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LMS

GRAY

London

Dated November 1, 1937

Rec'd 3:30 p. m.

Secretary of State,  
Washington.

682, November 1, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Due to French holiday foreign exchange market was small today. However, Swiss banks continue to sell dollars against sterling for the purpose of purchasing gold and recent dollar movements are occasioned by this policy. Several London banks have what constitutes standing orders to purchase gold on Swiss account. Despite press stories appearing in the FINANCIAL NEWS and other journals there is little evidence to indicate any widespread rehoarding movement. The concluding portion of the article on this subject appearing in today's FINANCIAL NEWS may be of interest as indicative of the limits of public knowledge on recent operations. "There would be an excellent opportunity for the Washington Administration to unload some of the gold the influx of which gave rise to so much agitation a few months ago. All they would have to do is by agreement with the British authorities to allow the

2-No. 682, November 1, 6 p. m., from London.

the premium on gold to widen in accordance with supply and demand, and to remove the ban on gold withdrawals through private arbitrage. Or alternatively they could undertake to sell gold in the London market so as to strengthen the dollar rate through the repatriation of the proceeds. It is not known whether the gold sold by official quarters is British or American but judging by the tendency of the dollar rate the United States authorities either do not sell gold or do not sell enough of it. Nor does the exchange equalization account appear to be very anxious to prevent an appreciation of sterling. Even though until now the movement has not been substantial it would be well if the exchange equalization account paid attention to it before it proceeds much further. During the gold scare the exchange equalization account failed to buy sufficient gold to prevent an unwanted appreciation of sterling. Now it is selling too much gold, encouraging a rise in sterling instead of counteracting it. If the authorities are anxious to moderate the widening of the gold premium they could do so without thereby causing a rise in sterling. They could buy dollars and earmark gold in New York to an amount in excess of the amount they sell in the London market."

BINGHAM

KLP

EDA

GRAY

LONDON

Dated November 2, 1937

Received 5:20 p.m.

Secretary of State

Washington

687, November 2, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the course of a conversation Walley expressed much the same views as Phillips, reported in No. 673, October 28, 6 p.m., emphasizing that this was a moment of "pause" in the British recovery movement and that activity remained at an extraordinarily high level. He did, however, admit that a very definite change in mentality had occurred and that insufficient time had intervened to perceive any reflection of that change in systematizing economic activity. At the same time he pointed out that the cart does not pull the horse in Great Britain in a manner comparable to the United States.

Walley also said that he was shortly making visits to Turkey and Italy. The exchange clearing arrangement with Turkey was not working satisfactorily although the trade between the two countries was roughly in balance. British creditors were now approximately eighteen months in arrears in obtaining payments. He referred to the

3,000,000

EDA - 2 - #687, November 2, 7 p.m. from London

3,000,000 pound credit given by British interests for the construction of a steel works in Turkey as a complicating factor and an even more complicating factor "the Foreign Office's ardent desire to be very friendly with the Turk".

The Anglo-Italian clearing had worked out very well and practically all of the arrears of British creditors had been cleared away. Waley implied that certain readjustments now had to be made in this agreement but they related more particularly to the future allocation of funds between financial interests and current trade. In response to an inquiry about the possibility of abandoning exchange control at this time Waley said that in the given circumstances having chiefly in mind Italy's very real need of foreign exchange "the abolition of the Anglo-Italian clearing might prove too great a temptation for Italy". He added <sup>(that?)</sup> the while it was impossible to get any precise information about Italian foreign exchange assets there were increasing indications of stringency and he attached considerable importance to the fact that in Abyssinia all possible projects were being held in abeyance at the moment and that Italy in fact had not even penetrated much less attempted to control important sections of the country which might well prove worth-while.

In connection

EDA - 3 - #687, November 2, 7 p.m. from London

In connection with the question of Swiss sales of dollars and purchases of gold mentioned in No. 682, November 1, 6 p.m., and the fact that recent daily fixings of the price of gold at a premium of four or five pence per ounce on the New York dollar parity has occasioned comment, it is worth recording that the National Bank of Switzerland <sup>(has?)</sup> have a discretionary buying price of Swiss francs of the 151.468 per ounce. It is understood here they are not required to take any gold offered to them at this price but that figure is a sort of yardstick by which a Swiss purchaser of gold could measure the maximum price which he can safely pay. At today's rate of francs 21.48 and after taking charges into account the National Bank of Switzerland's gold price is equivalent to about 141 shillings per ounce. Therefore a Swiss purchaser of gold who felt reasonably sure that the National Bank of Switzerland would not lower its price of gold could also feel reasonably assured that on any price in Swiss francs lower than the official Swiss price he would be unlikely to lose on the transaction and he would therefore be quite willing to pay the London price at the ruling Swiss rate of exchange even though the London price was well above the dollar parity. Why he should be such an urgent buyer of gold or why per contra the British fund  
does

EDA - 4 - #687, November 2, 7 p.m. from London

does not let out more gold is another matter but the above may (\*) some light on the ruling premium on gold.

BINGHAM

(\*) Apparent omission

SMS:NPL

RECEIVED  
NOV 5 1953  
TELETYPE UNIT  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D.C. 20520

EDA

TELEGRAM SENT

GRAY

November 2, 1937

6 p.m.

AMEMBASSY

TOKYO (JAPAN)

285.

Your 454, October 6.

Actual Japanese export of gold to United States since October 1 has been much larger than amount mentioned by Vice Governor of the Bank of Japan. Treasury would like to know how much more of a gold movement it might have to anticipate between now and beginning of next year. Will you endeavor to procure information on this point if and as it can be done without embarrassment.

Please keep Department fully informed as to all developments in Japanese situation which may affect the yen, the exchange situation, and other matters of interest to the Treasury.

WELLES  
ACTING  
HRW

EA:RF:LWW PE

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE November 3, 1937.TO CONFIDENTIAL FILESSUBJECT: Telephone Conversation withFROM D. J. CameronBank of England

Mr. Dietrich called me yesterday at home and requested me to telephone the Bank of England to find out whether they had sold any gold. I accordingly put in a call for Mr. Bolton and was connected at 1 o'clock.

Mr. Bolton said that they had bought from us \$2,500,000 at \$34.86; that the official price was 140.6 1/2, which was up one penny from the previous day, and that the equivalent was \$34.86-7. He said the exchange market was extremely quiet and that the French were getting a little exchange which would probably continue until the opening of the French Chamber near the end of this month.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 3, 1937, 5 p.m.

NO.: 1552

FROM: Cochran

The French control operating through London gained approximately 1,000,000 pounds of foreign exchange while French markets were closed on Saturday, Monday, and Tuesday. That is it gained about 250,000 pounds on Saturday, on Monday 300,000 pounds, and on Tuesday 500,000 pounds. The control yielded about 40,000 pounds this morning, bringing rate down from 147.50 to 147.10. By 4:30 p.m. at this lower level the control had bought back all that had been lost earlier in the day.

Therefore, there may be a slightly favorable balance for the day. One Paris-American bank purchased \$200,000 for the control on Friday evening. The stock market is inclined to be dull and rentes to be weak. Remarks made publicly by labor leader Jouhaux in favor of exchange control and by Cabinet Minister Faure in favor of nationalization of industry tend to dim outlook which Radical Socialist Convention at Lille had somewhat frightened.

During the Paris holidays my market contact visited London and talked to a number of people, including Bolton. Bolton gained impression in London that demands were being made upon British control to yield more gold to supply

hoarding

hoarding demands than it liked, and probable future large demands from India were a source of worry to the control. ~~It was the opinion of my market contact~~ It was the opinion of my market contact that purchase today of belgas by the British fund might indicate an attempt to raise this currency to a level so it would draw gold from the United States and in this way let America share further in meeting demands for gold on the part of Europe. I repeat this to you with due reservation.

Statement of Swiss National Bank as of October 30 showed gold gain 101,500,000 Swiss francs. Statement of Netherlands Bank as of November 1st showed gold gain 24,000,000 florins.

END MESSAGE

BULLITT

EA:EMF

JS

Gray

LONDON

Dated November 3, 1937

Rec'd 5:50 p.m.

Secretary of State,  
Washington, D.C.

691, November 3, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the course of a luncheon conversation Clay, Economic Adviser of the Bank of England, expressed serious doubts whether Britain's recovery movement was only momentarily at a "pause" which would in due course be terminated in a further upward movement (The Treasury's view expressed by Philips and Waley in No. 673, October 28, 6 p.m. and No. 687, November 2, 7 p.m.). Clay emphasized the change in mentality and the fact that contracts were in some cases being canceled, in others not being placed if delivery could not be obtained in a reasonable time. While certainly activity remained at a very high level, it was impossible to predict on the basis of available information the trend. Any definite prediction now hazarded would in the last analysis depend on a personal interpretation of the trade cycle theory. But there was no doubt that private enterprise was hesitating and the British Government would not be prepared to take its place. In this connection Clay referred to the rearmament program which unless it had to be revised upwards

was

-2-  
From London, #691.

was now passing its peak. Thus far it had been mainly directed towards constructing production facilities; while constrictional programs would of course continue for many months such as the moving of Government arsenals from the south of England to less exposed places in the north, in the main there would now begin the second stage of producing from the recently expanded works large quantities of "consumer goods" such as munitions, guns, airplanes, et cetera.

Clay likewise commented on the improved tactics recently adopted by the French fund and confirmed the fact that it had gained about 25,000,000 pounds since the latest depreciation. He also felt that Benet's budget reforms and the recent elections had improved the position but not fundamentally; that the real difficulty remained politically and that no sign of a return of confidence was apparent. Clay thought that the franc at its present level was neither undervalued nor overvalued but that it was likely that it would be further depreciated at least temporarily before the French situation turned.

Clay also referred to the tripartite agreement and characterized the relations between Bolton and his opposite numbers in the United States, France, Switzerland, Holland, and Belgium as excellent. Incidentally, he mentioned that the amount of foreign exchange business being done in London was increasing

increasing

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From London, #691.

increasing and gave the following reasons therefor: (One) it was the traditional center; (two) similar trading hours and proximity to the continent; (three) the fact that a large market always tends to grow larger; and (four) the technical factor that it is more favorable for continentals to sell their gold in London and with the sterling thus acquired to buy dollars due to American fixed gold price.

Clay termed the American position as one of "liquidity deflation" and compared it in some respects to the French situation. But in his opinion American heavy industry had never really acquired sufficient momentum to withstand local storms and he viewed the present in terms of 1924 or 1927.

Rumors continue to circulate in the city regarding possible dollar devaluation and they reach here particularly from Sweden and Switzerland where they are either entertained or being kept alive.

Am informed that agreement has virtually been reached between Swiss banks and the National Bank by which a charge of one/<sup>PER</sup>cent per annum will be imposed on foreign balances in Switzerland.

BINGHAM

SMS EMB

## GROUP MEETING

November 3, 1937  
9:30 a.m.

Present: Mr. Taylor  
Mr. Magill  
Mr. Gaston  
Mr. Oliphant  
Mr. Haas  
Mr. Gibbons  
Mr. Upham  
Mr. Lochhead  
Mr. McKeynolds

H.M.Jr: Good morning.

Magill: Good morning.

Oliphant: Good morning.

H.M.Jr: Is that where you (Oliphant) keep your notes (on shoe)?

Taylor: He ran out of cuffs.

H.M.Jr: Well, that's something, anyway.

Oliphant: Little hole in the bottom of it.

H.M.Jr: You're trying to balance the shoe.

Oliphant: How are you?

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

Something wrong with our daily balance; it's going up. It is, you know. I suppose it's Social Security money.

Incidentally, should I call up Mrs. - whatever her name is - the publisher of the Washington Herald? That was a darn good editorial that man wrote.

Gaston: I didn't read it this morning.

Taylor: Mr. James Wiggam wrote that.

H.M.Jr: Any harm calling him up? Would you call up Mrs. ....

Gaston: I think it would be a good idea.

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H.M.Jr: What's her name?

Taylor: Patterson.

H.M.Jr: Would you at the same time tell her that I think Mr. Cecil Dickson is a ... I'm going to get a Washington Herald. He takes Lippmann and Sullivan - "Walter and Mark" - just takes them apart.

(To messenger) Get a copy of the Washington Herald, please.

Wait till you see it.

Gaston: Yes.

Gibbons: He's a hundred percent with the Administration, you know.

H.M.Jr: I had him in here for lunch with me.

Gaston: I thought of writing a letter to the Herald Tribune about Walter and Mark.

H.M.Jr: Excuse me (throwing newspaper to Taylor). How's that for a forward pass?

How are you (Magill)?

Magill: Very good, very good.

H.M.Jr: You ready?

Magill: Got a document for you.

H.M.Jr: Well, I've got a gentleman who stayed over, wants to see me at ten. Take five minutes. I thought right after that.

Magill: Will you give me a ring?

H.M.Jr: Yes. Be five or ten minutes. I've got from then till noon. Is it a good document, what you have written?

Magill: I think so.

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H.M.Jr: Huh?

Magill: Probably be better to say no; too long, I think.

H.M.Jr: The only thing on that Wiggam thing there is, he compares Social Security to our having advanced payment on the bonus. I don't think he's quite correct on that. But he did a very nice job, and so much - so surprising, I mean, to get anything like that.

Gaston: Well, the bonus is useful to answer the point as to whether the Government will - makes good its obligations.

H.M.Jr: Yes, but he doesn't - you haven't read it?

Gaston: No, I haven't read it.

H.M.Jr: Well, I'll wait until you read it. And here's your friend Cecil Dickson, and you might decide whether I should do anything more about it.

Well, you're (Magill) all right then?

Magill: (Nods yes)

H.M.Jr: Herman?

Oliphant: We're just about to argue the two cases which will involve our power to call about five billion of outstanding bonds. If we lose the case, we can't call them, and if we win the case, we can; and that's the test case, the Mason case. Justice accepted our point of view on making the brief largely an economic brief on the practical consequences of the decision one way or the other, and George Haas's shop did an unusually fine job in getting some material together. They are responsible for that.

Haas: Henry Murphy in particular.

H.M.Jr: What?

Haas: Henry Murphy in particular.

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Oliphant: I was discussing that general tie-bid situation with them.

H.M.Jr: What?

Oliphant: The tie-bid situation.

H.M.Jr: Well, just as soon as I get a breathing spell I'm going to ask Stanley Reed and Bob Jackson and you and I to sit down. There is something - I read your thing, and before I sign that I'd want to show what I'm going to write to Justice, because there is something there which I don't understand. And all the things that I've been doing this last week, as you know - Commodity Credit and R.F.C., budget, taxes - I can't do everything.

Oliphant: Well, I'm saying that....

H.M.Jr: But I say it's one of those things that ....

Oliphant: ....is that it turned out that what Stanley and I were talking about - we were talking about separate things, and were in agreement on the basic thing.

H.M.Jr: Well, I want that. It's just a question of .....

Oliphant: No hurry about it.

H.M.Jr: And on that stuff that you gave me, on those two forms of companies - I just - my eyesight went bad on me after I had read it, and I'm going to put that in the cooler for a while.

Oliphant: I might point out that S.E.C. is probably in the process of ....

H.M.Jr: Or doing something.

Oliphant: Whenever you want to talk about it.

H.M.Jr: Wayne?

Oliphant: Rogge's working on it.

Taylor: I gave you over the telephone yesterday that business about that letter for Social Security, and Mac's been

-5-

working on that.

(McReynolds hands Secretary letter)

H.M.Jr: How many pages?

McR: Well, Wayne said they wanted something to put in the Congressional Record, and I told him Harold could write the letter that way.

Taylor: They might have to put it in.

McR: And it is a perfectly good objective, tangible letter, from that standpoint.

H.M.Jr: I'd better read it.

McR: I think you ought to read it.

H.M.Jr: Just let me read it. (Begins to read letter)

McR: Helvering's approved it.

H.M.Jr: Now, just a second.

Listen, this letter should be in this form - I'll be darned if I take the blame - Mr. Helvering should write me a memorandum, then I'll forward it to Mr. Altmeyer. I'm not going to sign that. Why should I sign it because Helvering's fallen down on this job? The hell with it. I'm sick and tired - I mean anything that's good, I give credit to everybody else. Let Helvering write me a memorandum and sign it; if those are the facts, I'll forward it to Mr. Altmeyer. I mean nobody brought it to my attention, and I put Harold Graves in there personally. It would still be the way it was if I hadn't put Harold Graves in there.

Taylor: I haven't seen that letter, but I can ....

H.M.Jr: Mr. Helvering sat there and didn't do his job, and let the Social Security back up. And it would have been in a worse mess if I personally out of my office hadn't sent somebody over there to correct the thing. Now, why should I take the blame? I won't do it.

-6-

Taylor: That isn't the idea, to have you take the blame.

H.M.Jr: No, I'm not going to do it. I'm sick and tired of doing the work of all these bureau heads around the Treasury. And if Mr. Helvering will put his name to it and send it as a memorandum to me, I will forward it to Mr. Altmeyer. Mr. Helvering fell down and he'd still be down on his neck if it wasn't for Harold Graves. I never was notified what the situation was until I put Graves in there. And you can let Mr. Helvering put his name to it if that's the situation and if he'll bring it to me this afternoon I'll forward it to Altmeyer.

Now, the only difference that I have is that I'm not going to take the rap. You want that letter over there as a matter of record, don't you?

Taylor: That's the ...

H.M.Jr: All right, it's a good idea, but let Mr. Helvering write it. See any objection to that? Will you fix it up, Mac?

McR: Yes.

H.M.Jr: The statement is true, isn't it, that if Graves hadn't gone over there at my request, it would still have been in the mess it was.

McR: It probably would.

H.M.Jr: And probably worse. If you bring that to me this afternoon, I'll sign it as a memorandum from Helvering to me. But I'd like Mr. Magill to see it too. I'd like Magill to see it before I sign it. What else?

Taylor: Here's a letter from Sir Frederick Phillips.

H.M.Jr: Thank you.

You (Magill) read that and see whose job that is (handing a letter to Magill).

Do you (Taylor) mind if Archie sees this?

Taylor: No, I showed it to him.

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H.M.Jr: Give it to Mrs. Klotz to have it copied, if you don't object; for my diary. Have it photostated for my diary.

And he's coming in at 2:30. Did Archie tell you what I proposed to do?

Taylor: Yes, and I want to talk about that a little before they come in.

H.M.Jr: How much is a little?

Taylor: About a minute and a half.

H.M.Jr: Do you want to stay right after this?

Taylor: Yes.

H.M.Jr: Herbert?

Gaston: Well ....

H.M.Jr: Should I call up Mrs. Patterson on that or not?

Gaston: Well, after reading it over, I don't think it's so hot.

H.M.Jr: O.K. All right, what else?

Gaston: The Press Club holds its annual dinner on Saturday, the 13th, and the President will be there, and while you have not had any special invitation, it is exclusively for members and they are hoping that you as a member of the Press Club will attend, and they are making provision to seat you at the speakers' table with the President.

H.M.Jr: Well, the answer - what I was going to say - I talked to the President. I said I'd like to go away for a week after I get through with my speech; I felt by that time I'd need a week. And he said "No," very definitely, that he wanted me here the week that Congress opens. So when I recommended that we not have a special session, he said, "None of us would have anything to do." But he very definitely wants me here. So I think that after I make my talk

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up at New York I'll go up to the farm and take a three-day weekend over there, which will cover that Saturday; so I will not be ....

Gaston: So you will not be here.

H.M.Jr: So I will not be here. But I will get that in and that still complies with the President's request that I be here when Congress meets.

Gaston: We're losing two of our good reporters here in the Treasury. Bill Ardery is being transferred by the A.P. to the Senate, and they're going to bring a financial man in from New York down here to take the Treasury run, which I think is a good idea. And the other one is that Bob Kintner on November 15th is going to start with Joe Alsop this North American Newspaper Alliance column, taking the place of Baukhage. Be a joint signature - Joe Alsop and Bob Kintner. And they will also write as a team for the Saturday Evening Post.

H.M.Jr: What's happened to ....

Gaston: Baukhage?

Ugham: Catledge.

Gaston: Turner Catledge. Well, his work on the Times interferes with his doing outside work.

H.M.Jr: Does that mean that Kintner no longer works for the Trib?

Gaston: No longer with the Herald Tribune. Working for the North American Newspaper Alliance.

Taylor: That true of Alsop too?

Gaston: Alsop too. They're both leaving the Tribune.

H.M.Jr: Well, the Times practically is the North American Newspaper Alliance.

Gaston: That's true. The New York Times is almost the governing voice in the North American Newspaper

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Alliance. So they are practically leaving the Tribune to work for the Times.

Taylor: Tapp called up from Agriculture Saturday and said that there was quite a lot of hurry on this bill, agricultural bill.

H.M.Jr: Yes.

Taylor: Wondered whether we were ready with our changes covering the set-up of the Corporation, and if we wanted to take it up through them or whether we wished to take it up direct with Marvin Jones. I didn't tell him that you were having lunch with Marvin Jones.

H.M.Jr: Why I'm having lunch with Marvin Jones is, I'm going to ask him where he's going to get the money. I'm having lunch with him and Bell. "All right, Mr. Jones. You fellows are going to do all this. How you going to pay for it?"

Taylor: Do you want to talk to Marvin Jones today....

H.M.Jr: On that particular item?

Taylor: ...on that particular item?

H.M.Jr: Too unimportant.

Taylor: As to whether he wants to hear it from us direct.

H.M.Jr: Just too unimportant. Just as leave do it through Agriculture and then have our own people watch it besides. You (Oliphant) prepare a bill through your drafting section.

Oliphant: Right - or let Agriculture prepare it - which is it?

H.M.Jr: Well, I think you better send one over, tell them, "This is the way we'd like it." And then give them a copy and give Mr. Jones a copy - I mean both Jesse Jones - I'd show it to Wallace and Jesse Jones and Marvin Jones.

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Oliphant: Let's have it nominally prepared under the direction of Mr. Bell, see?

H.M.Jr: All right, yes.

Oliphant: Right. That takes care of any ....

H.M.Jr: But I'm not going to - I mean that's a detail. I mean I'm going to talk over-all cash. That's what I'm going to talk about.

Taylor: You see, involved in that is whether it should be in the Department of Agriculture.

H.M.Jr: Well, if you don't mind, as to - I'm not going to get dragged down into what I consider a very unimportant thing. I'm simply going to say, "After reading all this in the papers, would you mind, Marvin, just letting me in on a little secret: now, and who's going to pay for it?" But - I mean I'm glad to get it - I'm not going to get into that. I've told Wallace and so forth - my God, the President, what did he say in the independent agencies thing - doesn't it say "independent" and all that?

Taylor: Yes, but even then there has to be some work done on it.

H.M.Jr: Well, I'm going to forget about it. But I think it should be brought to Bell's attention, because Bell is also preparing a shifting from Agriculture on the loaning that they have done under the old - taking care of the relief people; that's going back to Hopkins - loans on farms and all that business; I can't give you all the details, but it's an entire reshuffling of that whole business. In other words, getting any handling of actual money away from Agriculture.

McR: Resettlement loans?

H.M.Jr: Yes.

Oliphant: Well, I've had a note from Bell asking me to draft that statute.

H.M.Jr: Well then, give it to Bell.

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Oliphant: I think that's the way so far as Agriculture is concerned. If they ask us, we'll say, "Bell is doing it."

H.M.Jr: That's right, and we'll watch it.  
O.K., Wayne?

Taylor: Well, I was wondering who was going to make the loans.

H.M.Jr: Well, you'll have to ask Bell. I mean things have happened so fast the last few days. I keep track of the important things, but I - I mean here they're working at such high speed, I just can't keep track of everything.

McR: Danny won't consent to Agriculture making them.

Taylor: That's all right, but I just wondered who.

H.M.Jr: Well, talk to Dan, because we did the Agriculture Department - went so fast, I .... All right?  
When I see Magill, I'd like for you (Gaston) to stay.

Gaston: Yes, sir, at when?

H.M.Jr: Pardon me?

Gaston: At when?

H.M.Jr: Well, be five minutes after this. I'll phone you.

Gaston: Yes, sir.

H.M.Jr: George, in going over with Bell - he did the Treasury Department, and maybe McReynolds knows all about this; McReynolds ought to handle this for you. He took the Statistical Division in Internal Revenue and bunched it with yours, and made the statement: "Let Haas justify both of them." Now, do you consider you are responsible for both of them?

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Haas: Yes, according to ...

H.M.Jr: All right. He gave you a substantial cut, see?

Taylor: That's a swell place to save money.

Haas: Well, if the responsibility can cut, it cuts off the Section over here. All right, I'd better look it over. But I am responsible under an order which you issued some time ago.

H.M.Jr: And he also cut Internal Revenue, and he also cut Baby Bonds a million dollars. And Bell made the statement: "That's a very expensive organization."

Taylor: Sure it is.

H.M.Jr: Well, I'm just telling you people. And if on that - if you'd all work through Mac, clear it, let Mr. McReynolds be the funnel to take it up with the Budget, rather than having us all jump on Bell, see? But those were the outstanding things: that he cut Baby Bonds a million, he cut Haas, he cut Internal Revenue. He cut Coast Guard - not badly, but something.

Gibbons: Hun?

