation of capital and other normal means and at same

time

EDA - 2 - #1209, August 27, 6 p.m. from Paris

time (particularly through the lifting of the ten percent levy on rente coupons) increase the improbability of any effective measure toward reducing carrying charge of Government debt. Building costs have gone up so steeply in France during past year that encouragement to construction provided in these decrees is held insufficient.

Much space given in financial press to lowering of bank rate in New York. Comment in city notes of today's LONDON TIMES was as follows: "Thus New York continues to hold the distinction of being the cheapest monetary center. The reason for reducing abnormally low bank rates to still lower levels may not be very clear especially at a time when borrowing is increasing but the measure has a political rather than an economic significance. Demand for money in the United States has been growing for some time past with the progress of trade recovery and the banks - which are the principal holders of Government securities - have realized some portion of their holdings in order to provide the necessary means to finance trade. By reducing the reserve banks' rediscount rates it is hoped to induce the banks to discount their bills and advances more freely and to avoid the selling of Government stock. Enormous imports of gold into America have caused the Government to adopt a sterilization

EDA - 3 - #1209, August 27, 6 p.m. from Paris

a sterilization process with a view to preventing too great an expansion in the supply of credit. As long as the Government sterilizes gold imports it may be difficult to justify a rise in money rates but a reduction of exceptionally low rates seems hard to account for on business grounds".

Position of Governor Franck becoming more uncomfortable as campaign grows for investigation of and sharp sanctions against alleged action of Governor and Directors of National Bank of Belgium in splitting among themselves the salary of Van Zeeland after latter gave up under governorship to enter Cabinet.

BULLITT

SMS:NPL

RECEIVED
AUG 28 1946
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

London, August 30, 1937.

My dear Mr. Secretary:

I have reported Sir Frederick Phillips' plans in my No. 536, August 12, 5 p.m. and No. 554, August 12, 6 p.m., confirming the fact that he will arrive in Washington on the week-end before September 20th, the date of his first meeting with you.

I plan to sail on the "Normandie" on September 5th, and I will arrive in Washington September 14th.

I enclose two articles and an editorial which recently appeared in "The Times" on the French situation; you may be interested in glancing through these inasmuch as the writer's attitude and predictions are not dissimilar to Phillips'.

I do hope you have had a most restful and enjoyable vacation.

With kindest regards,

Respectfully yours,

Walter Duesterhaus

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

A REVIVAL IN FRANCE

I.—LEGACY OF M. CHAUMPS

MISTAKES IN FINANCE

From Our Paris Correspondent

The *expérience Blum* collapsed three months before the first Front Populaire Government was forced from office by the refusal of the Senate to grant them full powers to deal with the financial crisis. It was dying in December when the Chamber declined to accept the estimates of M. Vincent Auriol, the Jonah of French Socialism, of the probable size of the 1937 deficit. It finally expired in March, 1937, when the Government was forced to delegate their financial authority to a committee of four experts—two of whom were among the most deadly critics of Socialist finance—with a mandate to operate the Exchange Equalization Fund.

Why was the Blum Government able to survive into the seventh age of "second childhood and oblivion"? Nor many Governments in the history of the Third Republic have succeeded in staying in office after being overtaken by senile decay. Why did not the Opposition rally sooner and demand them from office? Why were they allowed to carry on until the franc had lost another 25 per cent. of its value? Socialists and Communist supporters of the Front Populaire are now trying to convince the electorate that the Blum Government could have continued in office for the full electoral period, and that it fell only because it was stabbed in the back by powerful financial interests. Nothing could be farther from the truth.

A BOURGEOIS RALLY

Few French Governments have encountered so little destructive criticism from the responsible Opposition as has the Cabinet of M. Blum. And, though the dangers of Vincent Auriol finance were clearly apparent to them, the various forces opposed to the Government did not coalesce until he had brought France, which is still the wealthiest country on the Continent of Europe, face to face with the spectres of a planned economy, foreign exchange control, and an authoritarian economic system. The adverse vote in the Senate was not a stab in the back, but a rally by bourgeois France in defence of Liberal capitalism.