H.M.Jr: He cut Coast Guard - I forget what it was. But you (McReynolds) better find out.

McR: Yes, we'll get those figures.

H.M.Jr: What?

McR: We'll get them back, have a chance to talk about them.

H.M.Jr: I thought on Baby Bonds and on Haas I don't know the set-up, and I wouldn't argue on Treasury with him anyway.

Gibbons: In the Merry-Go-Round this morning they've got the story on Waesche's set-up to transfer personnel for the ships, you know.

H.M.Jr: Yes.

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Gibbons: But they give the credit to old Admiral Wiley. They said that Kennedy's organization kicked hell out of the idea until this Maritime ....

H.M.Jr: Commission.

Gibbons: No - ....the Maritime Union went after Kennedy. Now Kennedy has revived it. But they've got it pretty accurately.

H.M.Jr: They've got a lot of accurate stuff.

Gibbons: Except that fortunately they don't mention Waesche.

H.M.Jr: They've got a lot of stuff here that is very accurate. They don't have to go just anywhere for it.

Gibbons: You mean in that Merry-Go-Round.

H.M.Jr: Lot of stuff in there.

Gibbons: I often wonder where they get it.

H.M.Jr: Well, I know where they get it from.

Gibbons: I don't mean in the Treasury; I mean every department.

H.M.Jr: They don't get it out of the Treasury.

Gibbons: Not only Treasury matters, but every department. Those fellows - they hit the nail practically on the head practically all the time.

H.M.Jr: All right.

Gibbons: That's rather amusing.

Lochhead: Nothing.

Upham: Nothing.

H.M.Jr: Mac?

McR: Nothing.

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H.M.Jr: Now Mr. Taylor wants to see me for a minute and a half.

Oliphant: I'd like to discuss the legal aspects of that problem with Stanley and Bob preliminary to your meeting with them, if you want to.

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

Ribbon copies of this memo sent to President and Secretary of State 11/15/37 by the Secretary.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE November 3, 1937

TO Secretary Morfenthou

FROM Mr. Haas

Subject: Current trade with Japan and China. (Preliminary data)

Trade with Japan1. United States exports to Japan

	<u>October 1937</u>	<u>October 1936</u>	<u>September 1937</u>
1st week	\$ 1,727,000		
2nd week	5,746,000		
3rd week	4,492,000	For whole	For whole
4th week	6,763,000	month	month
Four weeks	\$18,728,000	\$26,663,000	\$16,842,000

Excluding cotton, our exports this month, although incomplete, are almost twice as great as the exports during the whole month of October 1936, and considerably greater than the exports of September 1937:

Exports - 4 weeks October 1937, excluding cotton -	\$17,715,000
" whole month October 1936	9,787,000
" " " September 1937	15,354,000

2. United States imports from Japan

	<u>October 1937</u>	<u>October 1936</u>	<u>September 1937</u>
1st week	\$ 3,328,000		
2nd week	3,984,000		
3rd week	3,419,000	For whole	For whole
4th week	4,060,000	month	month
Four weeks	\$14,791,000	\$15,930,000	\$15,988,000

The composition of our imports from Japan is approximately the same as that of October 1936. It now appears that the total imports this month may be slightly less than that of a year ago, or of a month ago, but not by more than 5%.

Secretary Morgenthau - 2 -

3. United States export of cotton to Japan remains negligible.

1st Week	nil
2nd Week	\$192,000
3rd Week	297,000
4th Week	<u>452,000</u>
Four weeks	\$941,000

Last October cotton exports to Japan amounted to \$16,876,000.

4. Compared with previous months, there is a sharp decrease in exports of scrap iron and steel.

1st Week	\$ 65,000
2nd Week	354,000
3rd Week	468,000
4th Week	<u>106,050</u>
Four weeks	\$993,050

Monthly average March to August 1937, \$5,600,000.

5. Raw silk imports from Japan continue.

1st Week	\$2,040,000
2nd Week	2,087,000
3rd Week	2,095,000
4th Week	<u>1,861,000</u>
Four weeks	\$8,083,000

(Average monthly imports from Japan in 1936, \$8,000,000)

6. The following items show large decreases in our exports to Japan compared with October of last year.

	<u>Four weeks of</u> <u>October 1937</u>	<u>Month of</u> <u>October 1936</u>
Cotton, unmanufactured	\$941,000	\$16,876,000
Finished iron and steel manufactures	136,000	1,440,000
Wood, unmanufactured	192,000	420,000
Tobacco	19,000	384,000

Secretary Morgenthau - 3 -

7. The following items show large increases in exports to Japan compared with October of last year.

	<u>Four weeks of October 1937</u>	<u>Month of October 1936</u>
Iron and steel semi-manufactures	\$ 3,580,000	\$ 197,000
Pig iron	887,000	None
Hides and skins	833,000	141,000
Ferro Alloys	279,000	6,000
Petroleum products	4,216,000	2,224,000
Copper	1,441,000	956,000
Pig lead	167,000	None
Scrap brass	418,000	104,380
Industrial Machinery	1,345,000	658,000
Coal tar products	255,000	63,000

United States Trade with China

8. United States exports to China and Manchuria.

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>
3rd Week	\$ 457,000	\$ 787,000
4th Week	<u>565,000</u>	<u>1,788,000</u>
3rd and 4th Weeks of October 1937	\$1,022,000	\$2,575,000

For whole of China, Manchuria and Hong Kong

Whole month October 1936 \$5,049,000

If the exports during the third and fourth week are a good sample, our exports to China for the whole month will be considerably greater than last October.

9. United States imports from China, Manchuria and Hong Kong.

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>
3rd Week	\$ 414,000	\$ 956,000
4th Week	<u>653,000</u>	<u>724,000</u>
3rd and 4th Weeks of October 1937	\$1,067,000	\$1,680,000

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For whole of China, Manchuria and Hong Kong

Whole month October 1936 \$5,446,000

Our imports from China will probably be somewhat greater than last year, if the 3rd and 4th week is a good sample.

10. Leading export items to China

## (a) North China and Manchuria - 3rd and 4th weeks only

Iron and steel semi-manufactures	\$ 218,000
Tobacco	205,000
Petroleum products	205,000
Vehicles, parts and accessories	136,000
Electrical machinery and apparatus	44,000
Cotton	38,000
Industrial Machinery	36,000
Other	140,000
Total	<u>\$1,022,000</u>

## (b) Shanghai, South China ports and Hong Kong

Petroleum products	\$ 608,000
Tobacco	409,000
Iron & Steel semi-manufactures	280,000
Vehicles, parts and accessories	216,000
Edible vegetable products	209,000
Iron & steel finished manufactures	112,000
Radio and apparatus	90,000
Wood, unmanufactured	80,000
Electrical machinery	72,000
Industrial machinery	76,000
Copper	70,000
Industrial chemicals	60,000
Other	293,000
Total	<u>\$2,575,000</u>

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11. Leading imports from China.

## (a) Manchuria and North China - 3rd and 4th weeks only

Bristles	\$ 340,000
Food products	171,000
Wool and manufactures	168,000
Leather	104,000
Other	284,000
Total	<u>\$1,067,000</u>

## (b) Shanghai, South China ports and Hong Kong

Wood oil	\$ 419,000
Raw silk	341,000
Tin	193,000
Flax and Hemp manufactures	181,000
Tungsten ore	103,000
Food products	98,000
Tea	58,000
Chemicals	33,000
Other	254,000
Total	<u>\$1,680,000</u>

Secretary Morgenthau - 6 -

Of the total of \$18,728,000 of exports to Japan during the first four weeks of October, the following items account for almost all the total:

Petroleum products	\$ 4,216,000
Iron & steel semi-manufactures	3,580,000
Copper	1,441,000
Industrial machinery	1,345,000
Paper base stock	1,106,000
Scrap iron and steel	994,000
Cotton	941,000
Pig iron	887,000
Hides and skins	833,000
Vehicles	634,000
Scrap brass	418,000
Ferro Alloys	279,000
Coal tar products	255,000
Fertilizer	208,000
Wood, unmanufactured	192,000
Pig lead	167,000
Industrial chemicals	133,000
Photographic and projection goods	131,000
Other	<u>968,000</u>
Total	\$18,728,000

Secretary Morgenthau - 7 -

Of the total of \$14,791,000 of imports from Japan during the first four weeks of October, the following items account for the bulk:

Raw silk	\$ 8,021,000
Cotton manufactures	1,119,000
Tea	457,000
Silk manufactures	456,000
Chinaware and porcelain	374,000
Rayon manufactures	356,000
Fish	333,000
Inedible animal products	331,000
Perilla oil	307,000
Wool manufactures	272,000
Pyrethum flowers	260,000
Paper manufactures	237,000
Earthenware	197,000
Chemicals	189,000
Lily bulbs	183,000
Wood manufactures	163,000
Metal manufactures	156,000
Food products	153,000
Glass manufactures	136,000
Flax and hemp manufactures	135,000
Other	<u>956,000</u>
Total	\$14,791,000

November 3, 1937  
11:55 a.m.

H.M.Jr: Hello.

Operator: Dr. Riefler.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

Winfield  
Riefler: Hello.

H.M.Jr: Morgenthau.

R: Yes.

H.M.Jr: Well, how do you feel today?

R: Well, I've been thinking it over quite a bit. My feelings are a little mixed. I'll try to give you both sides.

H.M.Jr: Yes.

R: Will that be satisfactory?

H.M.Jr: Please.

R: From the long-term point of view, I am awfully sympathetic to the of attitude that Jake Viner has expressed. What he wanted to do, more or less, was to remove sterilization from a day-to-day decision.

H.M.Jr: Yes.

R: And that is a - it is a valuable long-term point of view, and I'm impressed with it. That's my present one.

Second, the dropping of sterilization is not an awfully major move now because we have had a good excess reserve, I think.

H.M.Jr: Yes.

R: Even in New York. That's the middle position.

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H.M.Jr: Yes.

R: Third, sterilization does - it is a moderate factor toward control of a situation at a time when it is weak.

H.M.Jr: Yes.

R: I mean it - it sounds - it sounds as though you're trying to deflate - not really, but it sounds as though you're maintaining a deflationary policy at a time when business is falling off.

H.M.Jr: That's it.

R: And therefore is continuously subject to misinterpretation and attack.

H.M.Jr: You mean the sterilization?

R: Yes, sterilization as such is.

H.M.Jr: Yes.

R: I mean people keep on saying, "Well, what do you mean by sterilizing when business is falling off?"

H.M.Jr: Yes.

R: And it's a very difficult problem to constantly explain that it is not so important and that you're not - you're not really doing that.

H.M.Jr: Yes.

R: On balance, I think that I would be inclined to drop it, just because of the - of the pressure at that point, to free yourself .....

H.M.Jr: You'd be inclined to?

R: I - I wouldn't take much kick out of it. I think you're losing certain things if you do it.

H.M.Jr: Uh-huh.

R: But I think I'd probably be inclined to drop it.

H.M.Jr: Uh-huh. Well, I'm not going to make up my mind until I have a chance to think about it much more.

R: Yes.

H.M.Jr: But I did want to know what you thought.

R: Well, that gives you my picture pretty much, doesn't it?

H.M.Jr: Yes, it does.

R: I mean it - it's not an important move actually, and it is one of those bothering things in terms of functioning and popular psychology.

H.M.Jr: Yes.

R: And you just have to weigh the advantages of one against the other.

H.M.Jr: That's right.

R: I don't think it's going to improve the situation very much .....

H.M.Jr: No, I don't.

R: .... actually.

H.M.Jr: The only thing that would make me do it would be with the hope that the public would feel, well, that we - we're not so anti-deflationary as they think we are.

R: Yes.

H.M.Jr: See?

R: Yes.

H.M.Jr: Now, on the other hand, the Federal Reserve made their last move last week.

R: Yes.

H.M.Jr: And it had an effect for about two days, and that's all.

R: Yes.

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- H.M.Jr: And if the market continues to go down, and it's off sharply today, I think the more they study that move the Federal made, the more they'll decide it was unwise.
- R: Yes.
- H.M.Jr: And I'm fearful that this is .....
- R: Well, they may say the same about this, of course, if you drop it.
- H.M.Jr: Well, I think it'd be good for about three days.
- R: Yes.
- H.M.Jr: The more I .....
- R: It's not a good move in any sense to the market. I mean it's .....
- H.M.Jr: Well .....
- R: It's not important enough.
- H.M.Jr: Well, the only - the more I think of it, the less I like it - to do it by itself.
- R: Yes.
- H.M.Jr: But I - I'm going to keep examining it for the next couple of days.
- R: Yes. Well, I think that as far as timing is concerned, I would not do it while the market's dropping.
- H.M.Jr: No.
- R: Because it isn't - it really isn't important in any short-term sense, or very important in a long-term sense today; and you give them something to talk about but it wears out in two or three days and leaves a worse situation than you had at the beginning.

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H.M.Jr: That's right.

R: No, I - I wouldn't do it until I came to a very quiet period.

H.M.Jr: I see. Well, thanks very much.

R: I mean that's just about the way I feel about it.

H.M.Jr: Thank .....

R: I think that's the psychology.

H.M.Jr: Thank you.

R: All right.

H.M.Jr: Goodbye.

November 3, 1937  
2:07 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Jacob  
Viner: Hello.

H.M.Jr: Hello, Jake?

V: Hello, Henry.

H.M.Jr: How are you?

V: All right.

H.M.Jr: Have you had a chance to think that matter over?

V: Why, yes, I've thought a little about it.

H.M.Jr: Well, do you want ...

V: And I say that you oughtn't to do it unless Eccles requests you to.

H.M.Jr: Uh-huh.

V: But if he requests you to ...

H.M.Jr: Yes.

V: ....I don't see very much to be gained by it, not very much to be lost by it. But if he requests you to - I think it's his responsibility.

H.M.Jr: Well ....

V: I don't mean that you ought to wait until he - you may ....

H.M.Jr: Well, I'm seeing him tomorrow.

V: I see. You may tell him that if he wants you to do it, you'd be willing to do it.

H.M.Jr: Uh-huh. Well, my - after 24 hours I'm more luke- - I'm getting lukewarm on it.

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- Viner: It - it - I would be lukewarm about it. It's a circuit gesture.
- H.M.Jr: It's a what?
- Viner: It's a circuit device.
- H.M.Jr: Yes.
- Viner: It would - it would increase the excess reserves in the banks ....
- H.M.Jr: Yes.
- Viner: ... at a moment when it's not at all clear that they'd have any need for added reserves.
- H.M.Jr: Yes. Well, it isn't a matter that I could defend on - as good economics.
- V: Well, I don't think there'd be very much to worry about if you did it, but I don't think you - if you did do it, you ought to make any claims for it as being an important move.
- H.M.Jr: Well, of course, the Federal Reserve did that thing on margins, and the market went up, I think, one day, and ever since then it's gone off.
- V: Yes. Well, that was a minor move too.
- HMJr: I know. I know.
- V: And I - you see, I don't think that at the moment that - that the things that are the trouble are the monetary set-up of the Government.
- H.M.Jr: I agree with you too.
- V: I think that that's all right.
- H.M.Jr: Now - thank heavens. Well, that's what I agree, and - and I think we've made all the moves we can.
- V: And I certainly say that - that it would be important that you shouldn't give the rest of the Government the impression that you have within your power some monetary devices whereby you can solve their problems without their fixing their own houses in order - putting their own houses in order.

H.M.Jr: I check with you a thousand percent. A thousand percent. As a matter of fact, I'm sick and tired of having them always dump it on the Treasury as far as the monetary thing goes.

V: Uh-huh.

H.M.Jr: Taxation is something else. All right, Jake, thank you very much. The market's off five points today.

V: The stock market dropped five points?

H.M.Jr: Yes.

V: Did it?

H.M.Jr: Yes.

V: Well, I'm not altogether surprised.

H.M.Jr: Neither am I.

V: I'm going to have some very serious talk with you on Friday or Saturday if you give me a chance.

H.M.Jr: I'll give you all the chance you want if you'll give me concrete suggestions.

V: I'll give you concrete suggestions.

H.M.Jr: Yes, but I - I - I just don't want - I mean I'm beyond the generalization standpoint.

V: All right.

H.M.Jr: But I'll listen to you as long as you'll talk if you'll give it to me one, two three.

V: Well ....

H.M.Jr: You know what I mean.

V: Yes. Well, I'll try - I'll try you out anyway. I'll try to talk to you and ....

H.M.Jr: Listen, Jake....

V: .. - you won't, that's all.

H.M.Jr: ....have you ever asked me for time that I haven't given it to you?

V: No, I'm not - I'm not ....

H.M.Jr: O. K.

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V: . . . . in a complaining mood.

H.M.Jr: No.

V: But you said to me if I did certain things. Well, I'll make my attempt and you'll do what you please.

H.M.Jr: Well, listen, Jake, you know you always do it your own way anyway.

V: (Laughs) We'll see. I -

H.M.Jr: Fine, fine.

V: I really am very much troubled about this thing.

H.M.Jr: Well, so am I, so am I, and I'll be more than delighted to listen to you.

V: What's that?

H.M.Jr: I'll take it in the Jacob Viner way.

V: Oh, fine.

H.M.Jr: I'll be delighted to. Thank you.

V: Ah -

H.M.Jr: What?

V: You'll see me Friday morning.

H.M.Jr: Yes, sir.

V: All right.

H.M.Jr: Good night.

V: Goodbye.

The Chinese Ambassador - November 3, 1937 - 2:15 P.M.

Amb: We always come to you when we need some help.

H.M.Jr: We always try to help when we can.

Amb: Dr. Kung wired me stating that we need more ammunition and, therefore, we have to maintain our credit in order to get the things we want. We are prepared to sell some more of our silver either in Hong Kong or in London. Kung asked me to come here to see if we can get your help again.

H.M.Jr: Let's talk about the silver you have in London. This would be a transaction between the Central Bank of China and ourselves.

Amb: Yes that is the way.

Lochhead: If we take Hong Kong silver it would be coins but if we take silver from London it probably would be in bars. As the coins would have to be melted down, in any case, you might prefer to sell us silver in Hong Kong. From your point of view that would be preferable. To us it would be the same either in Hong Kong or London.

H.M.Jr: This is not clear in my mind. Is this to be added to the money you already have here for stabilization purposes?

Amb: Yes. The same as the old way.

Lochhead: They have 50 million dollars earmarked in gold at the Federal Reserve Bank. The other dollar currency is pretty well exhausted.

H.M.Jr: You only asked to see me yesterday so you only had to wait one day. I was not in Washington yesterday.

Amb: That is correct.

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H.M.Jr: We will, as of to-day, buy from you ten million ounces of silver to be paid for on delivery in either San Francisco or New York at 45¢ - which is the price to-day. Same terms as before. This holds good for this week.

Amb: I think that is the same price.

H.M.Jr: If next Monday or Tuesday you want to come back to see me my door is open.

Amb: I can't ask for anything more.

H.M.Jr: Where is Dr. Kung?

Amb: Dr. Kung is in Shanghai.

H.M.Jr: Is the story in this week's Saturday Evening Post on China a fair one? It is called "Red China".

Amb: I have not read the story but the Red Army is doing good work.

H.M.Jr: You need not answer this if you do not want to; I am simply curious to know. Am I correct in believing that most of your supplies are going to Germany and then reshipped in German boats?

Amb: Not entirely. We have various different lines to take things over. We are buying some things from Germany. We have some things carried over by French and German boats.

The Ambassador, getting up to go, said,  
"We appreciate very much what you are doing for us".

On the evening of November 3d, at home, H. M. Jr., wrote the following draft, in long-hand, of a proposed letter to the President.

2211 THIRTIETH STREET

WASHINGTON, D. C.

My dear Mr. President:

as I told you over the telephone  
last <sup>night</sup>, I have had to come to

the conclusion ~~this week~~  
that we <sup>are</sup> headed right into  
another depression.

Last Friday you told the newspapers  
that your first interest was  
the  $\frac{1}{3}$  undernourished etc. This  
part of our population is also my  
deep concern and therefore I am  
bringing this matter again to your

However, the next day he made several changes in the above letter and sent the final one to the President as per attached copy.

attention in writing.

I hardly need tell you that  
the first to feel another  
depression will be the  $\frac{1}{3}$   
unemployed etc. This cruel  
process has already begun.

Mr. President what  
can we do  
~~are you going to do~~ to stop it?

as ever faith fully yours,  
to command,

H.M.H.

10-17'38

47-A

Mr. Secretary:

Mr. Oliphant suggested that the original be retrieved as it would be in a more convenient form for you.

McGuire

HO's letter you, together with carbon copy of this memorandum left in the Treasury mail bag. (6:00 P.M. 10/17'38

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 3 1937

to The Secretary  
FROM Herman Oliphant

This is a memorandum on the question as to whether the American Telephone and Telegraph Company can refuse leased-wire service to the Nation-Wide News Service, the principal purveyor of racing information to bookmakers.

Summary

It seems clear that if the American Telephone and Telegraph Company might legally refuse to give leased-wire service to the companies who sell racing information to bookmakers, these news companies could not continue to do business. In turn, the continued existence of the large-scale bookmaking business is dependent upon the news companies because it cannot operate without receiving racing news almost instantaneously from the track.

In inquiring as to whether the American Telephone and Telegraph Company could refuse service to the Nation-Wide News Service, we were immediately confronted with the Federal law which requires the Telephone Company to give service to anyone who applies for it and is willing to pay the company's reasonable rates and comply with its reasonable regulations. This law is subject to the well-established exception, however, that no utility will be compelled to give service to be used for an illegal purpose.

Consequently, it was necessary for us to determine whether, in view of this exception to the general rule, the American Telephone and Telegraph

Company might refuse service to the Nation-Wide News Service if it were established that the latter company was regularly transmitting information through the Telephone Company's facilities to illegal bookmaking establishments and that this fact was known or ought reasonably to have been known to the American Telephone and Telegraph Company.

We have concluded that the Telephone Company may, under these circumstances, justify a refusal of private-wire service to the news company. The authorities on this question indicate that, if the news company sells exclusively to illegal enterprises, the Telephone Company may refuse service forthwith, but that, if the news company caters to legitimate newspapers and racing sheets as well as illegal business, the news company must be given an opportunity to cease selling its news to illegal enterprises before telephone or telegraph service may be refused. The Telephone Company may give the news company this opportunity to mend its ways by promulgating a general regulation to the effect that, if leased-wire service is put to illegal uses, the service will be discontinued notwithstanding any contract existing between the parties. The judicial decisions indicate that such a regulation would be valid and would justify service discontinuance if violated.

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The American Telephone and Telegraph Company in furnishing its facilities for the dissemination of sporting information is acting as a common carrier in interstate commerce and is therefore subject to section 201 of the Communications Act of 1934, 48 Stat. 1070 (U.S.C. title 47, sec. 201), which requires all common carriers and public utilities to furnish their

services to all alike without discrimination. Matter of Private Wire Contracts, 50 I. C. C. 731, 751, 759; Western Union Telegraph Co. v. Foster, 247 U. S. 105. However, this general rule against discrimination is subject to the exception that service may be refused or withdrawn if it is being used for illegal purposes. The judicial decisions which have enunciated this exception would justify the refusal by the Telephone Company to give service to the Nation-Wide News Service.

Smith v. Western Union Telegraph Co., (1887) 84 Ky. 634, 2 S.W. 483, presents a good example of the manner in which courts deal with cases of the character under consideration.<sup>1</sup> The petitioner, the owner of a bucket shop, filed a petition for mandamus against the Telegraph Company to require that

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<sup>1</sup>Other cases identical in principle to the Smith case follow:

- People ex rel Hiegel v. New York Telephone Co., (1922) 195 N.Y. Supp. 332, (refusal of telephone service to a bookmaker);
- Thurston v. Union Pac. R. R. Co., (1877) 25 Fed. Cas. 1192, (refusal of railway service to one who intended to gamble on the train);
- People ex rel Montario v. New York Telephone Co., (1917) 167 N. Y. Supp. 1114, (refusal of telephone service to a bookmaker);
- Western Union Tel. Co. v. State, (1905) 165 Ind. 492, 76 N.E. 100 (refusal of telegraph service to a bucket shop);
- Sullivan v. Postal Tel. Cable Co., (C.C.A. 7th, 1903) 123 Fed. 411 (refusal of telegraph service to a bucket shop);
- People ex rel Restmeyer v. New York Telephone Co., (1916) 159 N. Y. Supp. 369, (refusal of telephone service to a bookmaker);
- Gullen v. New York Telephone Co., (1905) 94 N. Y. Supp. 290, (refusal of telephons service to a bookmaker);
- Godwin v. Carolina Tel. & Tel. Co., (1904) 156 N. C. 258, 48 S. E. 636, (refusal of telephone service to a house of prostitution);
- Bryant v. Western Union Tel. Co., (C.C., D. Ky., 1885) 17 Fed. 825, (refusal of telegraph service to a bucket shop).

Company to furnish him with the use of telegraph facilities for the reception of market reports, and contended that the Company was under a duty to give service notwithstanding the character of the patron's business. The court held that the Telegraph Company could not be compelled to render a service which was indispensable to the continued existence of a business which was contrary to law, good morals, and public policy.

There is an apparent distinction between the Smith case and the situation under discussion, for in our case the bookmaker, conducting an illegal business, is not the patron of the Telephone Company and would not be seeking the telephone service. On the contrary, the Nation-Wide News Service, engaged in a business which is not made illegal by statute, is the patron and would be seeking the service. It is because of this distinction that the American Telephone and Telegraph Company has taken the position that it has no legal right to refuse service to the news company. It contends that the Smith case and others of its kind do not justify the Company in going behind the news company to question the legality of the business in which the purchasers of the information are engaged.

It is believed that the Telephone Company places too narrow a construction upon the cases. The principle upon which they are based is that a public utility should not be compelled to foster an illegal enterprise.<sup>1</sup>

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<sup>1</sup>Last spring Judge Eugene O'Dunne of the Baltimore Criminal Court secured the indictment of the Chesapeake and Potomac Telephone Company for aiding and abetting bookmaking. In a letter directed to the Telephone Company prior to submitting the matter to the grand jury, Judge O'Dunne stated:

"I know you are subject to certain orders and regulations of the Public Service Commission as to service, but I take it that these cannot conflict with such obligation as every person, natural or artificial, owes the State of Maryland in not knowingly facilitating the commission of crime. Even an humble pawnbroker cannot justify selling a gun to a man when he knows or by common intelligence ought to know that he wants it to kill someone with."

It is difficult to believe that a court would ignore the patent fact that, if it compels service to the news company, it would, as a practical matter, be compelling service to bookmakers. No decisions were found which would throw any doubt upon the validity of this proposition, and three lower court cases, which are closely in point, may be cited to support it.

In People ex rel Sleight News Co. v. New York Telephone Co. (N. Y. Sup. Ct., Special Term, N. Y. L. J., December 17, 1918), the petitioner was a concern engaged in disseminating sporting news and it was shown upon the trial that violations of the bookmaking statute resulted from the dissemination of this information. The court refused to grant a writ of mandamus. Again in People ex rel Empire News Co., Inc., v. New York Telephone Co. (N. Y. Sup. Ct., Special Term, N. Y. L. J., March 10, 1919), the petitioner was a news company, but it appeared from the evidence that the company furnished information to legitimate newspapers as well as to bookmakers. The court granted the writ of mandamus upon the condition that the petitioner restrict its sales to legitimate enterprises.

In Bulletin Publishing Company v. Southwestern Bell Telephone Co., (Texas case, unreported), the Telephone Company had refused the application of the Publishing Company for the installation of twenty-five individual line telephones in an office 10 by 22 feet in size. When the Publishing Company sought to compel the Telephone Company to make this installation, the latter justified its refusal of service on the ground that due to the great number of telephones desired for such a small office it suspected that they were to be used for bookmaking. Despite the Publishing Company's

contention that it merely intended to gather and disseminate sporting news, the court refused to compel the granting of service.

These cases appear to be supported by the decisions in the Smith case and others of its kind and would afford a sound legal basis for the refusal by the American Telephone and Telegraph Company to give service to the Nation-Wide News Service.

As above stated, the court in the Empire News Company case granted the writ of mandamus because the news company was able to show that it catered to legitimate newspapers, but granted it only upon condition that the news company restrict its sales to such legitimate enterprises. Since it is possible that the Nation-Wide News Service does business with legitimate enterprises as well as bookmakers, it is necessary to take cognizance of this element in the Empire News decision. Since a violation of the court's order in that case would have entitled the Telephone Company to refuse leased-wire service, the effect of the decision is merely to give the news company an opportunity to mend its ways before denying it telephone service.

If it appears that the Nation-Wide News Service does sell news to some legitimate establishments, it is believed that the Telephone Company could give the News Service the opportunity, apparently required by the Empire News decision, to sever its connection with illegal enterprises by issuing a general regulation to the effect that leased-wire service would be discontinued if put to illegal uses. It is well settled that a public utility can refuse or withdraw service if the patron fails or refuses to

comply with its reasonable regulations<sup>1</sup>. The criterion that determines the validity of a public utility regulation is its reasonableness as judged upon the facts and circumstances involved in the particular case. For example, utilities may promulgate and enforce regulations designed to protect their equipment<sup>2</sup>, to eliminate waste of their particular product<sup>3</sup>, to protect the public from injury from use of their equipment<sup>4</sup>, to insure the payment of their charges<sup>5</sup>, and to foster the efficiency of their service<sup>6</sup>. Certainly, it would seem that, if a court may properly lay down a rule, as was done in the Empire News case, to the effect that service could be discontinued if put to illegal uses, a regulation issued by the Telephone Company to the same effect would be held valid. After the promulgation of such a regulation, the Company could immediately discontinue leased-wire service with impunity, if the Telephone Company discovers that the News Service continues to violate its regulation by using the leased wires to foster book-making establishments.

It should be stated in this connection that an examination of the American Telephone and Telegraph Company's regulations governing private-wire service failed to reveal the existence of any such general regulation as is above suggested. We understand, however, that the Telephone Company does, at the present time, insert a provision in their contracts with the Nation-Wide News Service to the effect that, if the Company is advised by

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1. Harbison v. Knoxville Water Co., (1899) 55 S. W. 993.  
 2. Gardner v. Providence Tel. Co., (1901) 49 Atl. 1004.  
 3. Shiras v. Ewing, (1892) 29 Pac. 320.  
 4. Wiegand v. Alabama Power Co., (1930) 127 So. 206.  
 5. Western Union Tel. Co. v. McGuire, (1885) 2 N. E. 201.  
 6. Huffman v. Marcy Mutual Tel. Co., (1909) 121 N. W. 1035.

a local prosecutor or other law officer that their equipment is being used for illegal purposes, they will remove the equipment and discontinue service. This is obviously not broad enough to accomplish the purpose desired, for, in the first place, the Telephone Company has, in accordance with the contract provision, abstained from acting until they are requested to do so by the local prosecutor, and, in the second place, the provision would permit discontinuance of service only for the particular bookmaking establishment and not for the entire Nation-Wide News Service net work.

*Herman Chaplain*

November 4, 1937.

My dear Mr. President:

As I told you over the telephone last night, I have had to come to the conclusion that we are headed right into another depression.

Last Friday you told the newspapermen that your first interest was the one-third of the Nation who are ill-nourished, ill-clad and ill-housed. This part of our population is also my deep concern and therefore I am bringing this matter again to your attention, in writing.

I hardly need tell you that the first to feel another depression will be this same one-third. This cruel process has already begun.

The question is, Mr. President - what are we going to do to stop it ?

As ever,

Faithfully yours to command,

The President

The White House

November 4, 1937 9:45 a.m.

I told Lochhead at 7:15 this morning to inform England that after to-day we would sell no more gold in London. We will retain the little we have left.

\* \* \* \* \*

I called the President last night at 6:15 and told him that I was now convinced that we were headed into another depression and that I thought he had to do something about it. I said I would like to call in a number of people over Saturday and Sunday and discuss whether we should do something about gold. From then on the President got very excited, very dictatorial and very disagreeable.

He quoted at great length a man whom he described as a "wise old bird" who had told him that there were 2,000 men in this country who had made up their minds that they would hold a pistol to the President's head and make certain demands of him, otherwise they would continue to depress business. He quoted a lot of other generalities.

I said, "A great depends on who this person is" and, like a crack from a whip, he said, "It is not necessary for you to know who that person is which, after thinking it over, led me to believe that the "wise old bird" was himself whom he was quoting. In any event, he was extremely rude to me at that point. Naturally I was not very warm in my conversation. Mrs. Morgenthau who had heard the conversation said that my voice sounded like the drippings of an icicle.

He then said, "Has production gone below consumption" so I replied, "I do not know" and he said, "That is the all important thing". (I do not believe anybody can answer that question honestly and that is the pattern that Paul Mazur presented to me at the instigation of Jimmy Roosevelt).

The President then asked me, "Are you selling much gold?", and I replied yes that we were down to our last ten million. He said, "If gold moves out of this country won't that be bullish". I said, "I do not think it would be anything because some people will say that it is moving out of the country because people are frightened." The President then said, "That is perfectly ridiculous. If gold goes out of the country people will be delighted to think that someone else than the United States is willing to pay \$35.00 an ounce for gold."

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The President then continued to pound me on how people wanted to bargain with him before they would agree to do anything so I said, "Mr. President, I do not see that kind of people. The only person I talk to is you" and, I said, "I cannot do anything for you and there is not much of anything you can do for me - and this question that I am raising is one that has to be settled just between you and me".

The President said, "Have you talked to Eccles?" and I said, "No". He said, "Eccles has a program and I asked him why he did not show it to you and he replied that he did not think Morgenthau would be in sympathy with his program." I told the President that Eccles was having lunch with me on Thursday (I did not tell the President that since Eccles returned from the West he has been steering clear of me). Perhaps I made a mistake on Monday when I knew that Eccles was going to see the President after me that I asked the President to excuse me as I would rather have Eccles see him alone. This may have given the President the idea that Eccles and I did not get along too well - which, of course, we do not.

Finally the President said, "I just will not raise the price of gold at this time" and I answered, "For God's sake, Mr. President, I never asked you to raise the price of gold". He said, "What are you talking about?" and I replied, "I am talking about should we stop sterilizing gold?" and then he let out the most raucous laugh and he said, "I have completely misunderstood you". I thought you were urging me to raise the price of gold". I said, "I never even hinted at such a thing". I said, "I am also considering should we spend some of our sterilized gold and, thirdly, should the Federal Reserve lower its excess reserve requirements. In other words, I said, should we retrace the steps that we have taken?"

He kept constantly interrupting me and he said, "Why that is entirely different. By all means go ahead and study those questions".

I then asked him whether I could come and see him the first thing Saturday morning to go over the final draft of my speech. He said, "Yes, I want to talk to you about that very much because I think in several places you make too categorical statements and I do not want to be saying things now that we will have to withdraw two months later."

- 3 -

The only way I could explain to myself as to why he misunderstood me about the gold was that he must have had it in the back of his mind that he may wish to raise the price of gold, and that is why he was so vehement in his arguing with me against it.

November 4, 1937

At the end of over two hours at Cabinet, the President said: Now, I want to say something. He said, Of course I am glad to hear from the various members of the Cabinet their sad story on how bad business conditions are. He said: Last night when I went to bed alongside of my bed was the darndest letter you ever saw from Henry. Then he made a grimace of a long, long face, and he said: It was just terrible. Then he proceeded to lose his temper and said: I am sick and tired of being told by the Cabinet, by Henry and by everybody else for the last two weeks what's the matter with the country and nobody suggests what I should do.

There was complete silence. I said: All right, Mr. President, do you want me to start? He said, Yes.

I said: All right, I will tell you what's wrong with it. I said, You can do something about public utilities. You can do something about the railroads. You can do something about housing. Then, I said, After all, we are not sitting here as members of your Cabinet unless you have got confidence in us and it seems to me that you should tell the various members of your Cabinet to take a particular problem, develop it as far as they can, and then if they should get stuck, come and bring it to you, but work it up for you. I said: As far as I am concerned, you can give me any problem that you want. I said: I am working 18 hours a day now, but I will take anything you give me.

I said: I mentioned in my letter what you should do about it. I said: I am in the same boat that you are, and, I said, you just name the problem and I will take it up.

He said: Well, as far as public utilities and housing are concerned, he said, I have practically got that ready. Railroads is a very complicated proposition. He then went into a long discussion on railroads.

I said: Now, I would like to say one more thing. I said: You have to say something yourself about business on November 15th. And then he sneered at me and he said: "You want me to turn the old record on." I said very forcefully, If you don't want to hear from

-2-

me, I don't have to tell you, but you asked me.

Jim Farley said, "Henry, go on and tell the President."

And I said: What business wants to know is are we headed towards State socialism or are we going to continue on a capitalistic basis? He said: I have told them that again and again, and I said: All right, Mr. President, tell them for the fifteenth time on November 15th, because, I said, that's what they want to know.

Farley said: That's what they do want to know. Wallace backed me up. He said you have to do something about labor. Can't Miss Perkins do something about it?

Then Farley said: What about telling them that you are going to reduce the cost of Government? He (Farley) said: That's what people are interested in.

And then the President went into a discussion about increased relief and turned to me and said: Now, Henry, you have got to be ready in case we are going to have to spend more money for relief. I said: Mr. President, I have gone into that whole thing in my speech and you can see it tomorrow morning.

This is the first time in my experience that the Cabinet has ever talked on a man to man basis with the President and that we did not sit back and either talk trivillaties or listen to him. When we got through Farley said: Mr. President, I would like to say that this is the best Cabinet meeting we have ever had.

COMMENT: I suppose the President thought he could down me in front of the whole Cabinet, but instead of that his Cabinet handed it to him.

He agreed that on the 15th he would again re-state his position on his attitude on business and Farley, for the first time that I have ever heard him, spoke up and said: I would like to see what you are going to say, Mr. President before you say it. The President said: All right, Jim; I will turn on the old record.

November 4, 1937.  
10:48 a.m.

H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello.

Eccles: Hello.

H.M.Jr: Hello Marriner.

E: Good morning, Henry.

H.M.Jr: I tried to get you, but they said that you came in late last night, I don't know whether -

E: Yes. Yes, I wasn't - as a matter of fact, I didn't get in here until this morning on an eight o'clock train, and I didn't find out until this morning that you had tried to get me.

H.M.Jr: I just wanted to talk a bit. You're coming over at noon, aren't you?

E: That's right.

H.M.Jr: Now, I want to say, that anything that you've got - that you think that will be helpful on the present situation we're in, if you've got anything in writing, I'd be more than pleased if you'd bring it along.

E: Well, I'll tell you what I do have. I have a memorandum I left with the President and as far as I'm concerned, if he has no objection, I certainly have no objection to giving it to you.

H.M.Jr: Well as a matter of fact, he spoke to me last night.

E: Yes.

H.M.Jr: And he said, had I seen what you had shown him, and I said no. He said he would like me to see it.

E: Yes.

H.M.Jr: And that he had asked you why you didn't show it to me, and he said, that you didn't think I'd be sympathetic to it.

- 2 -

- E: No, that's not correct. He didn't ask me any such a thing.
- H.M.Jr: Well, I -
- E: As a matter of fact, the - the memorandum that I left with him was not completed until Sunday and I caught the train Sunday afternoon and I got up to New York late Sunday night. I went up to Hyde Park, so that it would have been a physical impossibility for me to show it to anybody.
- H.M.Jr: Well, I -
- E: And if -
- H.M.Jr: Well, I wanted to tell you that because I always figure, by now, if I have anything like that, that bothers me, I think the quicker I repeat it, the better.
- E: That's right. Well, I'll be very glad to - anything that I leave with the White House, if - certainly if -
- H.M.Jr: Well, he and I had it - kind of talk last night, and then he said, had I seen this, and I said no. Then I said I had invited you to have lunch with me. He said "Fine, tell Marriner to show you that."
- E: Yes. Well, I'll be very glad to do it. There's not a thing in it that - I wouldn't show him anything that I wouldn't be glad to show you.
- H.M.Jr: As a matter of fact I wanted to tell you he sort of suggested that I stay, and I felt this way that I didn't want you to think that I was trying to horn in on that meeting, so I asked to be excused.
- E: Yes.
- H.M.Jr: See.
- E: Yes.
- H.M.Jr: I figured you had come a long distance and that you were entitled to see him and I didn't want you to have a feeling that I was trying to horn in on the meeting.
- E: Well as a matter of fact what - what happened. When I

- 3 -

got back, and I went over to see him about the opening of the building and what - and he asked me to give him some suggestions as to what he might say, and so when I went over, I just had a few minutes that morning, that was the Wednesday morning that he came down, you know, and the services here were at two o'clock. He got in that morning, so I just had about ten or fifteen minutes, and he didn't even want to talk about that, he just said, well what had been suggested was O.K. and then he said "What do you think of things?" and he started talking about things in general, and I said to him, I said, "Well now, you haven't the time here, I know, to really get into that, and what I would prefer to do, if agreeable, is to really discuss it at some time when we can spend a little time."

H.M.Jr: Yes.

E: You know when you've got about ten minutes to start getting into something, general discussion, I just figure it'd be a waste of time.

H.M.Jr: And when he usually takes about fifteen of it himself.

E: Yes, well he was - you know just what he was so - so I knew enough to just steer clear of it.

H.M.Jr: Fine.

E: So that - so he said "Will you come over Friday for lunch?" and Mac was there; he said, "put down Marriner for lunch on Friday," So I went over Friday. Well I didn't get an awful lot of time, he had about - I think it was about forty minutes and he took more than twenty of it, and I just discussed more or less in a general way, certain things that seemed to me to be pretty important, and he said, "Well," and we didn't get through, - no, I said, "Well, I don't know whether I have given you a very clear picture," I said "I'm sorry that we haven't more time so I can" - "Well," he said, "Maybe you can come up to Hyde Park."

H.M.Jr: I see.

E: He said: "When we won't be disturbed." He said "Down here", he said, "You know how it is," and so I said "Well" and he said "When," he said "What about next Friday?" That was a week from that day.

H.M.Jr: Yes.

- E: I said, "Well I'll be glad to come up, of course, any time that it's convenient for you." We discussed particularly housing, and he suggested that I particularly give some thought to a housing program.
- H.M.Jr: Fine.
- E: So along the end of the week, I just figured I wasn't ready.
- H.M.Jr: Yes.
- E: So I got Mac on the phone and I said "If - if instead of coming up on Friday as was suggested last week, that I" - this was on Wednesday - and I said, "If that could be put off until Monday, it would suit me a lot better and I feel I'd be much better prepared." So, I got word back Monday was O.K. So in the meantime I tried to - I did nothing else practically for a week, but tried to think through the whole thing and to state it in such a way that I thought it would be effective and - and that together with the housing program is practically all I did. In fact, it was all I did.
- H.M.Jr: Well, now -
- E: But it wasn't finished until Sunday.
- H.M.Jr: There's nothing - I mean -
- E: So I'm just giving you the - how the thing developed and exactly what it consists of. Now as far as the actual program itself is concerned, I'll be glad to - to give you the same memorandum that he has.
- H.M.Jr: Well, I'd appreciate it for this reason; I've got - got - something very definite in my mind that affects both our organizations.
- E: Yes.
- H.M.Jr: And I want to go over with you - I mean I want to talk business.
- E: Well, nothing is more important than this situation.
- H.M.Jr: Yes.
- E: I mean it's here, and there isn't anything else, there's just nothing - I mean, - as far as I'm concerned, I don't

think that we could possibly spend our time to any better advantage no matter how much it takes, than considering immediately just what the present problem is.

- H.M.Jr: So, if you'd let me have it, and another thing, I want to - in strictest of confidence, show you what I propose to say next Wednesday night in New York.
- E: Yes.
- H.M.Jr: I'm very anxious to have you see it, to get your reaction.
- E: Well, I'll be glad to see it, and I'll be glad to give you my opinion, and I'll bring this memorandum over with me.
- H.M.Jr: It's an important document and I've worked one month on it. It goes into the whole spending program.
- E: Yes.
- H.M.Jr: See.
- E: Yes.
- H.M.Jr: And I want you to see it.
- E: Yes.
- H.M.Jr: And it goes into the tax program.
- E: Yes.
- H.M.Jr: It's very confidential but I'm going to show it to you when you come over.
- E: All right. All right.
- H.M.Jr: And I want your very frank comment.
- E: What I'd like to do though, of course it would be difficult to give an opinion, unless - you know - you've got to - you know those things, for instance if I give you the copy of the one to the President I wouldn't want you to pass judgment on it, without -
- H.M.Jr: Well, I'll let you take a copy with you, how's that.
- E: I wish you would, then you take this other and then let's get together again tomorrow or the next day and

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H.M.Jr: take such time as, after we've both had a chance to assimilate - pick what the other's - what the other's thinking.

H.M.Jr: Did you go into the monetary thing at all?

E: No, not in the monetary, not in a technical sense at all.

H.M.Jr: Did you go into gold at all?

E: No, don't touch it.

H.M.Jr: Well, that's what I want to talk to you about.

E: Don't touch it.

H.M.Jr: That's not in my speech, but -

E: Yes. I've thought - I've thought of the aspect of it, but I didn't put anything in here because that seems to me -

H.M.Jr: Well then we can talk about that at lunch.

E: O.K.

H.M.Jr: You haven't - you didn't take your speech and break it down into subjects? You haven't got a list of what subjects you cover in that, - I mean in your statements to the President.

E: Well, what the statement is, pretty largely, is - it's non-technical.

H.M.Jr: Yes.

E: Very non-technical. It was - it was written merely to relate what I conceive to be the thing that's brought about the present situation.

H.M.Jr: I see.

E: And what are some of the immediate steps that ought to be taken to meet it.

H.M.Jr: Uh-huh. Well, I'll take a look at it.

E: And that's what it is. It has to do pretty largely with the labor problem and the price rise that stopped our building -

H.M.Jr: I see

E: program, and our railroad equipment buying and got your economy out of balance, so that it attacks the labor thing pretty strong.

H.M.Jr: I'd like to read it very much.

E: Pretty strong, because I think that's the causes and that's one of the things that first has to be, at least partly dealt with, that together with monopoly in construction materials.

H.M.Jr: O.K. Marriner.

E: See.

H.M.Jr: See you at one.

E: All right.

H.M.Jr: Are you bringing Goldenweiser with you?

E: Well I thought just you and I - unless you want somebody else.

H.M.Jr: Oh would you rather keep it that way?

E: I think so. I think as long as it's got to do with the White House just you and I had better -

H.M.Jr: Just you and I.

E: I think so.

H.M.Jr: All right.

E: Because when you bring others in, there's just that many more, and -

H.M.Jr: Just you and I. Will you tell Goldenweiser, then?

E: Tell him/<sup>it's</sup> just you and I.

H.M.Jr: Yes.

E: O.K. Goodbye.

MBo

GRAY

London

Dated November 4, 1937

Rec'd 3:25 p.m.

Secretary of State,  
Washington.

695, November 4, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

Rumors regarding possible dollar devaluation continue and hoarding on behalf of Continentals is on the increase. French nationals are not only getting back into gold but to some extent selling dollars and sterling for francs. For instance, Midland Bank states in confidence that during past two weeks it has repatriated from France one million four hundred thousand pounds in Bank of England notes. The premium on gold is causing considerable comment in the City particularly as during fixing this morning no gold was forthcoming at 6 pence premium; gold essences fixed 9 pence premium, all of which is said to have been supplied by the Bank of England.

The Indian position casts further light on the "scarcity of gold scare". No gold is coming out of India and India may well be oversold for January and February delivery. Present indications are that local gold from upcountry may not prove sufficient and therefore there is a possibility that importations may result.

KLP:CSB

BINGHAM

Nov. 4, 1937  
62

Conversation Mr. Knoke had with Mr. Bolton of the Bank of England.

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I called Mr. Bolton at 10:58 this morning. They had had rather a hectic time, he said, and reminded me that he had warned me over the last two months that there was developing a more critical feeling toward the dollar. This critical feeling had been accentuated by various shocks which people had received from Wall Street. The very fact that Wall Street had started off on Monday morning quite weak in spite of the change in margin requirements had come as a new shock to the Continent, with the result that the dollar had weakened further in terms of all foreign currencies and gold. Another more immediate factor, he thought, might have been the rumor that the American Treasury was on the verge of completing an arrangement with the French Treasury, providing for an exchange of information about foreign balances. There might be no truth in this rumor; nevertheless, it seemed to have been sufficient for the French people to take precautions and get out of the New York market, preferably into the London gold market. I replied that I knew of no such negotiations and that, for at least four weeks now, I had not heard of any such rumors.

A further reason for the weakness of the dollar, he thought, were the gloomy reports about the position here next year, which continued to reach Europe from the United States. This led people to wonder what was going to happen to Treasury financing in months to come, which opened up a vista that was definitely disturbing to the world. I asked whether he had read Sprague's comments in

- 2 -

Cleveland yesterday, and read to him that part dealing with the possibility of a higher gold price here. Bolton replied that he had not heard of it but that Sprague always reminded him of a stock market buyer who bought at top and sold at bottom. Taking it all the way round, the feeling seemed to gain ground that no matter what might happen in Europe, the possibility existed that inflation in America might gradually exceed any inflation that Europe might have to put up with. With the public in Europe in this state of mind, the ground was well laid for further pressure on the dollar. So far, he did not think we had seen any speculative selling of the dollars, the recent pressure coming from foreigners who were actually long of the market.

Meanwhile, at the Bank of England, they were going along with their efforts, as he put it, "to mold the market to meet every change in the situation." As a result they were allowing the hoarding demands for gold to have its full effect on the market because that, they thought, would probably help both the British and, ultimately, us. At the moment, their dollar purchases were not so heavy, simply because the other currency controls were anxious to buy on a large scale. The Dutch today had bought very substantial amounts of dollars, absorbing the bulk of whatever was offered. The British had absorbed these dollars from the Dutch and given them gold in exchange to the extent that their own position and our standing order permitted of such conversion. I mentioned that one of my reasons for calling him today had been to let him know that our Treasury had decided to maintain a minimum of \$5,000,000 worth

- 3 -

of gold in London and that, therefore, after closing of business today, our order of last night would be cancelled. I explained that I wanted him to know this because, during previous conversations, I had mentioned a minimum of \$10,000,000. Bolton replied that, since I had more or less warned him in the past, this piece of news did not worry him at all and repeated how extraordinarily useful our orders had been heretofore in keeping the situation down. They would continue to do their best to manipulate the gold price in London, as he put it, for the purpose of molding the market and if the hoarding demand continued, to let the price rise gradually to the New York parity. Meanwhile, they were discussing with the Canadians the possibility of getting some Canadian gold. In addition, they expected that the Indian gold which had heretofore continued to New York, would at this level find its way into the London market. I mentioned that if at any time they decided to put sterling orders into this market after their closing, we would, of course, be very glad to act under his instructions.