The earlier attitude of the political and financial critics of the Government's policy was not inspired by altruistic motives. There were at least four good reasons why they failed to carry their criticism to its logical conclusion. In the first place the nationalization of the Bank of France had robbed the French bourgeoisie of its rallying point; secondly, the foreign policy of M. Blum and M. Delbos was generally approved and there was no desire to interfere with the work they were doing; thirdly, there was a widespread feeling that many of the social reforms enacted by the Front Populaire Government were useful and long overdue; fourthly, a majority of the electorate had suffered so heavily under the deflationist policy of M. Laval, that a period of inflation, even of inflation, was politically essential, no matter what were the possible economic objections to it. Above political observers therefore realized that it would be extremely dangerous to criticize the Blum Government before the electorate as a whole became convinced that the Vincent Auriol policy would end in disaster and that there was no alternative to allowing the *expérience* to collapse under its own weight. What is astonishing is that M. Blum, with his brilliant intellectual gifts, allowed finance to become the *Condamné* of his Government. It can be explained only on the theory that he has all the contempt of the *fin de siècle* *liberal* for finance and financial practices, and that he feels that the problem is not for departmental financiers rather than for the Prime Minister's staff.

YOKING THE BANK

A strong governor at the head of the Bank of France might have prevented some of the most serious mistakes made by M. Vincent Auriol. But in nationalizing the Bank the Government took good care to appoint a man who had no experience of banking, was a loyal and devoted servant of the Administration, and could be relied upon to carry out their orders to the best of his ability. It is difficult to criticize the Government for doing that: past Governments had suffered insupportable humiliations at the hands of the Bank of France, and many people, bankers among them, agreed that a change was necessary and desirable. Since the publication early in 1937 of the diary of M. Moreau, Governor of the Bank in 1926-28, even strong Conservatives admitted that the wings of the Bank had to be clipped. M. Moreau insisted on the manner in which he forced M. Herriot from office in 1926. The firm attitude of the Bank, he wrote, contributed largely towards the dismissal of the Government. His bitter and constant hostility to M. Herriot and his attempts to "ruin the country" of the "disastrous" Cartel des Gauches (in which he was ably seconded by President Doumergue) far exceeded the bounds of the permissible in a democratic state. So while M. Blum nationalized the Bank and put a devoted follower in control it was left to one of his bitterest opponents to provide the justification for it.

This step opened the coffers of the Bank to the Treasury. In the past many Governments had been driven from office by the refusal of the Bank to grant them temporary advances, or to issue short-term Treasury Bonds or Bills which were a drag on the market. But under the new régime no such difficulties existed: short-term funds were more easily available; the Opposition could get no support from the Governor or the Regents to snaffle them in turn; an attack upon the Administration for the day on which the Bank refused to extend the Treasury's overdraft; in short, the Opposition could not, as in the past, launch an offensive under the banners of the Bank of France.

But in spite of the disappearance of the usual financial obstacles to the policy of the Government of the day M. Blum reached the end of his tether in March. No further funds were available, and it was only the issue of a National Defence Loan totalling 6,000,000,000 francs (nearly £80,000,000) at the rate of exchange then ruling that made it possible for him to stay in office. It took three months to exhaust these new funds and by the end of June a political crisis was inevitable. There is something dramatically paradoxical about a Socialist Minister of Finance who had spent his life in castigating speculators, raising a Government loan designed to make special appeal to the gambling instinct. The exchange guarantee carried by the National Defence Loan whereby the yield fluctuates with the franc rate on London and New York, has given the Bourse a speculative market whose possibilities can be compared only to those offered by the late Ivar Kreuger in the golden days of Swedish matches.

Yet the collapse of the Blum Government was not due in the hotbed of their financial policy nor to the speed of their social reforms. Their financial policy deflected only in degree from that

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A REVIVAL IN FRANCE

II.—M. BONNET'S ECONOMIES

WEAKNESS OF HEART

From Our Paris Correspondent

In justice to M. Blum and M. Vincent Auriol, his Minister of Finance, it must be emphasized that they took office in extraordinarily difficult circumstances. The General Election in 1936 resulted in the defeat of all the parties supporting the Laval economies. The Front Populaire marched to victory on the promise that they would end deflation, and that they would put in hand a vast scheme of public works to combat unemployment.