I referred to our recent telephone conversation in which I had mentioned the amount of \$140,000,000 as the maximum of gold still available to the Japanese for support of their currency abroad and mentioned that, allowing for the latest shipment of \$40,000,000, part of which was still on the water, the amount of gold which Japan could still sell might be just under \$100,000,000. There was, however, the possibility that the Bank of Japan might temporarily, against payment of a penalty tax, let its gold reserve fall below the statutory requirements.

- 4 -

We discussed the situation in France and I mentioned that the Bank of France had recently managed to accumulate rather important amounts of dollars which they had asked us to convert into gold here. Including today's purchase of \$9,000,000, the total thus converted would be close to \$20,000,000. I referred to Bonnet's recent speech in Lille to the effect that the world would soon see gold moving from New York to Paris and Bolton thought that this comment of Bonnet's was the true clew to the situation. The French were terribly anxious to get some gold on the water and have the world see it move to Paris. Conditions in Belgium seem a little quieter but nobody knew what the possibility was of fixing up a government in the near future. The suggestion had been made that the King would choose his own man and run the country more or less under an autocratic government. Latest news from Switzerland spoke of a 1% charge, he said, which the Swiss banks might make on all foreign deposits. Bolton did not think that that would do much good.

He then referred to the sterling rate and expressed the thought that probably, at some point, Washington would be interested in taking some step to maintain the rate of exchange. He wondered what sort of rate Washington had in mind. I replied that I was fairly well satisfied that no definite figure was under contemplation, that our gold and sterling operations in London had been effected solely for the purpose of maintaining an orderly market and that, for instance, last night's sales had been made by us in order to prevent the sterling market's closing completely disorganized,

- 5 -

with all buyers and no sellers. Bolton replied that, of course, as we knew, they had no feelings in the matter and that with them also, it was simply a question of an orderly market. He reverted to the change in the attitude of the public towards the dollar and expressed uneasiness because one of these days we might wake up and see a big flood of dollars pour into the European market. I mentioned that in my own opinion there was no intention whatever in Washington to change the gold price one way or the other, nor did I think that we need expect early unfavorable political reaction to any sustained outflow of capital and the resulting loss of gold. I felt sure that we could readily lose every bit now held in the inactive account without the public getting uneasy as it did in 1933. Bolton inquired whether this inactive gold stood on our books at our fixed price so that when we came to sell it we would sell it only at \$35 plus 1/4. This, I confirmed.

FEDERAL RESERVE BANK  
OF NEW YORK*an Lashbead* 67

OFFICE CORRESPONDENCE

DATE November 4, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITHFROM L. W. KnoksBANK OF FRANCE

Mr. Cariguel called me at 11:25 this morning. They had bought today just over \$9,000,000 which, he thought, was a great many dollars for the Paris market. They had taken in more dollars today than sterling which was a reversal of their daily experience in recent weeks and months. He was going to cable us tonight to request that we convert these dollars into gold.

We discussed the dollar market at some length and Cariguel thought that the pressure might well continue for a while, until people got tired of it. As regards the market in London, he thought, the dollar had received no support there at all until the rate reached 4.98. The weakness of the dollar, he thought, had been helped along by the premium on gold in London, which he called a little disturbing. I suggested that, bearing in mind the fact that the bulk of the gold was held in this country, if the demand for the metal continued, the London price was likely gradually to work up to our price of \$85 plus shipping charges. Cariguel seemed to agree with this.

With reference to the Paris market, he said, things were very quiet; the stock market was steady with little business; money was a little easier. On the whole, he added, they were fairly well pleased with the way things were going and with the amount of capital that was coming back to France. I discreetly inquired as to their total gain of foreign exchange in recent weeks and Cariguel answered that, since the fourth of October, they had gained about 4,000,000,000 francs. The total holdings of gold and exchange in the Stabilization Fund were <sup>now</sup> well over 10,000,000,000 francs.

LWK:EMC

FEDERAL RESERVE BANK  
OF NEW YORK

63

OFFICE CORRESPONDENCE

DATE November 4, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF ENGLAND.

I called Mr. Bolton at 10:55 this morning. They had had rather a hectic time, he said, and reminded me that he had warned me over the last two months that there was developing a more critical feeling toward the dollar. This critical feeling had been accentuated by various shocks which people had received from Wall Street. The very fact that Wall Street had started off on Monday morning quite weak in spite of the change in margin requirements had come as a new shock to the Continent, with the result that the dollar had weakened further in terms of all foreign currencies and gold. Another more immediate factor, he thought, might have been the rumor that the American Treasury was on the verge of completing an arrangement with the French Treasury providing for an exchange of information about foreign balances. There might be no truth in this rumor; nevertheless, it seemed to have been sufficient for the French people to take precautions and get out of the New York market, preferably into the London gold market. I replied that I knew of no such negotiations and that, for at least four weeks now, I had not heard of any such rumors.

A further reason for the weakness of the dollar, he thought, were the gloomy reports about the position here next year, which continued to reach Europe from the United States. This led people to wonder what was going to happen to Treasury financing in months to come, which opened up a vista that was definitely disturbing to the world. I asked whether he had read Sprague's comments in Cleveland yesterday, and read to him that part dealing with the possibility of a higher gold price here. Bolton replied that he had not heard of it but that Sprague

FEDERAL RESERVE BANK  
OF NEW YORK

68

OFFICE CORRESPONDENCE

DATE November 4, 1947.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnakeBANK OF ENGLAND.

- 2 -

always reminded him of a stock market buyer who bought at top and sold at bottom. Taking it all the way round, the feeling seemed to gain ground that no matter what might happen in Europe, the possibility existed that inflation in America might greatly exceed any inflation that Europe might have to put up with. With the public in Europe in this state of mind, the ground was well laid for further pressure on the dollar. So far, he did not think we had seen any speculative selling of the dollars, the recent pressure coming from foreigners who were actually long of the currency.

Meanwhile, at the Bank of England, they were going along with their efforts, as he put it, "to mold the market to meet every change in the situation." As a result they were allowing the hoarding demand for gold to have its full effect on the market because that, they thought, would probably help both the British and, ultimately, us. At the moment, <sup>their</sup> ~~however~~ dollar purchases were not so heavy simply because the other currency controls were anxious to buy on a large scale. The Dutch had today bought very substantial amounts of dollars, absorbing the bulk of whatever was offered. The British had absorbed these dollars from the Dutch and given them gold in exchange to the extent that their own position and our standing order permitted of such conversion. I mentioned that one of my reasons for calling him today had been to let him know that our Treasury had decided to maintain a minimum of \$5,000,000 worth of gold in London and that therefore, after closing of business today, our order of last night would be canceled. I explained that

FEDERAL RESERVE BANK  
OF NEW YORK

70

OFFICE CORRESPONDENCE

DATE November 4, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF ENGLAND.

- 3 -

I wanted him to know this because, during previous conversations, I had mentioned a minimum of \$10,000,000. Bolton replied that, since I had more or less warned him in the past, this piece of news did not worry him at all and repeated how extraordinarily useful our orders had been heretofore in keeping the situation down. They would continue to do their best to manipulate the gold price in London, as he put it, for the purpose of molding the market, and if the hoarding demand continued, to let the price rise gradually to the New York parity. Meanwhile, they were discussing with the Canadians the possibility of getting some Canadian gold. In addition, they expected that the Indian gold which had heretofore continued to New York, would at this level find its way into the London market. I mentioned that if at any time they decided to put sterling orders into this market after their closing, we would, of course, be very glad to act under his instructions.

I referred to our recent telephone conversation in which I had mentioned the amount of \$140,000,000 as the maximum of gold still available to the Japanese for support of their currency abroad and mentioned that, allowing for the latest shipment of \$40,000,000, part of which was still on the water, the amount of gold which Japan could still sell might be just under \$100,000,000. There was, however, the possibility that the Bank of Japan might temporarily, against payment of a penalty tax, let its gold reserve fall below the statutory requirements.

We discussed the situation in France and I mentioned that the Bank of France had recently managed to accumulate rather important amounts of dollars which they had asked us to convert into gold here. Including

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 4, 1927.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knake

BANK OF ENGLAND.

- 4 -

today's purchase of \$9,000,000, the total thus converted would be close ~~to~~ <sup>to</sup> \$20,000,000. I referred to Bonnet's recent speech in Lille to the effect that the world would soon see gold moving from New York to Paris and Bolton thought that this comment of Bonnet's was the true clue to the situation. The French were terribly anxious to get some gold on the water and have the world see it move to Paris. Conditions in Belgium seemed a little quieter but nobody knew what the possibility was of fixing up a government in the near future. The suggestion had been made that the King would choose his own man and run the country more or less under an autocratic government. Latest news from Switzerland spoke of a 1% charge, he said, which the Swiss banks might make on all foreign deposits. Bolton did not think that that would do much good.

He then referred to the sterling rate and expressed the thought that probably, at some point, Washington would be interested in taking some steps to maintain the rate of exchange. He wondered what sort of rate Washington had in mind. I replied that I was fairly well satisfied that no definite figure was under contemplation, that our gold and sterling operations in London had been affected solely for the purpose of maintaining an orderly market and that, for instance, last night's sales had been made by us in order to prevent the sterling market's closing completely disorganized, with all buyers and no sellers. Bolton replied that, of course, as we knew, they had no feelings in the matter and that with them also, it was simply a question of an orderly market. He reverted to the change in the attitude of the public towards the dollar

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 4, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Kroke

BANK OF ENGLAND

- 5 -

and expressed uneasiness because one of these days we might wake up and see a big flood of dollars pour into the European markets. I mentioned that, in my own opinion, there was no intention whatever in Washington to change the gold price one way or the other, nor did I think that we need expect early unfavorable political reaction to any sustained outflow of capital and the resulting loss of gold. I felt sure that we would readily lose every bit now held in the inactive account without the public's getting uneasy as it did in 1933. Bolton inquired whether this inactive gold stood on our books at our fixed price so that when we came to sell it we would sell it only at \$35 plus 1/4. This, I confirmed.

LWE:KMC

RECEIVED  
NOV 5 1937  
FEDERAL RESERVE BANK  
OF NEW YORK  
120 WALL STREET  
NEW YORK 17, N.Y.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 4, 1937, noon

NO.: 1555

RUSH. FROM COHRAN.

Yesterday the French control's net gain of foreign exchange reached one hundred eighty million francs. Some of this was in dollars, but most of it was in sterling. Today by twelve noon the control had acquired seven and one-half million dollars; the rate varied from twenty-nine point fifty-six to ~~fifty-nine~~ and one-half. The French control is not taking in much sterling at one-forty-seven point naught eight, since sterling is stronger against dollars. According to my official contact, the Netherlands Bank has also had a very active time this morning purchasing dollars. However it is thought the main causes for the weakness of the dollar are: (1) London premium on gold. (2) The American budget has ~~shown~~ an increasing deficit, and further plans for supporting farm prices are envisaged. (3) The American markets are weak, and there is gossip with regard to possible resorting to further raising the price for gold. The rather optimistic statement of Bonnet with regard to French finances yesterday before the Chamber committee resulted <sup>helping</sup> in/strength of franc against both dollar and sterling. In the press here an item played up is the probability of gold shipments to France from the United States.

BULLITT.

EA: LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: November 4, 1937, 4 p.m.

NO. 1558 FROM COCHRAN

This forenoon while Guaranty and Chase operated on the market buying dollars for the French control, this afternoon Morgans had an order and they were quite active around 29.53 and 54. I am told by both Guaranty and National City that holders of American currency are a source of fair demand for francs. Thus there is a continued heavy offering of dollars on all sides for the reasons given in my telegram No. 1555 sent earlier today.

There was a rise in French rentes. National defense bonds are more sought, and money is easier. The market is brighter, in particular since avoidance of strike threatened for today on the part of Public Service workers.

The recent remark which Bonnet made at Lille to the effect that in a short time gold would be coming here from the United States was not contained in his prepared speech. Officials of the Bank of France were surprised when they read press accounts of it. This matter has now received so much publicity that the French control feels in order to save face it will have to ~~make~~ effect an actual gold shipment. Bids are made by market wits for the casks containing the first gold shipment for use as pots for flowers. It is possible such a shipment would assist in relieving European worries about the American price for gold.

Bank of France statement as of October 28 showed no change

- 2 -

in gold and no new advances to the state; with circulation up one and one fourth billion francs, coverage was 51.36 versus 51.69.

BULLITT

EA: LWW

RECEIVED  
MAY 4 1951  
TREASURY DEPARTMENT  
WASHINGTON, D. C. 20540

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 5, 1937, 2 p.m.

NO.: 1563

RUSH FROM COCHRAN.

At noon I called on Bonnet to bid him goodbye.

Bonnet said he was gratified over the improvement in French finances which had begun to be evident. He was interested to note the statement of the American Secretary of the Treasury as reported in AGENCE ECONOMIQUE this morning to the effect that the dollar would not be further devalued; he himself had been of the opinion that it was not likely there would be further devaluation. The reasons for the recent market collapse in the United States and the outlook for recovery are however of concern to Bonnet. He believes that the present dollar weakness will not be lasting.

I mentioned to Bonnet that I was going to Basel this weekend. He brought up the question of Quesnay's successor and insisted that the general manager of the BIS should continue to be French.

I made reference to Bonnet's statement made two days ago before the Chamber's Finance Committee that the French were having negotiations with London over the question of  
the

- 2 -

the forty-million pound banking credit which matures in November and December. Bonnet said that this was so, and in strictest confidence, said he hopes the solution will be a repayment of one-half of the credit - for which approximately 3 billions of francs would be required - with the other half to be renewed. I asked him whether the other half of the credit would be extended by the British bankers or whether Switzerland or some other market would have to be sought. He was of the opinion that the British bankers would prolong the other half. He felt that if the British Government was really anxious to cooperate with France no obstacles would be placed in the way of renewal of this part of the loan.

Bonnet said he was unhappy at having to relinquish his post as Ambassador to our country.

I had a talk with Rueff, movement of funds section of the Ministry. I made reference to the statement of Bonnet before the Finance Committee to the effect that for the remainder of the calendar years the Treasury's needs could be taken care of without drawing upon the Bank of France for money. Rueff said the situation of the Treasury was easier than it had been for some time. He  
said

- 3 -

said needs for one month ahead could now be provided for and that the statement of Bonnet is entirely correct and safe, provided it does not involve repayment on the London banking credit. The Treasury is taking care of current needs by some domestic short term borrowing on bills of the Treasury, by the railway loan floated in Switzerland, by the recent issue on the Paris market of the Credit National loan, and by the Department of the Seine loan - which was anticipated in my telegram of October 29, 5 p.m., No. 1541. The last mentioned loan is for approximately six hundred million francs and begins November 9. The state has made advances to all these bodies, and the state will be reimbursed by an important part of the proceeds of the three loans. My friend said he was very much against the Treasury drawing on the Bank of France to meet domestic needs. However, he would not be against using the Bank of France credit if repayment is to be made on the London loan at maturity. At the present time, he said, the stabilization fund is "practically full" so that there would be no discretion in obtaining the sterling necessary for a large payment to the British; it would probably be necessary, however, to draw on the bank in order to obtain the francs  
for

- 4 -

for the purchase of sterling from the stabilization fund.

I also spoke with Couve de Murville, another officer in the Ministry, who I think is advancing rapidly. I mentioned to him the easier treasury situation, and he reminded me that the French have yet to adjust several basic problems, the production and balance of trade and the cost of living. He also mentioned that with the reconvening of Parliament on the sixteenth of November, political controversies may be provoked. He expressed pleasure at the improvement so far, but he thinks it is foolish to boast of the situation until France's recovery shall have lasted the two or three years necessary to put her into good shape once more.

END MESSAGE.

BULLITT.

EA: LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1567  
of November 5, 1937, from Paris.

RUSH.

The Bank, my official contact believes, will have to furnish the Treasury the francs required to purchase the sterling from the control to pay off one-half of the British banking credit unless there is sufficient repatriation of francs to permit the Treasury to get the necessary francs through short term paper on the Paris market. Such developments are not likely to take place.

During the time I was at the Bank word was received of a statement by the President of the United States criticising currency speculators more sharply even than stock market speculators, and denying gossip about alleged American monetary changes. The sales of dollars observed here come from the United States as well as Scandinavia, Switzerland, and other countries.

An order was received by one Paris-American bank to sell a half million dollars for an American client and to purchase gold in London with the proceeds.

Dollar sales were not on so large a scale as yesterday but nervous feeling still prevails. French rente and stock market irregular.

The Governor of the Bank of France left this evening  
for

- 3 -

for Basel. Tomorrow morning he is to confer there with Governor Norman in an effort to settle BIS managership differences. Both these Governors have been canvassing other Central Bank directors of the BIS for support since the last board meeting in October.

END MESSAGE.

BULLITT.

EA:LWW

RECEIVED  
RICH G. BELL  
LIBRARY DEPARTMENT  
UNIVERSITY OF MICHIGAN  
ANN ARBOR, MICHIGAN

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 5, 1937, 6 p.m.

NO.: 1567

RUSH FROM COCHRAN.

Yesterday the gain of the French control was 355,000,000 francs of foreign exchange. \$9,800,000 was included in this amount. A little sterling was lost in the forenoon today but the control was slightly ahead on balance at 5 :30 p.m. when I was at the Bank of France. At that time it had also acquired \$95000(?).

This evening the total gold and foreign exchange holdings of the control in francs are approximately ten and a quarter billion. This amount includes the foreign exchange proceeds of the recent Swiss bank loan to the French railways. All of the proceeds of this loan went to the control with the exception of a small amount of Swiss francs which were needed by the French Treasury itself.

END SECTION ONE.

BULLITT.

EA:LWW

LMS

GRAY

London

Dated November 5, 1937

Rec'd 4:22 p. m.

Secretary of State,  
Washington.

699, November 5, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Although little or no credence is given in the City to rumors circulating on the continent of impending devaluation of the dollar, they have stimulated the movement (\*) gold, gold shares and British Government securities. Orders for gold are now coming from such countries as Czechoslovakia as well as Holland, France and Switzerland. Gold was fixed at 140 shillings 6 pence being almost a 11 penny premium on the dollar and although the dollar rate went up  $1\frac{1}{2}$  cents gold was not made available under fixing price.

At a dinner of the Political Economy Club Henderson read a paper on the trend of British economic activity. His conclusions were that there will have to be a very severe depression indeed in the United States if there is to be even a moderate depression in this country; that apart from possible repercussions from outside, Britain's  
industrial

LMS 2-No. 699, November 5, 7 p. m., from London.

industrial outlook remains reasonably satisfactory so far as the next year or so are concerned, but in any case 1938 will be less good than 1937 and probably 1939 less good than 1938. Loveday found some support when he placed greater emphasis upon the significance of American developments, particularly with respect to commodity prices and on all sides there was general agreement that further declines in commodity prices would be serious. The discussion then turned to the United States' position and one Maurice Hutton who had recently interviewed Government officials in Washington presented a highly critical analysis of American Government policy. Hawtrey also participated in the discussion referring scornfully to this Government who talked about the "peak of the boom" in England being past when at no time unemployment had fallen below ten percent. He saw no reason why the upward movement should not be continued if governments behaved sensibly, with industrial needs taking the place of armament requirements as the latter declined and he hoped to see a condition recorded as normal when not more than five percent of the population was unemployed.

The sense of the discussion revealed a feeling that while the peak of Britain's recovery movement had been passed no drastic decline in activity was to be expected

in

LMS 3-No. 699, November 5, 7 p. m., from London

in the next six to twelve months; that there were now so many imponderables, both political and economic, that further predictions were futile and an attitude of caution in making commitments was therefore necessary.

BINGHAM

SMS:EMB

(\* ) Apparent omission.

RECEIVED

NOV 6 1951

THE NATIONAL ARCHIVES  
COLLEGE PARK, MARYLAND  
1951

RE POSSIBLE DISCONTINUANCE OF  
GOLD STERILIZATION POLICY

November 5, 1937  
10:30 a.m.

Present: Mr. Taylor ✓  
Dr. Viner ✓  
Mr. Lochhead ✓  
Dr. Himmelblau ✓  
Mr. Eccles ✓  
Mrs Klotz  
Mr. Goldenweiser ✓  
Mr. White ✓

H.M.Jr: This thing is a kind of - Eccles is on his way over and I sort of asked him to come over on account of this talk of mine, see? And I wish I had a little time before he came to explain it. But we have sort of come to the crossing of the roads, in that he feels we need certain objectives which he has, which will take time, like housing and labor and all that, and I go along with him; but in the meantime he wants us to practically start another CWA.

Kieley: Mr. Eccles.

H.M.Jr: Please.

(Eccles comes in)

Marriner, if it is agreeable to you, what I wanted to do - rather than discussing my talk any further at this time, you see, pending my seeing the President, see, what I'd like to do is to take this time with these people - I mean just let's forget that talk for a minute, if you're willing, and also your program for a minute, and then I want to talk about gold, see? Because the more I think about it the more I'd like to bring down the same group of people that I brought here before when we made a decision affecting foreign exchange. We've brought in people from the outside over Saturday and Sunday, after markets are closed, you see, to talk with us and advise with me. I don't know whether you came to the Treasury when we were doing those original gold things - foreign exchange.

Eccles: No, I don't know - I was - you don't mean - I remember originally you brought down Stewart, I think.

H.M.Jr: No - Walter Stewart, yes, and people like - a couple

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bankers, people that keep their mouth shut and I've got confidence in, who are in the business.

And as I say, what I'm thinking about is this - as I say, if I'm going to do anything about gold, I'd want to announce it Sunday night, see? I mean if we're going to do anything at all - and I haven't had a chance to talk with Viner and these other people and I just wanted to chin about - yes, I did talk with Viner; excuse me. And I just want to talk about the possibility of announcing, first - there are two schools of thought in the Treasury; one is that we - first, that we announce that we are discontinuing sterilization of gold; that's one, see? And the other one is that we take the second step and use some of the gold to pay off the weekly maturing bills, see?

I'd like to talk about the first thing, just the stopping. We are right now, this week, in a transitional period, and with the amount of gold going out today there isn't - well, we're just sterilizing, that's all. And the statement which read - is that "I have deemed it advisable, in the public interest..." well, supposing I announce that we stop sterilizing Sunday night. Then they read the rest of the statement. "Well, why are you doing it?"

"Well, there's no more gold coming in, and the situation - we've got a billion and a quarter."

"Well, is gold going out, Mr. Morgenthau?"

"Yes, gold is going out."

"Well, as it goes out, are you going to carry out what you said here, and that is to redeem the outstanding obligations in case of a movement in the reverse direction?"

And the answer to that would be, "Yes."

And why do I want to do it? Why am I considering doing it? - put it that way. Because, talking again just for myself, I can't help but think that certainly part of this is psychological, and I'd like to retrace

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the steps that the Treasury took as to putting the lid on this thing in the minds of the public, and that is my main reason for doing it.

Now, I realize perfectly if you ask the question, "Well, what are you going to do when gold begins to move here?" - well, I just haven't talked that question. But I feel, with a fund of a billion and a quarter, that that's enough to take care of the situation for which this movement was made, and that was to build up a fund against the possibility of gold moving out. Well, now it is moving out; the fund is there, it's a billion and a quarter, and that's enough.

Now, as to the second step, I've got much more doubt - I mean I'm not sold. I haven't made up my mind on any of this. Do you understand? I don't ask people to come down and ask you to come over if I've made up my mind.

And again I want to say that it would be most, most helpful, if we should decide to do anything, that it could be done so that some sort of a joint statement could be made. I mean I'd feel much happier about the whole thing if the thing could be done just the way it was done here - "The Secretary of the Treasury, after conferring with the Board of Governors" - I mean if the thing could read exactly the same, I'd feel much happier about it.

And I'm not saying that if we can't agree I'll do anything. In other words, the whole thing is open. I'll hear from anybody that wants to talk for or against it.

Viner: I'm a little confused. I don't know just what the proposition is. Is the proposition that if there is a net loss of gold, we will use the proceeds in money of the sale of the gold to redeem bills outstanding that we used originally to pay for that gold?

Taylor: Securities.

Viner: Huh?

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Taylor: Securities.

Viner: Or redeem Governments.

Taylor: Doesn't necessarily mean bills.

H.M.Jr: Well, I'm on record - may I read this to you?

Viner: Yes, certainly.

H.M.Jr: This is the statement I made. Just let me read it to you. I made this on December 22.

"The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

"This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of a movement in the reverse direction."

In other words - does that answer your ....

Viner: Yes. You don't need any announcement at all then, if that's what the proposal is. You're just carrying it out.