That meant in effect that the first Front Populaire Government were pledged to unbalance the Budget. Other countries whose national finances were generally considered to be sound had done the same thing; so why not France? The difference was that France had enjoyed unbalanced Budgets ever since 1931, so that the basis of the new financial structure which the Government of M. Blum proposed to erect was rickety in the extreme. In 1932 the deficit on the ordinary Budget had been nearly 5,000,000,000. In 1933 it was close on 12,000,000,000; in 1934 it was 9,000,000,000; in 1935 over 10,000,000,000; and in 1936 nearly 8,000,000,000. These recurring deficits had destroyed confidence in the national finances and Governments found it increasingly difficult to borrow money by orthodox means. Finally recourse was had to the Bank of France, which meant that the Bank was printing new notes in order to meet such of the Government's financial needs as the money market refused to cover. All this was perfectly clear to M. Blum and to the members of his Cabinet. They realized that it was essential to balance the Budget and that taxation would have to be increased in order to make ends meet. But they thought that the country would not be able to stand any new burdens until prosperity had been restored, and that their first task ought to be to revive trade and industry.

BALANCING THE BUDGET

As recently as August 9 M. Vincent Auriol said that in 1936 they needed 2,000,000,000 to achieve budgetary equilibrium, but that they thought it better to do something towards the restoration of prosperity before asking taxpayers to shoulder new burdens. The Government were therefore gambling on a trade revival. Their gamble failed, and two months ago the Chautemps Government, with M. Bonnet at the Ministry of Finance, came into office with a mandate to pay the debts incurred by M. Vincent Auriol. Their task is terribly complicated; unorthodox methods, tried by M. Vincent Auriol with the results described, are closed to them; they are still faced with the problems of attaining budgetary equilibrium, which no Government has done since 1931, of reviving trade and industry, which have been depressed since 1933, and of stopping the export of capital, which has gone on intermittently since the end of 1934. The problem therefore has three aspects.

The nature of the financial problem has been analysed by M. Bonnet. When he took over the Ministry of Finance he found the Treasury practically empty; its borrowing powers were exhausted; yet it was faced with the liability of having to find about 35,000,000,000 before the end of the year in excess of normal budgetary receipts. His first step was to increase taxation. As a result he hopes to reduce the estimated deficit on the ordinary 1937 Budget from about 8,000,000,000 to about 4,500,000,000. Expenditure on public works and advances to local authorities (which in turn have been forced to increase their taxes) are cut by 2,500,000,000. That reduces the 1937 demands on the Treasury to about 29,000,000,000. In this latter sum is included 4,400,000,000 on account of the British loan to the French Railways, which has already been covered by a transfer of earmarked gold in London, and 5,400,000,000 on account of Treasury Bond maturities which the Government are now trying to convert. If that operation is successful, and the indications are that it will be, the net obligations of the Treasury in 1937 will be about 19,000,000,000, twilight allowing for any increased budgetary receipts on account of a possible improvement in trade. Against these 19,000,000,000, the Government have obtained a fresh advance from the Bank of France totalling 15,000,000,000. There is, therefore, no reason to fear that the Treasury will have any great difficulty in meeting its obligations this year.

CUTS FOR 1938

M. Bonnet quickly realized that the 1938 problem was going to be even more troublesome. He therefore decided to cut his expenditure on account of rearmament and public works by 6,000,000,000, to increase national taxation by 2,000,000,000, to raise railway fares and freight rates by a total of 2,000,000,000, to reduce the State grant to Paris by 1,300,000,000 (and compelling the City to increase local taxation by that amount), to curtail the public works grant to the capital by 700,000,000, and to cut various other smaller appropriations so as to reduce his total loan requirements (apart from such temporary advances by the State as are to be refunded within a reasonable time) by between 11,000,000,000 and 22,000,000,000. As the estimate at 47,000,000,000, made by M. Reynaud of the Government's probable loan requirements in 1938 has been officially accepted, these cuts and tax increases mean that the Government will have to borrow only about 26,000,000,000 next year. Less than 17,000,000,000 of this is required for purely State purposes, and of that sum nearly two-thirds is on account of rearmament.

The burden resting on the French taxpayer is now at least as heavy as that devolving upon the taxpayer of any other country. While an exact comparison between the incidence of British and French income-tax is difficult to make owing to the difference in the methods of calculation, the following figures give a fairly correct impression of the manner in which is taxed the income of a married man with two children in Great Britain and France. A taxpayer in this category with £300 a year pays nothing in Great Britain; in France he pays about 48 10s. In Great Britain an income of £500 is taxed at just over 18, as against about £27 in France. The figures for the £1,000 income level are about 1102 and 495, and for £2,000 about £227 and £440 respectively. And as for tax evasion, M. Bonnet's advisers do not agree that it is as prevalent as is generally believed. It is true that large amounts of French savings are hoarded abroad, and that the tax authorities have no record of them, but usually these savings earn no interest at all; they are not invested, but are deposited in strong boxes in the form of banknotes or gold. In any event the Ministry estimate that they will not get much

RB

CODAT

PARIS

Dated August 30, 1937

Rec'd 3:50 p. m.