White: No, no, I thought the Secretary indicated that that action was going to be carried out anyhow; that action of the acquisition of bonds with the proceeds of the gold that is sold is something that would automatically take place by virtue of that statement. He is now raising the further issue as to whether or not you shall take additional gold.

Taylor: You're raising a separate issue in addition to that, which is, should you pay off these maturing bills?

White: Oh no, that's settled, that's settled.

Taylor: No, it isn't. I don't see that it's settled.

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- Viner: You mean, is that the form which the purchases of Governments shall take? Whether it shall be running off bills or buying Governments.
- Taylor: You're going to retire outstanding obligations.
- H.M.Jr: Something.
- Taylor: Something. Now, it doesn't mean bills.
- H.M.Jr: Something. I mean ....
- Taylor: That was particularly written that way in the first place.
- H.M.Jr: Outstanding obligations. What they'd be I'm not prepared to say. But, outstanding obligations.
- Taylor: That's the point I'm making; it doesn't necessarily mean bills.
- White: Oh no, no, just so you ....
- Lochhead: May I express what I think the issue on this first point is: that there is an outflow of gold going on just now, and we probably will not be acquiring gold to sterilize, so therefore it is an opportune moment to state that this program - as far as sterilization is concerned, we're not getting it anyway - now, the only effect making that statement would have would be that if in a month or so from now gold started to come in, we would not start to automatically sterilizing it again. We would carry out everything that was in the first statement, but we have not bound ourselves to follow it through at a later date.
- H.M.Jr: Excuse me just a second. (Has conversation with Miss LeHand on White House phone)
- Just one second. Will you (Eccles) be free at 11 o'clock?
- Eccles: Yes, Saturday.
- H.M.Jr: I just want to take a minute to explain. I'm asking these people down; I'm going to put this thing up to them, want them to tell me whether they think it's

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good, bad, or indifferent. I mean I'm separating this entirely from my - I'm not mixing this and my speech. See what I mean, Marriner? I mean if I didn't make any speech at all, I'd want to bring this thing up at this time. Then Miss LeHand said the President will not be available Sunday but will be available just before supper ....

Eccles: Saturday or Sunday?

H.M.Jr: Saturday. So what I was thinking about is that after you got an indication of what I was thinking about, if it wouldn't be asking or rushing you too much, whether you could either say, "I can't go along with you at all," or at least "I'll tell the Board how you feel and have a meeting this afternoon," so we could ....

Eccles: Well, there are only two members of the Board here, see? Davis left last evening and won't be here until Monday, and it will be impossible for the Board to take a part in this at all, I am perfectly sure, this week-end.

H.M.Jr: Well, the way this gold thing is moving now - see, sterling is up practically to five dollars, and gold has jumped from - yesterday in London to \$34.95 to what?

Lochhead: \$34.99.

H.M.Jr: \$34.99. We're just in the midst of a big movement. We have to move on 24 hours .....

Eccles: Well, what do you mean? You mean with reference to using ....

H.M.Jr: Announcing the - I mean the possibility of - no, the possibility of announcing the stopping of our sterilization policy.

Eccles: Well, you don't mean stopping in the sense that if it reversed the other way you wouldn't continue. You mean that announcing ....

H.M.Jr: Just the same way, that in the public interest it is no longer appropriate to sell - no longer necessary or appropriate to ....

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Eccles: Sell bills?

H.M.Jr: ... sell bills with which to buy gold.

Eccles: Yes. Well, that isn't an announcement of a discontinuance; that is an announcement that there is no necessity, the necessity doesn't exist. It doesn't say that you discontinue a policy, because although there is an outflow this week, say the thing reversed and you had the gold coming in next week; it seems to me that if you announce a discontinuance, the question naturally arises, "Well, does that mean that if there was a reverse trend, you would not sterilize?"

H.M.Jr: That's the bridge I want to cross. That's the bridge I want to cross.

Eccles: It seems to me that to give them the facts that it isn't necessary to do it - it doesn't mean that it is a change of policy or a discontinuance.

H.M.Jr: No, I want to announce discontinuance of sterilization.

Eccles: That's very different from the other.

H.M.Jr: I want a definite announcement of the discontinuance of sterilization; that's proposition number one. Let me rephrase that; I mean I want to consider, should we announce the discontinuance of the sterilization policy? That's the thing.

Eccles: Personally, I don't think we should.

H.M.Jr: Well, that's what I want to talk today, and that's what I want to ask these people's advice on tomorrow. Now, let's hear - let's talk about it a little now, shall we?

Eccles: Yes, it's all right with me.

(Mrs Klotz leaves)

Eccles: I don't think that there is any justification for the change of policy with reference to sterilization. In the first place, it is a function

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under the powers that the Treasury has that they, it seems to me, should perform. If they discontinue it and there is a big movement of gold this way - it is something that the Reserve System has no influence or power over; we're not given any responsibility to deal with the exchange problem at all; we have no powers that enable us to handle any problem that might be created as a result of gold inflow. And it seems to me that for the Treasury to say, "All right, we have discontinued it," means that you have - that the problem in effect goes into the lap of the Reserve System, where they have no power to deal with the effects of it in the first instance, and where the responsibility of dealing with the exchange problem in no way lies with the Reserve System but does lie with the Treasury. And to - it just seems that so long as you have the powers that are in the Treasury, the problem of sterilization becomes a part of the Treasury problem, unless the Reserve System gets additional powers. I certainly would - under the circumstances, the Reserve System would just be in a perfectly impossible place to be.

H.M.Jr: (On phone) Tell Mrs. Klotz to include Mr. Riefler for tomorrow. - - Yes.

Well ....

Eccles: The question of sterilization, it seems to me, of all countries - it is largely with the Treasuries, or the central banks have powers to deal with it; usually, as I understand it, it is pretty largely with the Treasury, and they are working in conjunction with the central banks. Certainly that's the way the Bank of England operates.

And the question immediately arises - the Treasury say, "We're going to discontinue" - then the whole question comes: What if the reverse flow comes; then who's going to handle it? Now, true, at the moment there is gold going out. It is due, in my opinion, in part to an improved situation in France and a deteriorating - and some deterioration of our situation here. In other words, it is a result of a

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capital flow, capital that we have been getting for several years; it was a capital movement of gold which came over here because of a bad situation there and a better one here. Now the situation is reversed; the situation has deteriorated here and capital has gone out. It is hot money, and they are getting the hot money that we have been getting, in some instances. Certainly that is true of Switzerland, certainly it is true of Sweden, certainly it is true of Holland, and I suppose it is true more of England. France is getting some normal return of the capital she lost and we hope she can retain.

Now, it's unfortunate that our situation, in order that we can reverse the flow of gold, has to be bad, so that capital won't stay here. It seems to me that the loss of this gold has been extremely costly, in a way. I mean conditions that possibly brought about that loss cost much more than the cost of sterilization. Now, if the situation here improves, as it must do sooner or later, then there is no reason to expect that we won't get again a flow of some of that capital; a reverse flow could happen.

So it seems to me that we've got the problem of sterilization so long as you don't have a gold standard or some other mechanism that is not now provided under the law. That's about my story.

H.M.Jr: Well, let's have a positive statement, why we should have it, see. And Harry, you talk - why don't you take the positive position?

White: All right. I agree with Marriner - I think we all do - that gold is flowing out from a combination of both factors, and that we would very much prefer to see .....

H.M.Jr: Excuse me just a minute. Would you (Eccles) mind if we would have Goldenweiser come over here?

Eccles: I'd be glad to have him come over.

H.M.Jr: I'd like him to sit with us tomorrow.

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Eccles: Let's have him - let's have him come over.

H.M.Jr: Is that agreeable to you?

Eccles: Not only agreeable, but it's what I'd like to have.

H.M.Jr: (On phone) Ask Mr. Goldenweiser if he would please come over to the Treasury. Mr. Eccles would like to have him come over to my office.

Eccles: Of course, I didn't know we were going to have a conference and what was going to be discussed, so I'm just ....

H.M.Jr: Well, I understand, old man, and I'm not trying ..... If you just think of it this way ....

Eccles: I've been thinking out loud.

H.M.Jr: This is a Treasury meeting which I've asked you as an individual to sit in on, just in the same capacity, if you don't mind comparing you - when we are working on stuff that affects the State Department, we have Dr. Feis sitting here; instead of his going to report to Mr. Hull, you report to yourself. That is, this is in the formative stage and this is a Treasury meeting. But it's in a formative stage. And I very much wanted you to ....

Eccles: Well, I appreciate it. It saves time, I think.

H.M.Jr: And it saves time. I'm not in any way trying to commit you to anything. But it's exactly the kind of meeting that would affect State and Mr. Feis sits here. If you will do it in that spirit, why, I would very much like to have you sit here. But I'm not in any way trying to push you or commit you. But it just so happens that I, going back to my speech, have gone as far as I can with it up to the time that the President sees it. Now, when the President sees it, that bridge will be crossed. You see what I mean? And I'm willing to cross the bridge now, if he is, you see. And I'm not going to try - I'm not going to use 'salesmanship on him; I just want him to make up his own mind. See, Marriner?

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Eccles: Well, I don't know that I blame you, because after all too much salesmanship is taking an awful lot of responsibility, isn't it?

H.M.Jr: Sure, sure. I'm not trying to sell ....

Viner: Don't you want to take lots of responsibility?

Eccles: Well, there are certain situations in which I'd just as soon not.

H.M.Jr: No, but I'm his Secretary of the Treasury, and I think I'm entitled to know at this stage which horse I'm riding.

Eccles: I think you've got to know.

H.M.Jr: What?

Eccles: I think you've got to know.

H.M.Jr: I mean I've just got to know where I'm at. And the thing is now - and the reason that Haas isn't here is that he's editing it with Gaston.

Just as a matter of interest, I told you that I was going to show it to Parker, didn't I?

Eccles: To who?

H.M.Jr: Parker; he's the Chief Editor for Scripps-Howard. But he's the only newspaperman I've showed it to. And I don't know - I value his opinion; I mean I don't consider him a newspaperman, he's an editor. He went over it. When he got all through and done, he said, "I'll put my money on this statement: that the speech is constructive." I mean that was just his reaction this morning.

But anyway, let's get back to gold. And if you want to say anything to me privately or personally before we leave, I'll be glad to receive it, Marriner.

Eccles: All right.

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Mr. J.: But you understand. Now, Mr. Eccles' position here - this is a Treasury conference which he's sitting in on as a favor to me, in order to keep himself posted on what we are thinking of doing.

Now Dr. White. .

White: I said that I agree, and I think we all agree, with the statement that it is unfortunate that one of the motives that is leading gold to flow out is a recession here; we would have preferred it otherwise.

However, gold is flowing out; to the extent that gold does flow out, then, action is almost automatic after the stabilization fund of 200 million is filled with cash. From then on, the purchase of securities automatically takes place, and the Secretary would want to make a decision whether he should purchase bills or some other form; that's a separate problem.

But the question as to whether to announce at this time a cessation of the program of sterilization because the moment is appropriate, appropriate action is being taken, I think has to be evaluated exclusively from the point of view of what effect it would have on business conditions. The actual effect it would have admittedly is nil, because no gold is flowing in; therefore, no sterilization would take place anyway.

Therefore, its effect has to be a psychological one; it would be a psychological one even if there were a little gold flowing in. Now, the psychological effect of that statement is, I feel, not very great; but it is somewhat bullish, slightly bullish. It is an indication that there is a reversal in policy, that there is a public abandonment, if you like, of a policy of restriction, that there is a reemphasis on the introduction of an easy money policy as the first step toward meeting what may be a continued recession. From that point of view it is valuable, and I think possibly we would wish to consider it.

The Secretary will raise the question as to whether we ought to go further than that, but taking up your (Eccles) point, let's assume that that statement is made. Let us assume that the reaction is slightly

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bullish, that the public begins to feel that the Government has taken cognizance of the recession and is going to take such moderate reasonable measures as will insure a return to recovery.

Let us say that we go beyond that. Let us say that gold continues to flow in. Now, your point was, when that happens, what's the Federal Reserve Board going to do about it? Well, it appears to me that that is a bridge that should be crossed at that time; that after all the policy was definitely stated to be one which was going to be adjusted according to the situation, and if the situation in the future, one month or two months or four months from now, is such that you are getting a return flow of gold, and if, further, you feel that that return flow of gold jeopardizes the stability - the imminent stability or the future stability - then I think there is an excellent ground for a reconsideration of the case at that time, and I am sure it will receive consideration at that time, in the same way that it was considered earlier.

But we want to squeeze the maximum effect we can out of any action that we can take that is moderate and reasonable, to attempt to check the present recession. And I wouldn't wish to claim too much for it. I don't think the Secretary does. It is a moderate step which we hope would have some kind of a favorable psychological reaction. Your point doesn't become an issue until some time in the future. When it does become an issue, I think it should be given and will be given such consideration as the situation warrants.

H.M.Jr: That certainly is very frank.

Jake, want to say something?

Viner: I made my speech last night. I think that it would be an extremely foolish move on that ground. It is a trivial move; it has no immediate significance. There is no logic behind it except that it is an inflationary gesture, and I don't think that's the way at all to deal with the present situation. I think that there is a logic in the sterilization program,

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more logic in that than in some other parts of our whole set-up, that it is working beautifully now in terms of the present situation; that now, if there is going to be a gold outflow, it is going out without disturbing the credit base of the country at all, which is just what it was set up for. That part of the system is working just right, and because it is working right, you now say, "Well, when the time comes for the movement - the movement reverses itself, we'll abandon the system."

Now, if White is right that if there is an inward flow of gold we ought then to decide on the merits of the situation what we do, then I say that is the time to decide whether we abandon this policy, not now and not when it is working well.

And apparently the sole objective there is that you, as Secretary of the Treasury, shall do some inflationary talk. Well, I say that is just what is not indicated now. Nobody believes that you can cure this situation now by that sort of monetary dope, and that is not what the sick horse needs. I'd say it is unimportant except as an indication of how we're going to look for help; as that, it is very important, because as I see it personally it is looking forward in absolutely the wrong direction, as wrong as you can find.

White: You feel, then, it is an important indication of the ....

Viner: If it works. How the public takes it, I don't know. If there is a statement which is along the lines of your statement, then it would be important. Then the public would say, "The Secretary still thinks that he's got monetary tricks in his bag that he can use without touching on the fundamental issues in the situation which will correct the situation." And I say you have not got the monetary tricks and if you think you have you are on the downward path to a crash.

H.M.Jr: If what?

Viner: If you think you have monetary tricks in your bag

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which will solve the present situation, I say in my opinion - and I say it soberly after a week's hard thinking - you are altogether wrong.

Kieley: Dr. Goldenweiser.  
H.M.Jr: Please.  
Eccles: This isn't monetary.

(Goldenweiser comes in)

Golden.: Good morning, Mr. Secretary.

H.M.Jr: How are you?

Do you (Eccles) want to explain what we are talking about?

Eccles: Yes, I can. Do you want me to take the time?

H.M.Jr: Well, yes, so that ....

Eccles: Well, the Secretary was having a conference with these men here and he asked me to come over. I didn't know of the conference. I thought I was going to meet him. The thought in having me here was that it would possibly facilitate matters or save time. Now, the thing that they are discussing is the gold question. There is an outflow of gold at this time, and at the time the statement was made, when the policy of sterilization was adopted, it was stated by the Secretary that the proceeds from the gold outflow would be used to retire the debt that was created for the purpose of sterilization.

Golden.: You mean last December?

Eccles: That's right.

The question now is, should they announce a discontinuance of the sterilization policy? That's one of the questions. Another question is - well, I don't know that you raised that one yet; that was the question of desterilizing either all or a portion

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of the gold now in the sterilization fund by the retirement of Government obligations - the discontinuance of bills of 50 million a week and the retirement of such maturities, I suppose, as would come due in the near future. I mean that's the .....

Golden.: That's the picture.

Eccles: Now, I've expressed myself briefly on the first point and Dr. White has also expressed himself, and Mr. Viner.

H.M.Jr: Viner unalterably opposed.

Eccles: Well, I agree with Viner a hundred percent.

Golden.: Unalterably opposed to discontinuing it now, is that it?

H.M.Jr: He can make his statement again.

Golden.: What is it, Jack? .

Viner: Well, you see, at the present time the sterilization program works to release - I mean gold is flowing out, not in, at the moment. The question under consideration is whether we should choose this time to say that if the flow of gold reverses itself and it begins to come in again, we will not then sterilize.

I say it obviously has no immediate direct effect, it is a statement as to policy in the future, it is made at this time for some purpose. The purpose presumably will be stated that this is intended to indicate that we are not going to take any control measures or deflationary measures until future circumstances may indicate that they are necessary. And I say that that means we are using it now - it is trivial in itself at the present time, its significance is only as indicating a direction which the Government is taking for meeting what is in my opinion a very serious situation.

And then I say that as a sign of the line of policy to be taken to meet the situation, it is as wrong as it could possibly be, because it is the wrong direction; it looks again for monetary devices,

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monetary manipulations and operations, as a means of dealing with a fundamental maladjustment in the economic situation, a maladjustment of the sort which isn't monetary at all.

- Golden.: But you say that the question is that of announcing now that you are not going to - that the whole sterilization program in effect will be abandoned, and at a time when that is not in itself going to release any funds.
- Viner: That's right.
- Golden.: Well, I haven't thought about that particular thing. I can't - I don't see the - may I ask what the purpose of that would be at this stage?
- H.M.Jr: Well, let White - I mean let White state his position again.
- White: I take it this is all in the nature of discussion. I'm going to take your (H.M.Jr) position, because my personal position is that that in itself would not be sufficient; but on the basis of that alone....
- H.M.Jr: Well, why not go through that and state the whole position for yourself and for Haas? Give him the whole works.
- Viner: For Goldenweiser.
- H.M.Jr: I mean he's talking - he can talk for himself and for Haas, saying what their position is on this whole gold question, for the benefit of Dr. Goldenweiser.
- Viner: I'm - I'd like to hear it too.
- White: Well, the only change with respect to what has already been stated is that we feel that the announcement of a cessation of the policy of sterilization until further notice, in the usual terms, should be coupled with a statement that it is intended to use a portion of the gold which is now in the inactive fund, such portion as remains there after any outflow will take place, for the purpose of taking up the bills which

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are maturing weekly - some large concentration in December, so that probably until the remainder of the year it amounts to 900 million dollars, leaving the further policy to be stated later as to what shall be done next year, whether that shall be continued. And the more gold that flows out, the less necessary does it become to resort to this, because the outflow of gold accomplishes the same purpose.

Taylor: Certainly it does.

White: In part it does not substitute, and it is not a substitute, for what we conceive to be the most important effect of an announcement, namely the psychological effect. And I think the fact that Viner pointed out is true, that the importance does not lie in the mechanical effects, it does not lie in the fact that you are increasing reserves and thereby having certain consequences mechanically; it lies in the realm of psychological effect on the business community. It is an announcement that the Administration has taken cognizance of the recession and it is about to initiate a policy of taking such action as in its opinion will help the situation.

And one of the first and moderate steps is the reintroduction of a - shall we say a more easy money policy. To call that manipulation is a little bit unfair, because it is only doing the reverse of what we did when we initiated the policy. It wasn't called manipulation then; it was protecting our domestic economy.

Viner: I didn't mean that manipulations were necessarily wrong. What I think I said was that to give the public the indication that we think that by manipulations of the monetary structure we can cure this situation, is a wrong procedure.

White: Well, I didn't think ....

Viner: I believe in monetary manipulations at the right time, and in the right direction, and connected with the other items in the policy. I'm not an opponent of manipulations.

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- White: I don't think, and I didn't think that it is expected on all hands, that this move will create miracles or will stop the recession. We merely feel that it is a bullish step, that psychologically it may be interpreted - may well be interpreted ....
- Eccles: As an effort to cure a situation by ....
- H.M.Jr: Excuse me, Marriner. Do you (Lochhead) want to check on the foreign exchange thing?
- Lochhead: I was just looking at this. Sterling is four ninety-nine and five-eighths, and francs are up to .0340.
- H.M.Jr: Pardon me?
- Lochhead: Francs are .0340 and sterling is four ninety-nine and five-eighths. And incidentally, they also say that there's been an increase in the price of gold in the London market since the opening. This isn't official, but they claim it works out \$35.10 in the open market.
- H.M.Jr: Go out and talk to Knoke, and then I'll come out and talk to you a minute.
- (Lochhead goes out)
- White: I don't think that this implies that the Administration feels that the recession can be cured by monetary means. It merely is in the position where it has to take whatever means - all the means that it thinks have reasonable possibilities for success and will contribute toward a turn of the trend. And I think that's the issue. I think Jake stated it very clearly. If you believe that at this time an indication that the Administration is going to pursue - he called it an inflationary policy ....
- Viner: Easy money policy, all right.
- White: I call it easy money policy. ....at this time - if you feel that this is bad, then the step is bad. If, however, one feels that will help to contribute to make the business men believe that action will be

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taken, that we may be going into a period in which the immediate trend of prices will be checked - downward trend - and will be upward, and if you feel that the business community responds to the expectation of easy money policy, which is followed by rising prices, etc., then I think the move is a good one, and it must be evaluated on that basis. If, however, you are opposed to the Government taking any action which would indicate to the business community that they are going to abandon the policy of rigid - I don't like to use an adjective; it's bad - deflationary thinking, obviously you won't be in favor of it. But we're in favor of it because we think it will introduce a note of hope for rising prices, a hope for easy money, a hope for ....

- Eccles: That's one of the troubles now; you've got prices too high, in certain fields.
- White: It isn't a question of level of prices; it's a question of which way they're moving. I agree with you that some prices are too high. But I agree with Jake that we can't expect miracles from it.
- Viner: Well, I'm not willing to agree; you may get a miracle out of that sort of a statement.
- Taylor: You may get a miracle in reverse.
- Viner: In reverse.
- Taylor: It reminds me of the situation with two boys out in the boat and they discovered that the anchor didn't have any chain on it. "Well," they said, "we'll turn it over anyhow; it might do some good."
- White: Well, it's like all analogies. It sounds good in itself, but it doesn't bear on the point at issue. We're not turning the boat over, we're not out at sea. We're merely announcing a reversal of a policy which has been in operation and has been accompanied by - we won't say "caused" - has been accompanied by increasing recession.
- Eccles: You're indicating that the policy, then, is responsible for the recession, and therefore you're reversing the policy.

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- White: No, no, I studiously avoided saying it was the cause. We won't go into that. I merely say it was accompanied by ....
- Eccles: But it seems to me that you're trying to accomplish this through what would tend to be an inflationary gesture, on the assumption that the cause is a lack of sufficient easy money and therefore the recession has been brought about by that reason.
- White: Well, I think you yourself took a similar position a short time ago when you were considering increasing reserve requirements. The discussion was centered around a question as to whether that move would help to check rising prices, would help to give you control over a situation which may be running away. In other words, the discussions, the pros and the cons, rested upon what the effect would be of a reduction in reserves. If you thought it had no effect, I can't quite see why all that discussion took place or why it was such an important move at the time. It was obviously because you felt that the reduction in excess reserves would have some effect if you took it. Exactly. For the very same reason, we want to investigate .....
- Eccles: Of course, I don't want to discuss this, because - but I issued a statement; if you will look at it, you will see very definitely that the action taken was not with the idea of restraining the use of credit. It was - there was nothing to that effect said. It was not with the idea of putting on the brakes. It was merely with the idea of taking up some slack, and you've still got some slack.
- White: Why? Why couldn't you have waited to ....
- Viner: Is that history a matter for discussion now? The situation that we are facing is a situation in November, 1937.
- White: Exactly. Except that in the analysis of a situation, one frequently and unfortunately has to resort to historical precedents in order to bring out a point.
- Viner: I know, but supposing the policy was wrong in March, 1937.

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White: Well, I don't wish - I mean I wouldn't speak of that again. I merely raised it as an indication ....

Taylor: I don't know whether it is my turn or not.

H.M.Jr: It is.

Taylor: Last night after I went home from the Treasury, before the dinner, why, I thought I would - I saw certain points which would be brought up, and so I wrote them down on the back of an envelope. There's only a few that apply to this particular subject, and I'd just like to make myself perfectly clear.

H.M.Jr: Go ahead and read.

Taylor: "There is no credit stringency. If one develops we can take appropriate measures. An outward gold movement has started. The entire mechanism which has been created during the past two years was intended to insulate our domestic credit structure against the bad effects of a withdrawal which we hoped would take place. I do not think we should desterilize a large block of gold. I don't think we should pay off our bill maturities by desterilizing enough gold to meet these maturities, as it is probable that the natural outward movement will take care of quite a proportion of these requirements and have the same effect as formal action."

H.M.Jr: Is that all you got? Is that all?

Taylor: That is on this subject.

H.M.Jr: Oh.

Taylor: The other isn't very long.

H.M.Jr: Go ahead. I thought I saw more than one page.

Taylor: Well, I picked out the pieces that directly applied to this subject.

H.M.Jr: Go on, read the whole memorandum.

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- Golden.: May I ask one question to clear up the last sentence. "Would have the same effect" - what do you mean, the same effect on the budget?
- H.M.Jr: On the cash balance position. And you could use those proceeds or not to do what you wanted to as far as your financing went. I don't think we ought to retire bills.
- Golden.: But gold going out isn't going - if gold is going out and you meet it out of the sterilized gold .....
- Taylor: That's the only place we can get it.
- Golden.: That's all right, I'm just trying to get clear - it isn't going to have the same effect as though you were meeting maturities out of it, is it?
- Taylor: Well, it won't have the same effect but it will put you in the same position, you see, so that you will retire public debt. I don't think it ought to be bills.
- Golden.: To the extent that it does.
- Taylor: Yes.
- Golden.: I see.
- Eccles: It doesn't become excess reserves, but it retires bills. If you retire bills and it doesn't go out, then of course you have increased your .....
- Taylor: In other words, I think we ought to stay put on December 22.
- Golden.: The difference I want to make is that it doesn't - does reduce your public debt, but it does not increase your reserve position. That's the distinction. Now, excuse me, go ahead.
- H.M.Jr: Say that again please.
- Golden.: I mean, Mr. Secretary, that if all you do is meet gold exports out of your sterilized gold, and retire

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that proportion of Treasury bills, the excess reserves of the member banks will not change; whereas, if you adopt a policy of paying off all the bills that mature out of your sterilized gold, then your excess reserves will increase unless the gold movement assumes proportions that no one can possibly expect.

- H.M.Jr: You (Taylor) want to read the rest, or isn't that pertinent?
- Taylor: The rest of it isn't pertinent to this particular discussion.
- H.M.Jr: May I take a look at it.
- Taylor: Yes. (Hands papers to Secretary). That's the cable, and that fits - that's simply part of the text, you see.
- H.M.Jr: Excuse me a minute. (Reads)
- Do you have any reaction to this discussion, Mr. Himmelblau, or is this ....
- H'blau: On the first proposal that you are discussing, I raise no point. On the second, I have an idea I mentioned, but I don't know what the effect on business would be, if these technical things take place; that's beyond me.
- H.M.Jr: You don't know. Well, let me ask you this, because that's why I'd like to have you in here: talking in very general terms, supposing we do something about gold, and the average business man just knows Washington is doing something about gold, see?
- H'Blau: Be a question of the motive.
- H.M.Jr: Pardon me?
- H'blau: Be the question of the motive - why you're doing it.
- H.M.Jr: Well, I mean what at this juncture would his reaction be, good or bad? Do you think we're doing something to help him or hurt him?

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- H'blau: Depends on who picks up the argument and uses it. In other words, your publicist would pick it up and say it's either good or bad, and the business man would believe his particular favorite publicist.
- H.M.Jr: Well, what do you think?
- H'blau: Well, frankly, I don't know much about the effect of gold movements. That's beyond me.
- H.M.Jr: And this discussion this morning hasn't made it any clearer.
- H'blau: As to the - the only effect, if you want to move a bit beyond the question which is Point Number Two - I think if the effect of this action is to reduce the total debt even temporarily, that would have a very favorable effect psychologically.
- H.M.Jr: Well, of course, if gold goes out, and it is going out under the announcement we have, remember, we automatically reduce our debt.
- H'blau: And I think that would have a very favorable effect. Now, the question that you are postulating is whether or not you should do nothing, or just let it go out, and then later on say you won't sterilize any more, or whether you should say something more. It's all new to me. I hadn't heard of it, frankly. I just don't quite clear my own mind on it.
- H.M.Jr: Let me ask you this, which you do know. What do you hear from your clients this past week as to their business?
- H'blau: Poor.
- H.M.Jr: Poorer?
- H'blau: Yes, business is poor, has been poorer; in other words, it has been falling off.
- H.M.Jr: You didn't tell me that a week ago.
- H'blau: You asked me what happened this last week.
- H.M.Jr: I'm very definite.

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- H'blau: During this past week it simply has been falling off. In other words, simply - I would say a more intense feeling of being out in the dark and not knowing which way to turn.
- Viner: You may be interested in this, by the way, that some sort of retail conference, I guess the big department stores, Himmelblau, has been going on in Chicago.
- H'blau: Chain stores primarily.
- Viner: And General Wood spoke to a small group in confidence and said that in the past ten days their orders have been slumping badly, even from the farm - their farm orders - so that the slump has reached the farm.
- Eccles: I got a letter from Wood yesterday, inasmuch as you have mentioned this now, so that he apparently - he wrote the letter confidentially - but he said that during the past two weeks, which were the last two weeks of October, that their total volume of sales was 15 percent less than the same period a year ago.
- White: Rummel of the Macy Brothers - oh, excuse me - another bit of evidence: Rummel of the Macy Brothers made a statement to a group two or three days ago in which he said that their sales at Macy's held up until two weeks ago, and then began to drop rather sharply.
- H.M.Jr: Well, that checks.
- White: I'd like to point out a difference, a fundamental difference, in the opposition that I think ought to be called to your attention. On the one hand we have one view indicating that the thing will have a lot of effect, bad or good, but it has the potentialities of being a substantial effect. I take that to be Viner's view.
- Viner: It may, yes. It's a psychological question.
- White: Whereas one must put against that the view that it will have no effect, and therefore opposing it.
- H.M.Jr: Well, that's - there's another view.

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- Viner: Well, the effect ....
- Eccles: I see almost no possibilities of its having a good effect. I'm assuming that that's the proposal and that it is not part of a general picture. I'd certainly say that the Government program ought to be one which includes assurance to the public that we are going to maintain easy money, say, as part of our general program.
- H'blau: Have you heard from any source that there was any intent that they wouldn't maintain easy money?
- H.M.Jr: Well, you've got all the people in the room here responsible for it.
- H'blau: Well, I thought the general impression was that that policy is being maintained. I've never heard anything to the contrary until this morning.
- Eccles: I'm surely on record enough on that score, and there is no indication or feeling that there is any intention to do other than that. And everybody knows that, comparatively speaking, money is the most available thing there is today. People want to know what to do with their money. It isn't a question of a lack of it. The great trouble is idle balances and banks with idle reserves that they just don't know what to do with.
- H.M.Jr: Well, to answer you (Himmelblau), the people who advocate this feel that it is a certain move which they made down here to stop this rise in prices, see? And one of the moves which they blame for it is this gold sterilization policy, again quoting them, and they feel that if we announce the discontinuance of that, that would be an indication that Washington felt that the deflation of prices has gone far enough.
- Eccles: That we ought to have a further rise, that would mean. That would mean higher building costs, certainly not lower, if it had the effect that it is desired to have. It would mean the railroads would be in the same boat, be less able to buy. Bottlenecks that exist would exist to a greater extent. You wouldn't be dealing with the fundamental problems at all.

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- White: That's what they said in '30, '31 - "Prices were too high. When they get down low enough, people will begin doing work." And you've heard - a great many said - you can go back to it, if I may use a historical episode - there were a very great many economists who said, "The adjustment is taking place. We're on the way down. When things go low enough, the trend will turn."
- Eccles: I'm not arguing that.
- White: No, no, I'm ....
- Eccles: I'm not saying that it will pick up of itself. I think it requires positive action. And I'm certainly not in sympathy at all with what was done in '31. But I think the action has to get down and deal more with the causes of the thing rather than deal with matters that are not the causes. And it seems to me the monetary is the one thing that has had least to do with the situation that has developed.
- H.M.Jr: The fact remains in the minds of the public and in the minds of the world, beginning with the President - I mean a number of statements that were made by him and other people that prices were too high, and from that time on prices have gone down.
- Eccles: Started really before that. In the wholesale prices in London that broke before that.
- H.M.Jr: Well, I think they broke right after a statement came out of the White House. I think that they started to break right then. But anyway, we're dealing with a state of mind. I mean it's - and there's no indication - this has nothing to do with .....
- Viner: Of course, that statement shouldn't have been made in that way, and there is never a situation in which all prices are too high.
- H.M.Jr: May I just - and I say again, the people that advocate it say there is no indication from Washington that they feel that prices now are low enough. Now let me go back - after all, right or wrong, Mr. Roosevelt

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started out this whole question; he's always been talking of prices, that he wanted prices to reach that level and that stability so that a man could sell his goods and pay off his debts at approximately the price at which he contracted them. He sent that as a message to London in '33.

Eccles: But merely action of this sort doesn't increase prices of products, such as the agricultural products, where there are the surpluses.

H.M.Jr: Well - but Marriner, I again say that nobody here has said that the present price level has dropped to a point where we think it is low enough, and every day it's just going a little lower.

Eccles: I don't think that a statement of it would correct that.

H.M.Jr: One of the things that they blame for the falling off in prices, right or wrong, is the gold sterilization policy. And I again preface my remark - I haven't crossed this bridge. This is simply in the argumentative stage, you see, and I'm asking and listening and asking more people to come down. Because this thing has been advocated by such important people that it just can't be brushed aside; I mean people outside of the Treasury who are of first importance in ability and respectability.

What do you say, Goldenweiser?

Golden.: No, I was just listening.

H.M.Jr: No, I mean nothing has been settled. But I think when a thing of this kind is recommended by people of that nature - I mean you just can't - my job, I take it, is to listen, weigh them, and make up my mind. That's what I'm trying to do today and tomorrow.

Golden.: You want to make a decision tomorrow, Mr. Secretary?

H.M.Jr: I want to make up my mind tomorrow if I should do anything over the week-end. I might decide to do nothing over the week-end and then let it run another week, you see. I mean ....

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- Golden.: Sure, you never can say way in advance.
- H.M.Jr: And I'm perfectly frank in saying that I'm approaching this thing at this particular time - not trying to cure fundamentals. To use an example, labor - I'm not thinking of that for the moment. I'm just trying to think, what can we do to indicate to the public something which will convince them that we are conscious of the fact of what is going on. Now, the only public statement that's been made by anybody down here is a statement by Roper that everything's lovely.
- Eccles: That's ridiculous.
- H.M.Jr: You go through the press and see if there is any person in any position of responsibility who has let business know that we know that the thing is dropping out from under our feet every single minute. I mean I haven't seen any statement, have you, Mr. ....
- H'blau: No.
- H.M.Jr: I haven't seen any statement by any person of responsibility that we realize that business conditions are as bad as they are.
- Viner: There is the Department of Agriculture release on the forecast of their economists as to the trend of business.
- Golden.: Yes, there is that - their statement about a recession.
- H'blau: Well, that just came out.
- Golden.: That came out day before yesterday.
- H.M.Jr: Yes, but Wallace didn't put his name to it.
- Taylor: He never does. That's the B.A.E. That comes out of the B.A.E.
- Golden.: The summary of business conditions that we issued recently shows an unfavorable trend. There isn't much interpretation, but .....
- White: You mean the index dropped.

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- Golden.: Not only the index of production, but every single ....
- Viner: Every single element in it.
- Golden.: All the way through.
- White: But you avoid any interpretation.
- Golden.: That particular thing doesn't interpret it; just states it.
- H.M.Jr: Well, I was thinking in terms of individuals, Mr. Goldenweiser.
- Golden.: High officials, yes.
- H.M.Jr: Mr. Lubin got out a statement showing that the trend of labor was off, didn't he? The same day Miss Perkins tried to take it and make it look good, if I remember correctly. I was thinking in terms of individuals.
- Eccles: This thing has reached a situation where a statement by anybody, it seems to me - except the President himself, in which he shows a recognition of the trend and undertakes to correct it by having some positive program - is all lost. And I think that the fewer statements the better, and that he should - Congress is meeting here; there's his opportunity, it seems to me, to go before Congress with a message that not only recognizes exactly what the situation is, as he sees it, the causes for it, but what ought to be done about it. Now, that - then you can rally support; you've got a program, you intend to do something. If the statement is accepted favorably, it can do some good. But any of the rest of us making statements - it just doesn't - I don't think it has the effect.
- H.M.Jr: Well, we can't argue on that - I mean comparing anybody else's statement to the President's.
- Jake, would you mind stating - I mean you've made several times the statement that this doesn't go to the root of the matter, the fundamentals. Would

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you mind stating what you think are the fundamentals?

Viner: Well, as I see the situation, it is this. I have some notions as to what started the downward trend, but I don't think the monetary policy had much, if anything, to do with it. I feel myself that what started the downward trend was the upward trend in prices and the feeling of business that the trend was going to continue, and the fact that they over-bought, and the result was that orders stopped coming in, they realized that they had over-bought, and they began checking up. I think you can get an adequate explanation of the first stages of this decline in terms of the purchasing agents' discussions as reported in the newspapers at their various meetings. They discovered about March or April that last fall and early this spring they had generally over-ordered in anticipation of higher prices, and they had commitments outstanding larger than they would need for a long time unless business kept on rising at a quite rapid rate.

Since then, what has happened has been - see, I thought we were going to have not a depression, - a reverse - what do you say for a slight ....

White: Recession.

Viner: .... a summer recession. My forecast was for that. I was wrong. And I was wrong, I think, now, examining that and talking to people - the mistake was that I had underestimated, didn't know the full extent of the commitments that were outstanding.

Eccles: Backlog of orders.

Viner: And business kept on going this summer on orders which were going into inventories, so that therefore that postponed the recession for three or four months.

Then the next thing is, why is the recession taking the nosedive, because I just heard a business executive say that this is going downhill faster than on any previous occasion, that it has spread from - the lags

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are all being shortened; I mean it started at the usual place, but the lags are all short and the rate of intensification is more rapid.

And what is the nosedive? Well, when business psychology points that way, they use all the unfavorable terms they can pick up in the situation to justify their pessimism, and they've got plenty of them now. There is this underlying fear of government policy which was existent even when business seemed to be in a healthy condition; there is this emotional element which, when they have borderline decisions to make - the fact that they resent the policy of the government helps them to make the decision: inaction and liquidation, etc.

And that the fundamentals are that our recovery was mainly a consumers' goods and retooling recovery. It didn't become a capital goods recovery and a housing recovery.

I think that this was the first time that, in so many years of recovery, we didn't get back to the pre-depression normal; we have not yet had full recovery, and that that is unprecedented. And that the explanation there is that the Government has established these bottlenecks of various sorts, some of them legislative, some of them atmospheric; and that the persons who control funds, who are relatively a few thousand persons in the community, don't feel that they have any security, they don't see a prospect of profit, they are not convinced that the Government wants them to have any prospect of profit; and that, with the sick spiral that you have now, unless some of those ideas of theirs can be gotten out of their mind, there is no need for this spiral to be any less intensive than the '30, '31, or '32.

Now, there are certain things that can be done, and there .....

H.M.Jr: Well, just tick them off. What are the things that we can do? That the Government can do. Government.

Viner: Well, I think the only constructive approach to the

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problem is the one that Mr. Eccles has suggested, for the President to state what his policy is now in the light of this situation and how he intends to implement it, and if that is the policy which is right that may cure the situation.

H.M.Jr: Well, what is the right policy for him to follow?

Viner: Well, I'd say he's got to remove the bottlenecks which he has established or has permitted to become established. One of them is the too rapid rise of costs in terms of prices, in terms of higher labor costs. Now, you may say that politically that is fatal for him. I'm not - I mean if you say the right things can't be done, then I throw-up my hands.

Another one is the utilities, who are attacked from two sides. One of them is the TVA thing, which tells them that the Government plans with a ridiculous pretense of a yardstick to establish Government-owned enterprises wherever it wants to, and is going to do it on a larger scale regardless of what conditions may be. Hell, how could the Board of Directors of a utility company propose to anybody that they sink more money into an enterprise that faces the uncertainties they do? The other one is the holding company thing, in which I think the utilities are to blame themselves. But there is a bottleneck there, and perhaps it is possible to overcome it by more vigorous initiative on our part.

Another one is the housing situation. And, as I have said since 1934 and kept on saying, the notion that you can get a housing revival when the housing - the ingredients of housing are monopoly-controlled products with high prices, with Government encouragement - and our \$20 a day labor providing a commodity for \$20 a week consumers; you can't do that. The housing problem has never been faced squarely since 1934. The Government has evaded it and evaded it. And he'd have to deal with that.

Eccles: I haven't seen Jake at all.

H.M.Jr: No, no. Let me ask Jake one question. In this interim - I'd like very much to have you state this - in this interim ..... Let's say the President did say

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the things you think he should say. Do you believe that in the interim period, next few months, until those things can catch on, we should increase spending?

Viner: I say you should certainly not do anything until those things are said.

H.M.Jr: I mean do you believe we should increase the spending?

Viner: No, no, I'm not through. I'd say also the tax structure - I haven't said anything about the tax structure.

H.M.Jr: Oh, I know how you feel about that.

Eccles: On this spending, what you mean is that these things - some of these things have got to be said, something's got to be done with reference to the housing, and then, but do you think that you should reduce spending temporarily or that you should increase it in connection with a .....

Viner: In connection with a statement of a reorientation of policy of that sort. I would also make the statement that the Government, in the meantime, intends to do what it can until business has time to make its plans, etc., to keep things going as fully as they can.

I'd also say one other concrete move, as part of a program. Again I am going back to 1934. I would .....

H.M.Jr: Let me interrupt you.

Viner: I would reduce the contributions on Social Security without affecting the budget by reducing the reserves set up.

H.M.Jr: Would you change the speed of spending as it is right now?

Viner: As a single step I would not.

H.M.Jr: No, as part .....

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- Viner: I mean aside from a reorientation of policy, anything which looks in the direction of unbalancing the budget further ....
- H.M.Jr: No, as a part of the whole thing.
- Viner: Yes, I say budget-balancing becomes less important. I'd put a top on expenditures, then I'd let revenues take care of themselves, if at the same time there were an announcement of a reorientation of policy with respect to private business; in other words, that business should feel we are not trying to get out of this depression by Government spending, but by making it possible for private business to expand and take its place, and perhaps for a short interim period easing the process along by increasing the spending - as part of a year's program; in other words, doing it now and not doing it next spring. But short of that, I must say, I'd say almost anything you'd do, in my opinion, would be wrong, if it isn't that.
- Eccles: Be in a worse situation next year than you are now; if you get a shot in the arm through an inflationary scare, it would go right up and .....
- Viner: It mightn't even go up.
- Taylor: Might not even go up.
- Viner: And if it did go up, it would be a little balloon which would come down faster than it went up.
- H.M.Jr: Let's say for argument we're spending 150 million dollars a month emergency money right now - exactly what we spent last month.
- Viner: I'd say the only increased spending I'd justify right now is by Harry Hopkins.
- Eccles: It's quick.
- Viner: Not only because it's quick, but it would also relieve human distress.
- Eccles: I mean looking at it purely from an economic standpoint, that would be an effective, quick flow of funds.

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- Taylor: You'd have that whether you wanted that or not.
- Eccles: Therefore recognize it.
- Taylor: Don't be scared about that. But don't try to speed it up. That's something you know we're going to do. Don't say, "We can't afford that," because Christ knows we're going to do it anyhow. But don't take any action which would encourage that.
- Eccles: The only way you can talk about a balanced budget is first to stop a recession. The balanced budget of '39 is dependent entirely on the stopping of this recession now.
- Taylor: Our whole tax structure is based on business activity and business profits.
- Viner: And I'd point out something else with respect to the fiscal year 1938 estimates, that even if the corporations break even in the last quarter of this year, so that, as far as that is concerned, they retain the profits they have earned in the last nine months, they're going to have big inventory losses to write off December 31, so that our estimates for this year are likely to be off.
- H.M.Jr: I wasn't far off - spent 145 million dollars emergency expenditures last month.
- Eccles: How much did you collect on Social Security, though that isn't figured as revenue?
- H.M.Jr: No, no, I'm just talking about emergency expenditures.
- Eccles: But that - oh, I see, yes. That doesn't mean the ....
- Golden.: That's not the net.
- Eccles: Doesn't it mean the ....
- Golden.: The rate at which the billion and a half is spent.
- H.M.Jr: Of course, the carry-over, the whole thing - Agriculture, War, Civilian Conservation, Public Works, Works Progress.
- Eccles: How does that compare with a year ago?

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- H.M.Jr: September - October, 145. September a year ago, we spent 253.
- Eccles: And a year ago you had the bonus effect.
- H.M.Jr: Well, that was pretty well gone by then, Marriner.
- Eccles: September?
- Golden.: Well, they had the money.
- H.M.Jr: Well - oh, I'm talking about out of the Treasury.
- Viner: The money was paid out mostly in June, but it couldn't have been spent until the summer, and 500 millions of it, if I remember right, was out after June 30.
- Golden.: Mr. Secretary, I came in here this way and listened to see what the subjects - what the main positions were. I am prepared to state, if you wish, how it looks to me.
- H.M.Jr: I wish you would, please.
- Golden.: As far as the economic analysis is concerned, I agree absolutely with Viner. I think it is exactly the same way that I look at it - and the reasons for the situation and the remedies as he mentioned them, too. So that there is no difference of opinion on that.
- On the more specific question that you spoke of, about the gold, at this time, as near as I can think of it in a hurry, I would - I can see no particular point in announcing the discontinuance of your policy at this exact stage, when the policy is no longer resulting in increasing your debt and when the gold movement is not inward. You are having an outward movement of gold, and it probably is not going to get reversed for some little time now. So I don't see that it is a very opportune time, or an effective time, to discontinue your policy. It might be taken that you are using sterilization at the time when gold might have been inflationary and you stop using it when it ceases to be inflationary. It might be misinterpreted as though

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you were going to play the deflationary game on both ends. So that by itself I can see no particular - it doesn't seem to me this is an opportune time for announcing it.

I do think this: as between this date of November 3th, or whatever it is, and the - November 6th - I don't know what date it is - and the end of the year, it is necessary to carry out with complete good faith and in a generous interpretation the policy that was announced on September 12th, of seeing to it that there is no shrinkage in reserves from now until the end of the year. Now, the Treasury has taken care of three hundred millions of it, and the question is, between now and the end of the year, either the Treasury or the Federal Reserve System has got to supply the additional reserves. And I would not be very meticulous about being sure that we don't supply too much, because this is not the time when that is going to do any harm. And so my proposal would be that the Federal Reserve System now proceed immediately to buy some securities so as to anticipate the coming December demand for funds, and to see to it that the reserve picture never goes below - much below a billion dollars. It is likely to go down to about 800 million dollars, but it may not go that low, because the currency - one of the indications of our recession is that the currency demand is much smaller than anticipated and it may be that the reserves won't go down below 900 million dollars. But I would be in favor of action either by the Treasury or by the System to buy Governments between now and the end of the year, and my own preference would be, in order to carry out the arrangement, that the action from now on be purchases by the System.

As far as gold is concerned, I do think that an inflationary announcement in the gold field is likely to have bad psychological effects rather than good ones, because I think that people would interpret it as meaning that we still have too much faith in the monetary remedies, that we are still - that we are misreading the situation, and that there is less reason for confidence that we are going - that the System is going to function uninterrupted and uninterfered with, than there will be if you say

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nothing about it at this stage. I haven't organized my thoughts very well, but that's about the way it looks to me at the moment.

Eccles:

I'd like to raise a question. The President has made quite a number of statements with reference to the budget picture and the 700 million deficit for this year, with a balanced budget next year, which has of course been given a good deal of publicity. It's a commitment.

It seems to me that - and there is some disagreement, no doubt, on this point - that the 700 million dollar deficit is not a deficit in the same sense that it would be if it wasn't for the Social Security not being included as revenue-producing - if the Social Security was considered a revenue-producing operation. This is what I mean, that in this fiscal year '38 the Government will have taken out of the community in money about 400 million in excess of what it puts back into the community. In other words, so far as the public is concerned, there will be a reduction in the amount of Government debt held by them. The reduction will be very largely in the amount of Government debt held by the banks, because the retirement will be in bills and notes, if you could carry through on the schedule. And then the Treasury would issue to the Social Security fund the three percent - what is it, three percent bonds; it's three, isn't it?

H.M.Jr:

Two and a half and three. Two different kinds.

Eccles:

Yes. So that so far as the effect on the economy is concerned, it is deflationary to the extent of 400 million, even though we say that we have a deficit of 700 million. Now, it seems to me that it isn't fair to have the Government put in the position where they've got the deficit, which in the minds of a lot of people means that they are really spending 700 million more than they are taking in, whereas they are actually spending 400 million less than they are taking in when you take into account these funds. And the monetary effect is exactly the same, so far as the community buying power is concerned, as it would be if those were any other kind of taxes. It's 400 million dollars deflationary.

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Golden.: That's committed for the next fiscal year.

Eccles: For this year.

Golden.: I mean ending '38.

Eccles: That's right. Now, for the next fiscal year, we figure that we haven't got a balanced budget until we have actually retired from the public over a billion dollars of outstanding Government debt. Now, that is - that would be deflationary to the extent of a billion dollars. And unless you have private credit expanding by fully that amount or more - it should be more - then it isn't wise to retire that amount, whether for Social Security or whether for cancellation, so far as the community - the effect on the community - is concerned. I mention that because it is a big factor, it seems to me, in these considerations here and what the President might have to say with reference to the budget picture.

Now, I mentioned something to you yesterday, Henry, on the desterilization of gold in the fund for the purpose of taking care of deficits to the extent that you don't have to change the budget picture. In other words, if you should take five hundred million or a billion of the gold in the desterilized - in the sterilized fund for the purpose of providing Hopkins with funds, or for the purpose of taking care of funds that Wallace might get through your agricultural program here for the support of the corn and wheat and prices - to keep those from going down. To have to go out and borrow money - it would increase the public debt; it wouldn't look good.