Secretary of State

Washington.

1220, August 30, 6 p. m.

FROM COCHRAN.

In conversation yesterday Vincent Auriol told me that he had recently said to his successor Minister of Finance Bonnet that the latter was "eating white bread" in August but that in September or October he might be having the same hard fare that he, Auriol, had last September. In other words Auriol does not expect the present respite for the Treasury to last. He was as always most apprehensive as to the general outlook for international currency stability if rearmament continues at the present pace.

Paris Exchange Market witnessed fairly wide fluctuations today. French control gained a little sterling at 132.82 while British control was losing dollars against sterling around 4.963. Pressure on sterling was increased by rumor that Japan would take no cognizance of British note. Report that American ship had been torpedoed by

Japanese came

RB

-2-#1220, August 30, 6 p.m. from Paris

Japanese came too late to affect the market. Forward franc slightly improved but rents lower and internationals offered.

Bonnet has announced that the ten percent tax imposed by Laval on French rents dividends will be abolished effective Wednesday on securities held by individuals. This news had already been discounted on the rents market. Bonnet also announced that the exact figure of four and one-half percent 1934 bonds refunded was three billion one hundred sixty-one million.

Belgian Minister of Finance Deeman has according to press issued a report of investigation of recent allegations against Governor and directors of Belgian National Bank which exonerates them from any legal misdeeds but recommends measures for avoiding recurrence of situation under investigation.

Editorial on need for world cooperation with respect to currencies appearing today in LONDON FINANCIAL TIMES concludes: "If every country is going to depreciate its currency in greater or less degree then we must work together so as to reach the ultimate goal of a world-wide currency relationship in which under and over-valuation are reduced to a minimum. Belgium tried to achieve that

end

RB

-3-#1220, August 30, 6 p.m. from Paris

and in 1935 and England, the United States, the sterling area, and Holland, Switzerland and Belgium are in a fair way to achieve it today. France is still in the throes of trial and error and Germany clings to the first alternative or restriction. The real need is for consultation and cooperation instead of each country waiting to see how the other is going to jump. In other words we need a united effort made in a spirit of friendship and mutual trust and not in an atmosphere of competition and suspicion."

BULLET

NPL

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AUG 31 1946

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AUG 31 1946

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 31, 5 p.m.

NO.: 1225

FROM COCHRAN

Weakness of the belga was a feature of the Paris exchange market today resulting from press reports of a stormy session in yesterday's meeting of shareholders of the National Bank of Belgium Rexist demonstrations and the possibility of Cabinet resignations if no adjustment was made of differences between the Prime Minister and the Minister of Finance.

Forward franc appears quiet. Money is scarce but there are still hopes for a lowering of discount rate. A possible strike in the Renault automobile works in the near future is being rumored.

Another set of financial decrees was promulgated in today's Journal Officiel. The two most important decrees concern: (1) the suppression, effective on the maturity date subsequent to the first of September, 1937, of the 10% levy on coupons of Treasury securities and rentes belonging to individuals; (2) the conversion, consolidation and amortization of foreign loans. To permit the Government to meet the extensive maturities of its foreign loans

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-2-

loans and those contracted in behalf of French public organizations and in order that no further charges in the latter connection be incumbent upon the state, articles 1 and 2 of the decree provide, in translation, as follows:

Article 1. Authorization is given the Minister of Finance to borrow for the account of the Treasury on foreign markets with the view of the amortization consolidation or conversion of loans contracted abroad by the large railways or the state public bodies.

Article 2. Authorization is given the Minister of Finance to enter agreements with the large railways or the French National Railway Company and with public bodies for the purpose of settling the terms under which they are to reimburse the Treasury for the charges which it assumes on account of the issues which it undertakes in their behalf in application of Article 1 of this decree".

Other financial decrees relate to fiscal modifications mainly in regard to communal finance, current accounts, etc.

In a meeting this forenoon the Council of Ministers discussed the terms of a decree which will appear tomorrow establishing "the French National Railway Company", already mentioned above. Railway heads and the Minister of Public Works signed the pertinent agreement.

BULLITT