H.M.Jr: Well, Marriner, the way the thing is going now, if it keeps up this way for a little while, we won't need any new money - I mean we're selling it so fast. I mean the figures that we have made - we won't need any money in December.

Eccles: Is this - yes, I know, but if - what I am thinking of is .....

H.M.Jr: It's the same thing if it didn't happen.

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- Eccles: If the President should go before Congress and say, "Now, we're not going - we're going to balance this human budget; we've got these people out of employment and we want to give assurance that while private spending is diminishing, we can't diminish public expenditures at the same time, and during this interim period, why, we are going to meet this requirement to the extent that we have to increase what Hopkins - what we may need for relief and to the extent that we may need for this corn program. But we have borrowed a billion and a half approximately and we have increased the debt by that amount and we have gold that is being carried against it. We can desterilize a portion of that gold, get those funds, without further expanding the debt." I'm thinking of it from a public standpoint. Now, see what reaction some of these men here have on it.
- H.M.Jr: Well, if you don't mind, I'd like to stop now. I know what you've got; I don't want to stop you, and if you want to go into Taylor's room and talk it over ....
- Eccles: All right, I'll do that.
- H.M.Jr: But I've just got to stop; I mean you're more than generous to give me all the time you have, but I didn't allow enough.
- Eccles: There is nothing - there's nothing else important right now.
- H.M.Jr: I don't know whether you want to continue it in Taylor's room. Now, that's up to you.
- Eccles: I'd like to do that. I talked to you yesterday.
- H.M.Jr: I would like Viner to stay to talk about a personal matter, if you would.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 5, 1937

TO The Secretary  
FROM Mr. Taylor

The business community and the new capital market are in a state of stagnation, if not panic. There are three main reasons for this situation:

1. They are disturbed by what they consider to be the lack of a positive attitude on the labor problem.
2. They do not like the present tax structure, in particular the undistributed profits tax, and the capital gains tax in their present form.
3. They do not think that the Government has the courage to curtail subsidies and what they consider unnecessary expenditures; and they fear that at the first signs of a recession the Administration will resume excessive spending or start monkeying with the dollar. Either move would mean the beginning of the end in their minds, and the printing press would be just around the corner.

In effect we have a repetition to a, as yet, minor degree of the French situation. Business and capital have temporarily lost confidence in the government; until this confidence is restored no purely monetary or credit move will be effective. I refer you to the cable of October 30th, No. 1545, Section 2, summarizing the resolutions passed by the Radical Socialists. They apply with equal effectiveness here. The Radical Socialists in France compare to moderate left group in this country; in other words, the New Deal.

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What can the Treasury do? There is no credit stringency, if one develops we can take appropriate measures. An outward gold movement has started. The entire mechanism which has been created during the past two years was intended to insulate our domestic credit structure against the bad effects of a withdrawal which we hoped would take place.

If we are facing an unbalanced budget in any case, let us take the risk of unbalancing it by changing our tax structure; in other words, let's see if business will make the expenditures. If they do our tax receipts will automatically increase; if they don't, we will have to borrow and go through the whole process of 1933-1937, provided it will work again, and it probably won't because we have educated the public to know what the moves mean.

I do not think that we should desterilize a large block of gold. I do not think that we should pay off our bill maturities by desterilizing enough gold to meet these maturities as it is probable that the natural outward movement will take care of quite a portion of these requirements and have the same effect as formal action. I do think you should make your speech about as is.

well,

November 6, 1937  
11:03 a.m.

H.M.Jr: Hello.

Operator: Here's Mr. Farley.

H.M.Jr: Hello.

James A. Farley: How's the situation?

H.M.Jr: Hello, Jim?

F: Yes, are you free to talk?

H.M.Jr: Yes, I can listen.

F: How's the situation this morning? Any better?

H.M.Jr: Well, I was with him for an hour and a quarter.

F: Yes.

H.M.Jr: And - much better.

F: Well, that's fine.

H.M.Jr: Yes.

F: I think that that was extremely helpful yesterday.

H.M.Jr: I think so; I think it may be a turning point, Jim.

F: Yes. Well, it's highly essential that - frankly, that - I think that we ought to sort of have another check-up next Friday on it. You know what I mean.

H.M.Jr: I know. And what I did this morning was - you see, I'm speaking in New York on the night of November 10th.

F: Yes.

H.M.Jr: On spending.

F: Yes.

H.M.Jr: And on taxes.

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F: Yes.

H.M.Jr: And I've got a very strong speech.

F: Yes.

H.M.Jr: And by God he okayed it.

F: I see. Well, that's all right.

H.M.Jr: What?

F: That's all right.

~~H.M.Jr:~~  
H.M.Jr: See?

F: That's all right, but it's highly... Now, I'm going to make a statement here and I don't want you to even comment on it one way or the other.

H.M.Jr: Yes.

F: It's just the same thing to you.

H.M.Jr: Yes sir.

F: But I'm fearful at times that he gets somewhat of the wrong slant from people who want to ingratiate themselves with him and don't lay the cards right on the table.

H.M.Jr: Well, you're just a thousand percent right, Jim.

F: See? Now, God knows I've never done that, but I've never butted in much in fields where I have no right to be in.

H.M.Jr: Yes.

F: But I felt that the time has arrived to speak out in court.

H.M.Jr: Well ...

F: Of course, between you and me, we don't get very much help in there, you know.

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H.M.Jr: I know we don't.

F: See?

H.M.Jr: And we sit around for a couple of hours and it's pretty much wasted.

F: Yes, but there isn't - you don't get much help from your associates in there.

H.M.Jr: No.

F: And I think it's because of fear. They just - they just - they're afraid to speak out.

H.M.Jr: Well ....

F: It's unfortunate, but that's true.

H.M.Jr: Yes. Well, I had to get under his skin, didn't I?

F: Yes, you did.

H.M.Jr: What?

F: Of course I had to use that word "stubborn" because that's just what the boys use, you know.

H.M.Jr: I know.

F: I don't know whether he liked it or not, but I gave it to him ....

H.M.Jr: Well, he was in a very good humor this morning.

F: He was, huh?

H.M.Jr: Very. And ....

F: Well, I think - frankly, I think that he saw the sincerity of everybody.

H.M.Jr: And I was with him for an hour and a quarter on this speech, and he - the only thing he looked - he never referred to what happened there except to say that he - the things which were brought out there, see? -

F: Yes.

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H.M.Jr: - and the things which were necessary to do - he told that to Roy Howard and his twelve editors who were with him last night. Now, isn't that interesting?

F: He told that to them?

H.M.Jr: He told them that - "Here are the things ..." - he said, "I told them what are the things which are necessary to be done which were brought out in Cabinet yesterday."

F: That's very interesting.

H.M.Jr: What?

F: That's very interesting.

H.M.Jr: I thought it was most encouraging. That's the only reference he made, and I was with him from 9:15 to 9.. - to 10:30.

F: That's very interesting. Well, all right. Well, thanks a lot. I was just sort of checking up.

H.M.Jr: Well, Jim, I can't tell you how much I appreciate the backing you gave me yesterday.

F: Well, hell, you were telling the truth. I always stand for a fellow when I think he's telling the truth. I'd have disagreed with you just as quickly if I'd thought you were saying the wrong thing from my point of view.

H.M.Jr: Well, I - I certainly appreciate the backing you gave me.

F: O.K., sir.

H.M.Jr: Thank you very much.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: November 6, 1937

TO: Mr. Morgenthau

FROM: A. Lochhead

On Friday, November 5, the Swiss National Bank at Berns cabled to the Federal Reserve Bank of New York and requested that the Federal Reserve Bank purchase for the account of the Swiss National Bank \$6,000,000 gold at \$35 per ounce, plus 1/4% charges, debiting the account of the Swiss National Bank, Zurich, on their books in payment. A further cable received the same day instructed the Federal Reserve Bank to purchase an additional \$5,000,000 in gold in the same manner. No reference was made in these cables as to whether or not these transactions were conducted under the Tripartite Agreement, and although the Federal Reserve Bank had received \$6,000,000 for the credit of the Swiss National Bank the day previous, it was found that these funds were merely a transfer from the Swiss National Bank's own account with the National City Bank of New York. The Federal Reserve Bank, under our instructions, cabled to the Swiss National Bank, Berns, pointing out that if the purchase of gold which they requested was under the terms of the Tripartite Agreement, it would be necessary to show that the dollars so acquired were the result of an exchange transaction, and the entries passed through the Special Account of the Swiss Bank which had been set up on the books of the Federal Reserve Bank for that purpose and in conformity with the procedure agreed to by the Swiss National Bank at the time they had adhered to the Tripartite Agreement. It was pointed out that any sale of gold other than under the Tripartite Agreement could only be made under a special license obtained through the Treasury Department.

Today, the Swiss National Bank, Berns, informed the Federal Reserve Bank, by cable, that they had been obliged to purchase approximately \$21,000,000 on November 5 in order to stabilize the Swiss dollar rate in their market. These funds are to be received by the Federal Reserve Bank on November 8, and are to be cleared through the proper account. They requested that a purchase of \$11,000,000 of gold be made and earmarked for their account under the terms of the Tripartite Agreement and stated that they would inform us on Monday as to their exchange transactions today and would at that time give us further instructions as to gold conversions against these operations.

JR

GRAY

Paris

Dated November 6, 1937

Rec'd 9:04 a.m.

Secretary of State,  
Washington.

1569, November 6, 1 p.m.

FROM COCHRAN.

Paris banks open this forenoon to compensate for holiday earlier in week. Feature of unofficial trading is continued weakness of dollar. One Paris American bank bought \$170,000 for French control at 29.41 3/8 and Lazards did probably a larger amount. Impression here is that Netherlands control this morning began selling florins and buying sterling instead of dollars as heretofore.

Proceeding to Basel tonight; returning Tuesday morning.

BULLITT

CSE

RECEIVED  
NOV 11 1937  
AMERICAN DEPT. STATE  
WASHINGTON, D. C.

JR

GRAY

London

Dated November 6, 1937

Rec'd 4:15 p.m.

Secretary of State,

Washington.

701, November 6, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Today's ECONOMIST contains an analytical article on the economic outlook in America, pertinent excerpts from which are as follows:

"At midsummer then the position was that current consumption was healthy and flourishing but that the capital goods industries was still flagging, hindered by a dormant new issue market \*\*\* steel activities which was reduced by the strike in May never fully recovered and has been declining rapidly since April. Thus the capital goods industries were not only in the more vulnerable position earlier in the year but they have in fact started the downward movement. There can be no one explanation for this change in trend. Part of the responsibility can be upon the depressing effects in the bond market of the Federal Reserve's policy of raising the reserve requirements of the banks. This undoubtedly put a stop to the incipient revival in the new issues market. Simultaneously the heavy tax on undistributed

JR -2- "701, November 6, 6 p.m., from London.

undistributed profits made it more difficult to finance capital extensions out of progress. In some industries notably the railways and building, rising labor costs either directly instigated or at least encouraged by Government action prevented expenditure on capital goods. And finally the effort made in Washington to balance the budget severely reduced the Government's own expenditure on capital goods. It might almost have been a concerted program to discourage capital investment.

The decline in the volume of new business for the heavy industries naturally reacted on the stock exchange. Security prices had risen less rapidly than corporation profits since the bottom of the slump. But the level of prices was not in this sense too high; it seems to be true that the regulatory action of the last few years has made the market very vulnerable to selling pressure. Comparatively small sales produced drastic reductions in quoted prices. Sharp falls in security prices turned industrial hesitation into pessimism and pessimism into an alarm. Psychology thereupon affected the confidence of businessmen throughout the country. Not only that; every individual and corporation whose credit depended upon stock exchange collateral found his borrowing power reduced. As always deflation in one part of the system spreads to others".

After

JR -3- #701, November 6, 6 p.m., from London.

After emphasizing that this is not 1929, that fundamentally the position is much less unsound, consumers' purchasing power being well maintained and capital goods being under rather than over supplied, the article concludes with the following recommendations: "The difficulty seems to lie in the main in the nexus of finance and confidence which links the need for capital equipment with the industries which are ready to supply it. It is a straightening out of circulation not a distortion of structure. It follows that the main line of remedial action should be a direct attempt to remove the obstructions to activity in the capital goods industries. There are many forms which this action could take, all of which are familiar to the authorities at Washington and could be applied if the decision on policy were taken. Something has been done to reverse the depression influences in the bond market and to improve the technical position of the stock market. Much could be done to lower the cost of capital construction and to raise the margin of income of some industries notably the railroads which are at present unable to afford reequipment they require. Much could also be done by the adjustment of taxes which at present discriminated against capital expenditure. If, in curing the recession of 1937, policies were adopted which led to a repetition of the wild expansion of 1929 the net result would certainly be more harmful than beneficial. The supreme task of the American authorities is to avoid all extremism in policy.

SMS:EMB

BINGHAM

FEDERAL RESERVE BANK  
OF NEW YORK*Mr. Lohbied*

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## OFFICE CORRESPONDENCE

DATE November 5, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF FRANCE.

Mr. Cariguel called me at 10:10 today and inquired whether it would be possible for us to send them by the Normandie on November 10 \$10,000,000 of their earmarked gold. I assured him that, as far as we were concerned, ~~that~~ shipment would be promptly effected and Cariguel stated that he had arranged for freight and insurance and would confirm his request by cable.

Dollars continued under offer today, he stated, and he had bought about \$7,000,000.

LWK:KMC

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NOV 10 1937  
FEDERAL RESERVE BANK  
OF NEW YORK

FEDERAL RESERVE BANK  
OF NEW YORK

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## OFFICE CORRESPONDENCE

DATE November 8, 1937.To CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeDE NEDERLANDSCHE BANK.

I called Mr. de Jong at 10:25 today. I referred to his cable of November 6, instructing us to subdivide his special gold account into special gold account A and special gold account B. I assumed, I explained, that one of these two new special gold accounts was that of the Dutch Equalization Fund, the other of the Netherlands Bank. de Jong replied that this assumption was correct, that this split-up was of a temporary nature and had been made necessary by the fact that the Equalization Fund, which was full of gold, required guilder assets, and for that reason it sold \$10,000,000 worth of gold to Netherlands Bank; that special gold account B was the bank's account, special gold account A that of the Fund. I thanked de Jong and told him that I would send him a cable tonight repeating our understanding as to the nature of these two special gold accounts and asking him to confirm to us that gold held in account B was the property of the Netherlands Bank and that no third party had an interest in it. I explained that it was necessary for us to clear up this point because of a license issued to us by the Treasury Department in which was incorporated a similar provision to the effect that gold received by us for earmark hereafter must be the property of the institution for whose benefit the earmark was created. I added that in our new terms and conditions, of which he would before long get a copy, he would find a similar clause under earmarking of gold. de Jong replied that he understood the situation and that everything was in order. He asked me whether there would be any difficulties in retransferring the gold from special account B to special account A.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 8, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Kooko

DE NEDERLANDSCHE BANK.

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I assured him that there were not any, that under the present set-up gold which we held under earmark was transferable to others who were entitled to gold, for instance, to his own Fund or to other members of the Tripartite Agreement, etc. He also wanted to know whether, in case of need, he could convert into gold those dollar balances which he had accumulated over a period of time. I explained that conversion into gold was automatic under the Tripartite Agreement only if the procedure set up for that Agreement had been followed. Conversion into gold outside of the Tripartite Agreement was possible only with a license to be issued by the Secretary of the Treasury with the approval of the President. However, I thought I had reason to assume that such license could be had upon application. de Jong replied that he did not think they would apply for such a license but that he had asked the question just for his information.

We discussed today's market which he said had been an active one, with dollars freely offered. I emphasized that we should be very happy to operate for him in this market any time he wanted us to do so. I added that I thought we would probably, before long, lose a good deal of gold and that everybody here seemed very happy over it. de Jong thought he could understand that ~~because~~ because they had had the same feeling when they recently began to lose gold.

I made reference to his recent order to reinvest in three months Treasury bills maturing bills that we were holding for his account. I pointed out that the yield on Treasury bills was practically down to zero, with dealers bidding .08% per annum and such bills

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 8, 1927.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeDE NEDERLANDSCHE BANK

- 3 -

practically unobtainable. Under the circumstances, would he be interested in four months bills, which promised to continue in fair supply and which were quoted .18% per annum bid, .14% per annum offered. de Jong replied that his first thought was rather not to re-invest, that, however, he would like to talk it over with his associates and send us a cable today.

LWK:KMC

RECEIVED  
NOV 9 1927  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

FEDERAL RESERVE BANK  
OF NEW YORK143  
McC Lohman

OFFICE CORRESPONDENCE

DATE November 8, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokaBANK OF ENGLAND.

Mr. Bolton called at 11:14 today. The market had been very active since the opening, he said. They had so far taken \$22,000,000 (\$12,000,000 from the Czechoslovakians). I mentioned that since gold prices in London and New York were now in line, I assumed they would begin earmarking here. Bolton replied they did not wish to earmark a lot of gold unless they felt that this movement was going much further. What he proposed to do was to earmark, say four or five million dollars tonight and then ship a few million to London in order to get the London market into shape and enable them better to control gold there. He also had a strong feeling that it would have a salutary effect to see gold moving from New York to London or to Paris. Such shipment <sup>to London</sup> would be purely experimental; at any rate, it seemed to them the movement had gone far enough and physical shipments might well help to correct the situation. I suggested that what had really happened was no more than had been expected. I also mentioned that the French had just asked us to ship to them on Wednesday on the Normandie \$10,000,000 of their gold, which, I thought, should have a very wholesome effect. Discussing today's market in detail, Bolton said that he had not been able to find a trace of selling of dollars from London but that the bulk had been for account of Switzerland, Holland, Belgium and Central European countries. As usual, the latter had acted more quickly than other countries, but, in all of them, there were a good many holders of dollars who got the wind up. I asked whether he could tell me anything about the sales by Czechoslovakian National Bank, but Bolton

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 8, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF ENGLAND

- 2 -

replied that all he knew was that Prague had called him on the telephone and offered him the dollars which he had taken right away because, under the prevailing market conditions, he did not want them to throw such large amounts on the market. There had been no time for him to ask many questions.

He inquired whether the Swiss had done anything here and I told him that we had on Saturday received a request to earmark tomorrow about \$11,000,000. I also mentioned that Cariguel had just called me to say that he had bought \$7,000,000 in the Paris market today. Bolton, I thought, made it quite a point to let me know that, as far as they were concerned, their policy was to try and keep the market in good order and that they did not take much interest in any particular sterling-dollar rate. I used this opportunity to repeat that we would be entirely at their disposal if at any time, they wanted us to operate for their account in this market after London was closed.

RECEIVED  
NOV 10 1937  
FEDERAL RESERVE BANK  
OF NEW YORK

LWK:EMC

RB

GRAY

London

Dated November 8, 1937

Rec'd 4 p. m.

Secretary of State  
Washington.

703, November 8, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

The sterling dollar rate has moved during recent days about one percent and as always when it is subject in a brief period to any such fluctuation questions and criticisms begin to appear as to the workings and efficacy of the tripartite agreement. This is perhaps accentuated by reason of the fact that although the city and the public generally associate the tripartite agreement with stability, in the case of the franc it has been more honored in the breach than in the observance.

This has played a part in the pressure on the dollar today augmented by persistent rumors from the continent regarding devaluation and by a technical factor, viz that almost all foreign exchange dealers were long of dollars and when the dollar weakened further today many of them were forced to switch. Although the sales of dollars in London were not

RB -2- No. 703, November 8, 7 p.m. from London

WERE not as great as in Paris, nevertheless the pressure was very heavy, selling coming from many parts of the continent and this country. On the other hand if and when any indication is forthcoming that gold will or is being shipped from the United States a rapid reversal is to be expected.

The uncertainty in the exchange position is said to have played a part in the abrupt decline in commodity prices today, most of the metals for example making new recent lows. Likewise, the London stock exchange was very weak. The decline in commodities is having an important psychological effect here: it is accentuating decidedly the feeling of uncertainty and at the same time is bringing home the importance of American developments on this country.

There are a few bankers in the city who see in the present dollar sterling and gold movements an indication that the authorities of the two countries are advertently or inadvertently taking upon themselves the responsibility of handling the major adjustment movements between the two countries rather than merely attempting to iron out minor exchange fluctuations. They are aware that one result would be that foreign exchange dealers who have heretofore relied on their opposite numbers in other countries for balancing operations

RB -3- No. 703, November 8, 7 p. m. from London

operations would increasingly have to defend in their  
(of?)  
importance dealings on the authorities in their own  
country. Incidentally I should think that Siepmann would  
be aware of any such trend and would be willing (as an  
individual) quietly to foster it.

BINGHAM

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NOV 10 1951

INTELLIGENCE DIVISION

U.S. DEPARTMENT OF STATE

PARTIAL  
PARAPHRASE OF TELEGRAM RECEIVED

143

FROM: American Embassy, Paris, France

DATE: November 8, 1937, 5 p.m.

NO.: 1573

FOR TREASURY.

The dollar has been offered on a large scale here today with the result that the rate has fallen to around 29.25. Our market contact informs us that the fund has been able to retrieve very substantial amounts of both sterling and dollars. This contact states that well over ten million dollars have been purchased by the Chase and National City together. It is our understanding, also, that before 11 o'clock this morning the British control purchased at least \$15,000,000. The sterling rate is now around 147.08.

Various reasons are put forward to explain the flight from the dollar. Among the most outstanding may be mentioned the impression that the American Government might eventually be led to reduce the present gold value of the dollar, the decline in business in the United States and the unsettled international

RB -2- No. 1573, November 8, 5 p.m. from Paris  
international situation.

The security market was depressed and prices were  
lower all around including rentes. (END GRAY)

BULLITT

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RECEIVED  
NOV 10 1951  
TREASURY DEPARTMENT  
WASHINGTON, D. C.

## MEMORANDUM OF THE DAY'S ACTIVITIES

November 8, 1937

To: Secretary Morgenthau  
From: Mr. Magill

The Committee spent the day discussing the tax on capital gains. It was decided tentatively that profits on the sale of property held for one year or less should be taxed in the same way as ordinary income. This is the present scheme. The Committee also inclines to the view that a taxpayer should be permitted to carry-over net losses from the sale of capital assets for one year and to deduct them from any capital gains for the subsequent year.

The Committee has reached no conclusion as to the method of taxing capital gains. The general inclination is to provide some rate of tax lower than the present for the benefit of taxpayers with large incomes. I have been holding out against any method of treatment which is more beneficial to taxpayers with large incomes than to taxpayers with small incomes. I think the chances are that the Committee will arrive at some conclusion within a day or two. Thereafter the Committee will probably wish to proceed with a discussion of the undistributed profits tax.

The Committee is meeting regularly from ten to twelve and from two to four each day. This plan creates serious problems for us since the Committee obviously wants me to take the initiative in presenting the material and recommendations; and, of course, the material has to be prepared at night.

The Committee's attitude is entirely friendly and cooperative. They are all anxious to have us show them some way in which they can reduce everyone's taxes and still get the same amount of money we have been receiving heretofore.

RM

November 8, 1937 - 11 a.m.

- H.M.Jr: Mr. Lochhead tells me that we are going to get off a shipment of your silver.
- Lochhead: The Central Bank in Shanghai instructed the Central Bank in London to ship 10 million ounces of silver. We looked up the steamers and it will probably be leaving on the President Roosevelt on the 15th.
- Amb: Dr. Kung is anxious to dispose of more of his silver and would like to get your help again - whether you could take another lot this week.
- H.M.Jr: I would not want to take it on this boat. I do not want to take more than 10 million ounces at a time. I will take another 10 million ounces on a boat which follows the Roosevelt. I am willing to say to you now that I will buy a second 10 million ounces of silver at 45¢ - same terms - but it would have to come over on another boat or I will take it this week if it comes from the Pacific side.
- Amb: Dr. Kung wants me to express his great thanks to you.
- H.M.Jr: I am interested in the 19 airplanes that sailed from Philadelphia on Friday on an English boat. Does that boat go directly to China?
- Amb: It goes via the Suez Canal.

November 8, 1937.

At lunch with the President he said, "I want to put a flea in your ear. Have you ever stopped to consider that Fascism is winning out in this world and that Democracies are gradually becoming weaker?" He said, "Take it in Brazil, for instance, as the situation gets worse the President of Brazil turns towards Fascism and the Army because he has seen that Fascism in Germany has been a success - as it has been in Italy." He said, "In no country was labor stronger than it was in Germany but Hitler tells labor in Germany about how long they should work and what their wages should be." He said, "You can't deny that the new tri-partite agreement between Germany, Italy and Japan, for the time being, is going forward while the Democratic countries are all going backward".

He said, "Take the situation in our own country". He said, "Four or five people may get together and they'll talk this thing over and they'll simply say we have simply got to get our own man in Washington but there is no use in trying to make them understand". He said, "Washington every so often says that they want business to make a profit and they believe in property rights but we don't believe them". He said, "Now I don't say that 2,000 men have all got together and agreed to block us but I do say that 2,000 men have come to about the same conclusion." I said, "I agree with you on that but I can't agree that any particular group have met somewhere and have decided to go on a sit-down strike". "What I have got to think out", said the President, "is do we want to hold all of the form that we have got and continue to go forward or do the way Mr. Hoover did, call in groups and try to cure the particular situations one at a time?"

He said, "Now to-day I am meeting with Hopkins and a certain group of economists; tomorrow I am meeting with another group; Wednesday I am meeting with Gerard Swope and some others on housing and Thursday with another group on public utilities". I interrupted him to say, "Now, Mr. President, if you can't find anybody else in Washington to get this small housing program started promptly, I am willing to do it". I said, "Not that I am feeling particularly well but if you can't find anybody else I am willing to take it on". I said, "What I am talking about is building five or ten thousand houses, not to cost more than \$5,000. apiece". He said, "Well I will want to talk to you about it about Thursday".

He then continued this talk about what the chances were that the industrialists in this country would gradually let their thoughts crystalize that it was better to get their own man down here. Several times I said to the President, "Now is there anything behind what you're saying to me; have you

- 2 -

something on your mind that you're trying to get over to me? I am just not getting it". He said, "No, absolutely not, I have nothing in mind other than what I am telling you".

I said, "Well I have tried to define the New Deal to my son, Henry, the other day and, I said, my conception of what you had accomplished in the five years was that the United States had come through this terrific world turmoil and that the individual in this country still had the right to think, talk and worship as he wished". The President said, "And add to that the right to work". I said, "That's my idea of what you have accomplished but, I said, if you're asking me I'd say it is far more important that you paint a big broad picture and maintain the true Democratic principles in this country than to think of any single individual problem".

I then said, "I don't know whether you are conscious of the fact, that when you're talking about them wanting to get their own man down here, of the drive that's on me and that they're using Jones and Kennedy on account of our attitude on taxes". The President said, "I am perfectly aware and conscious of that and, he said, "that's what bothered me the other night so much about Magill". He said, "Can't you get a pair of handcuffs with just one link between them and handcuff Magill and Oliphant together?" He said, "Oliphant has got vision". He said, "Magill only gave me little piddling things". He said, "I am worried about Magill". At this particular stage, Jimmy Roosevelt came in. I said, "Now, Mr. President, you don't have to worry one minute about Magill". I said, "He 's absolutely loyal and, I said, I don't come and tell you everytime somebody wants to resign but, I said, it took me three days to get Magill back on his feet after you got through with him in Hyde Park". The President didn't like this. "And, I said, perfectly frankly, if Magill resigned to-day I think it is almost impossible to replace him". Jimmy Roosevelt then spoke up. He said, "Magill is fine, I agree with Henry". I said, "You tried to take in three hours six months work and you just couldn't take it and, I said, it is out of the question to expect Magill and Oliphant to work together". I said, "I have had trouble enough trying to keep both of them happy without trying to get them to work together and, I said, if you want Magill to be inspired, you certainly ought to give us another session".

He said, "Well how do I know what Magill is saying on the Hill" so I said, "I am telling you that you don't have to worry about what Magill is saying on the Hill; that he is only saying up there what we have agreed on".

- 3 -

The President said, "Why should I spend so much time on the details of the taxes" and I said, "Well you took up an awful lot of time arguing about details the other night."

He handed me a report that Roper gave him. He said, "Now look at that - a lot of generalities". He said, "How can I get anything out of that?"

I don't exactly know what the President was trying to get over. I suppose he was trying to give me a picture of how he felt and possibly frighten me a little bit by waving the Fascist flag before me. I know this wasn't necessary. On the other hand, when he got all through and done my reaction was that he is fighting like a cornered lion; that he does not want to be tamed and still, on the other hand, he does not know where he can put his strength at this particular juncture to bring about recovery.

Of course, the Fascist governments are going ahead and it is most vitally important that this country shouldn't have an industrial slump because it gives the enemy of true liberalism an opportunity to crack down on us as the most important Democracy and point with pride to our failure.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 8 1937

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information

Spent part of Saturday afternoon with a small group Jackson has working on the revision of the Sherman, Clayton, and Federal Trade Commission Acts.

After the meeting, Lubin told me that, at your suggestion, he had been working with Captain Collins on keeping Government purchases from being made at the peaks of seasonal demand. In this connection he said he had found the Government could immediately let some large contracts for future supplies which, if done quickly, he thought would do much to reverse the present recession. I suggested he put it on a sheet of paper and send it direct to you.



November 8, 1937  
2:57 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

James A.  
Farley: Hello.

H.M.Jr: Yes, Jim.

F: I was just curious to know whether there's anything -  
any - the situation changed any since I talked with  
you Saturday.

H.M.Jr: No. I saw him again today.

F: Yes.

H.M.Jr: And the situation hasn't changed any, and I don't  
think he's changed any. And I still think that  
while we've cracked the ice - I still think ....

F: What's that?

H.M.Jr: We've still got - the battle is still before us.

F: I see.

H.M.Jr: See? Hello?

F: Yes.

H.M.Jr: And I think there's lots of work to be done.

F: Yes, I do too.

H.M.Jr: See?

F: Well, I was just curious to know how you were getting  
along with him yourself.

H.M.Jr: Well, personally, I'm get- - I mean as far as my  
personal relations are concerned, I was - they're  
aces high. Hello?

F: Yes, I know.

-2-

H.M.Jr: I was with him this morning  
you know, and then again for lunch. But it's a  
tough job, Jim.

F: Yes.

H.M.Jr: It's a tough job.

F: Well, I'll talk to you; I'll be down later in the  
week and I'll talk with you.

H.M.Jr: All right. I mean it's - ah - the situation is  
very, very serious and it's - and the whole thing  
is very difficult.

F: Yes. Well, we'll just have to keep pitching fast  
balls, that's all.

H.M.Jr: Yes, and - and hard ones.

F: That's right.

H.M.Jr: That's right.

F: O.K., goodbye.

H.M.Jr: Thank you.

November 8, 1937  
3:38 p.m.

H.M.Jr: Hello.

Operator: I'll have to call Dr. Viner at his apartment; it will be about fifteen minutes.

H.M.Jr: All right.

\* \* \* \* \*

3:55 p.m.

H.M.Jr: Hello.

Jacob  
Viner: Hello.

H.M.Jr: Jake!

V: Yes.

H.M.Jr: I thought you'd like to know that the speech is finished and it's gone to the mimeographer.

V: Fine.

H.M.Jr: The President made a few more changes, liberalizing a little bit more at the end.

V: Uh-huh.

H.M.Jr: A little bit more - how shall I say?

V: Hedging?

H.M.Jr: Pardon me?

V: Hedging?

H.M.Jr: No, not hedging, but making things a little bit more clear that we're going to take care of the - the undernourished, etc. etc.

V: Uh-huh.

H.M.Jr: Everybody around here, including Taylor ....

V: Yes.

-2-

H.M.Jr: ....on that is entirely satisfied.

V: Right.

H.M.Jr: See?

V: Yes.

H.M.Jr: Entirely satisfied. And so am I.

V: That's all right.

H.M.Jr: And I again want to say how much I appreciate all the help you gave me.

V: That's all right; I was glad to do it.

H.M.Jr: Now ....

V: Other things - how's the market today?

H.M.Jr: Well, - ah - the - for your information - I mean I'll take a chance on the phone ....

V: Yes.

H.M.Jr: .... there's ten million gold going out Wednesday to France.

V: Uh-huh.

H.M.Jr: And Britain made up its mind and earmarked five today for two days and it goes out Thursday.

V: Uh-huh.

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

V: Uh-huh.

H.M.Jr: But ...

V: Uh-huh.

H.M.Jr: But we made a survey: from the first of September to the fifth of Oc- - November ....

V: Yes.

-3-

H.M.Jr: .... the total net movement of capital, including everything, out of the country is only a hundred million.

V: Uh-huh.

H.M.Jr: Which isn't bad.

V: Oh no.

H.M.Jr: That's the total net figure.

V: Uh-huh.

H.M.Jr: ~~Including~~ everything.

V: Uh-huh. Well, that isn't a major movement.

H.M.Jr: Pardon me?

V: That isn't a major movement.

H.M.Jr: No.

V: No.

H.M.Jr: Well, my main object in calling was ....

V: All right, thank you very much for calling me.

H.M.Jr: ... to say thank you.

V: And I'll - I'll listen in on the radio Wednesday night.

H.M.Jr: Let me know what your children think of it.

V: All right, I will.

H.M.Jr: I'm serious.

V: All right.

H.M.Jr: Goodbye.

V: Goodbye. Good luck.

H.M.Jr: Thank you. I need it.

November 8, 1937  
3:35 p.m.

H.M.Jr: Hello.

Operator: Dr. Himmelblau.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Doctor  
Himmelblau: Himmelblau speaking.

H.M.Jr: This is Morgenthau.

H: Yes, sir.

H.M.Jr: I just wanted to say I was awfully sorry I didn't have a chance to see you before you left, and also to say how much I appreciated your coming down.

H: Oh, that was all right; I knew you were tied up.

H.M.Jr: Mr. Taylor told me that he thought you were getting along very well.

H: Yes, well we expect to have something finished late this week.

H.M.Jr: Well, that'd be grand. And I appreciate so much your coming down and going to all the trouble that you have.

H: That was a most interesting lunch.

H.M.Jr: Well, I just wanted to tell you that.

H: Thank you ever so much.

H.M.Jr: Goodbye.

H: . Goodbye.

## GROUP MEETING

November 9, 1937  
9:30 a.m.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Taylor  
Mr. Gaston  
Mr. Haas  
Mr. Gibbons  
Mr. Upham  
Mr. Lochhead  
Mr. McReynolds  
Mr. Bell

- H.M.Jr: Herbert, I'd like to call up Sandy Klein and tell him how much I appreciate how they handled that story last night on gold. I thought they handled that beautifully.
- Gaston: Why, you might mention another thing to him. Sandy called me up and two others called me up; somebody read on your pad a note, "Great Britain, five," and each fellow was afraid that the others would think we had sold them five million. And I told him I was sure nobody would use anything like that, and that that was just a reminder that there was five hours' difference in time between New York and London. But at any rate I talked to Sandy at some length.
- H.M.Jr: When I saw what he was reading, I just slipped my thing down.
- Gaston: It was Sandy that read it?
- H.M.Jr: Sure.
- Gaston: The fellows that threatened to use it - one of the other fellows had actually written it up in a pretty definite sort of way, but Sandy persuaded him not to use it.
- H.M.Jr: Sandy read it, and the only other fellow who could have read it was Clarence Linz. But Sandy managed to read it. Mrs. Klotz usually takes everything and turns it upside down. But this was right in front of my nose. If you have something like that, you don't think a fellow sitting over there is going to read it. But he did.

-2-

Oliphant: And upside down.

H.M.Jr: But I was absolutely truthful with those boys, because that five million dollars is earmarked here and we don't know what it's going to do.

Lochhead: No, excuse me, but .....

H.M.Jr: Is that gold earmarked today?

Lochhead: The gold that is earmarked today ....

H.M.Jr: Is it? Is it earmarked tomorrow still? Well, is it earmarked today?

Lochhead: It will be earmarked today.

H.M.Jr: And aren't we on a 24-hour basis? Well, how the hell did I know what they did? I say it's still earmarked today.

Lochhead: Yes.

H.M.Jr: It will still be under earmark and we are on a 24-hour basis, and you don't know now that if the price continues to drop they'll ship it. Now, they turned gold around from India that landed here yesterday. How do you know that if this thing - after today - everything dropping down - that that will go out Thursday? You don't, Archie. I'll make you a bet on it too. I'll make you a bet on it. I'll give you odds that it doesn't go out.

Lochhead: Oh, I'll take you on that. I'll take you on that, when you offer to give me odds.

Taylor: (To H.M.Jr) Be careful.

Lochhead: I'll let you talk with the newspapermen, but when you want to bet with me .....

H.M.Jr: But technically what we told them is correct; that gold is earmarked today. And I'm not going to talk about something 72 hours off. Because you might have announced that gold arrived from India; it did, but it went back again.

-3-

But thanks for the tip. From now on I'll look everything over twice. But that's a very amusing story, huh?

Taylor: I think the difference in time is a perfect answer.

Gaston: Of course, his attitude was such that he wouldn't use it, but he was afraid that the other fellows were going to use it and was he going to be left out on a limb.

H.M.Jr: That's a grand story, and of course the whole purpose of withholding it - I mean the psychological effect - if it goes to France, it's because the French conditions have improved since September 17; but if it went to England, it went for another reason. But - well, anyway, should I call up Sandy later?

Gaston: Yes, I think it would be a good idea.

H.M.Jr: What?

Gaston: I think it would be a very good idea to call him up.

H.M.Jr: And without mentioning anything, simply say I want to tell the boys I think they handled a very difficult story extremely well.

Gaston: Very good, yes.

H.M.Jr: (On phone) Ask Mr. Sandy Klein, from the News Room, if he will be up here at ten o'clock. I'd like to see him please. - - Sandy Klein of United Press, ten o'clock.

Now, that's that. But that's very funny, isn't it?

Magill: You'd make a good lawyer. Archie makes a poor witness, though.

H.M.Jr: That's very good. Well, I accept that as a compliment.

Taylor: Coming from a lawyer.

H.M.Jr: Yes, coming from a lawyer.

Magill: First duty before you put a witness on the stand is

-4-

to interview him in your office.

H.M.Jr: Known to John E. Mack as "horse-shedding."

Magill: We're working on capital gains.

H.M.Jr: So I see.

Magill: As I wrote you last night, the boys are very anxious to reduce taxes in all directions, particularly for the wealthy. They have also been extremely anxious for me to lead them by the hand, which so far I have refused to do.

H.M.Jr: That was nice of you.

Magill: No, it's unkind. Not being led by the hand, I think about what they'll decide to do will be that there ought to be a top rate of about 20 percent on capital gains. Having reluctantly abandoned 12½ percent and 15 percent, I think they'll probably stop at about 20.

H.M.Jr: Well, would you like to have my comment?

Magill: I would.

H.M.Jr: I mean the news story on capital gains - well, it makes just as much sense to me as Mark Sullivan on Social Security.

Magill: Just about.

H.M.Jr: Just about. And if anybody knows what those figures mean, I'd pin a rose on them. I mean the - you'd like my comment, you know, as one lawyer to another.

Magill: As one lawyer to another.

As you doubtless appreciated, we deliberately refused to put any interpretation on the figures. You can put two or three interpretations on it.

H.M.Jr: Well, I just thought you'd like to have a legal opinion on this. But if anybody can tell it, I suppose that's all right.

-5-

- Magill: It is, as a matter of fact.
- H.M.Jr: O.K., all right. What time do you and Cyril want to go?
- Magill: Our kindergarten starts at 10 o'clock.
- H.M.Jr: Well, you can stay another five minutes.
- Magill: Undistributed profits is going to rear its ugly head in, I should say, about two days.
- H.M.Jr: We're all feeling better today.
- ~~Magill~~ Magill: The boys were very anxious to grab it by the throat on Monday.
- H.M.Jr: How about Armistice Day? Wouldn't that be a good day?
- Magill: No, they say, "We work every day; we're going to stop that day." Except your speech - they are agreeable to letting me have a furlough tomorrow afternoon.
- H.M.Jr: Are you through?

I just want to say something very interesting - and those of you who have been in on this speech and worried so - and Harry White would be interested in this. Mrs. Morgenthau made a very interesting comment. She said, "Some of your people are so worried that you're going to get out on the end of a limb." She said, "As a matter of fact, the only remark that you have made publicly - you people are all so close to it that ...." - the only remark that I have made publicly on balancing the budget is that nobody could tell whether the budget would be balanced until January. All the statements about balancing the budget have been made by the President. I haven't said a word. My hands are absolutely untied. You people know the road that I have traveled with him the last month, so you have all been worrying; but publicly this is the first time I have said anything. And the only fellow that really is sawing himself off is the President, and that's why he came out with that statement twice yesterday from the White House. He's not going to let anybody start it. And when is his next press conference,

Wednesday morning or today?

Gaston: It is this afternoon at four o'clock.

H.M.Jr: Well, I bet you anything that you want that he spills my speech tonight. He's not going to let me go up there and say that without getting it out from the White House first. Want to bet?

Gaston: I think he probably will.

H.M.Jr: But isn't my wife's comment on that interesting?

Gaston: Very good, very true.

H.M.Jr: I mean here we are all so worried here and everything. But now that I've arrived at the point where I am, up to what he says tonight, I'm ahead of the procession - the way it is written now.

Gaston: Yes. Yes.

H.M.Jr: Forgetting all the heartaches we've gone through.

Oliphant: You never mentioned it but once in your press conference?

H.M.Jr: They said, "What about balancing the budget?" I said, "How could anybody tell?"

Oliphant: And it wasn't mentioned ....

H.M.Jr: I said, "How could anybody tell the budget could be balanced until January?" Then they went up to see the President and said, "Morgenthau said the budget won't be balanced and you say it will."

He said, "What did Morgenthau say?"

"He said, 'Well, how could anybody tell the budget could be balanced until January?'"

He said, "That's right."

Now, that's the only comment I've made.

Oliphant: That's an interesting perspective; she's away from it.

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- H.M.Jr: I thought it was very interesting.
- All right, you're (Magill) excused. But isn't that interesting?
- Magill: Very. (Holds aside conversation with Oliphant)
- H.M.Jr: Say, listen, what does that mean, that I can't play cross-word puzzles now that the Supreme Court has taken action on puzzles?
- Magill: Oh, Herman felt that the Legal Department couldn't get along without a Supreme Court decision as to whether a jig-saw puzzle was a gain. So, while the Supreme Court has a good deal to do, he thought this was one of those burning questions that had to be decided. They decided it.
- H.M.Jr: Isn't Magill good today? Isn't Magill good today? Attaboy!
- (Magill and Upham leave)
- H.M.Jr: (On phone) Hello. - - Well, I'll talk. Otherwise, he'll be worried whether I had him up .... Hello, Sandy Klein. Morgenthau. As the President of the Treasury Press Club, I just wanted to tell you I wish you'd tell the boys that I am simply delighted the way they handled that gold story.
- Klein: Well, I certainly will tell them.
- H.M.Jr: I thought that they handled a very difficult story absolutely ....
- Klein: Well, that's fine, I'm glad to hear that, sir. All right, I'll be glad to convey that all to them.
- H.M.Jr: Goodbye. (Conversation with Klein finished)
- If he had been here, I could have kidded him a little bit about reading upside down. He must have practiced reading backwards. But I can't do it over the telephone.
- Gaston: Maybe he just worked in the Printing Office.

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H.M.Jr: All right. Herman?

Oliphant: Nothing except on that cross-word puzzle I did issue orders that trivial cases like that shouldn't be carried to the Supreme Court, but those matters should be handled by changes in the legislation.

H.M.Jr: Well, all I can say is, all the columnists have lost their sense of humor.

Oliphant: I hoped the Supreme Court would spank us.

H.M.Jr: I thought that was a marvelous story - that we'd get funny about it.

Oliphant: It was. Did you see - we dragged that poor case all the way through the District Court, the Circuit Court of Appeals, and the United States Supreme Court, to settle a little question that could have been settled by one line.

H.M.Jr: It was silly. O.K. Anything on your mind, anything that's pressing? I'm going to get back to earth again next week.

Oliphant: Good.

H.M.Jr: I have no more speeches in prospect.

Gaston: I've got a couple invitations for you.

H.M.Jr: O.K., I've got a price for them too. And I've paid the price this last month. Got a couple good ones? Wayne just loves to make speeches.

Taylor: Oh yes!

Gaston: One is a company which records the voices of great men for posterity, and they want five minutes of you and ....

H.M.Jr: Well, I'm not a great man and I'm not interested in posterity.

Gaston: Picture and record. You can take part of this speech and do it. It goes into a library.

H.M.Jr: No. What else? What serious matters have you got?

Gaston: Well, as to the handling of this speech, my present idea is simply that we will give it out here about four o'clock tomorrow afternoon, and I've put a line on it saying that it is for release on delivery and must not be printed in any papers appearing on the street before delivery is begun, and up to delivery it must be treated as wholly confidential. Giving it out here at four o'clock won't give them much chance to get it around. And then I'll take some copies - to make sure, I'll go around to the papers in New York and hand them around between five and six o'clock.

H.M.Jr: And then give some to Ethel, Herman's friend.

Oliphant: (Laughs) Oh, she's a wonder. She called me up again.

H.M.Jr: Did she? I only heard the first story.

Oliphant: You mean you heard the one where she called me up and because you thought you shouldn't take too much time she wanted me to let her know whether you wanted ....

H.M.Jr: Well, you were going to sit on - she thought I had two tickets here for you and Mrs. Oliphant.

Oliphant: I didn't hear that one. I talked to her again. She got her tickets back.

H.M.Jr: You were her personal guest. She must be an old girl friend of yours. What is she, Mitchell's secretary?

Oliphant: She is now, and she runs this Political Science.

H.M.Jr: So I hear.

Oliphant: And anybody else that is anyway near her she runs.

H.M.Jr: She's a scream. I asked about my 30 minutes - did I have to worry about Byrd running overtime? "Not with Ethel there."

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Oliphant: She called me up again, kept talking and talking about the time you had to talk, and there was no reason why you shouldn't - she got more and more excited. I said, "Wait a minute, has he got the invitation yet?" "No."

H.M.Jr: Oh, you're going back to earlier. Well, I wish I had taken more time.

Oliphant: Maxwell Smith has been retained for Goodyear Tire and Rubber Company. It seems this tire thing has broken up the combination.

H.M.Jr: Good. Fine. Anything else?

Oliphant: That's all.

Gaston: I know of nothing else.

Taylor: Sloan Colt, whom you probably remember, is here in town today and would like to pay his respects. He wants to take his chance on doing it; he's coming into my office at 10:15. He's down here to see the Federal Reserve Board. They wanted him to come down for something. He's a very good fellow, as you know, and I think it would be a good idea if you did see him, just to say hello to him.

H.M.Jr: Well, you better do it at 10:15, will you?

Taylor: All right, fine.

H.M.Jr: At 10:15. O.K. Because I want to go down and work.

Gaston: I have a letter from Richard Waldo saying that the President of Barclay's, Limited, is in this country and he's going to drop into Washington sooner or later - doesn't give any definite date - thinks it would be very fine for you to see him, because he's a very brilliant fellow; that's the British bank, Barclay's. If he's coming up, it's a question of handling it the day he comes, I should say.

H.M.Jr: Yes.  
George?

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Haas: I have nothing new this morning.

H.M.Jr: All right.

Gibbons: Nothing.

Lochhead: Exchange has slackened off, but they haven't gone down very much. It seems they are trying to weigh what this all means for a little while.

H.M.Jr: Yes.

McReynolds?

McR: One thing I'd like to know is whether you want me to put Dan on notice that he hasn't closed the question of your Baby Bond advertising program.

H.M.Jr: Well, you and Wayne - let Wayne go to bat on that, if he wants to.

Taylor: Well, I'm - it isn't - it isn't a question of that at all.

McR: Well, it's just a question of policy there. If Dan is bull-dozed enough, he'll put the money back. If he isn't, he won't put any back.

H.M.Jr: Well, I'm in a very, very vulnerable position at this time as far as going to Dan about anything in the Treasury, but you (Taylor) are not, and you know the story, and I don't care how hard you go at him. I mean you know what tools you need to work with; I don't. I can learn them, but I don't want to take the time. You fix it up. Somebody has told Dan that this is a very expensive thing and so forth. And I think if you explain to Dan why we want a million people and ultimately want five million people to be stockholders in this government, I think you can sell him. But I don't think anybody's ever taken the time to sell Dan on Baby Bonds.

Taylor: Dan goes back to the White House conference in which they changed that number and Baby Bonds were mentioned there.

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H.M.Jr: What White House conference was that?

Taylor: That's when they changed the number.

McR: The boss was present when the President marked that stuff up at Hyde Park.

H.M.Jr: All Dan says is, "This is very expensive, and cut it off." But I can't sit there - when I sit there, I'm sitting on Dan's side of the table - and argue about the Treasury. So I would say, take Dan out for lunch and give him the works, huh?

Taylor: Well, he'll go right back to the White House with it.

H.M.Jr: No, no. You're hesitating doing it?

Taylor: Not in the slightest, but I'm just telling you what the story is.

H.M.Jr: Give him the story why we need it, and then let him make up his mind.

Taylor: No good.

H.M.Jr: Why not?

Taylor: Because he'll go back and say, "The President marked this - changed that figure from four to three."

H.M.Jr: Listen, will you give him the story and then when you get through ....

Taylor: I've already done it.

H.M.Jr: When?

Taylor: Constantly.

H.M.Jr: Well, evidently, if you don't mind my saying it, you didn't make a very good salesman to Mr. Bell.

(Bell comes in)

Taylor: Here he is right here.

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- H.M.Jr: I'll just repeat word for word. Before Mr. Bell came in, we were talking about the money on the Baby Bonds, and I .....
- Bell: That's just what I came down here for.
- H.M.Jr: I said that when I go over there with you on this departmental budget I'm sitting on the same side of the table as you are, and I can't say anything and won't say anything in behalf of the Treasury. I said it was up to Mr. Taylor to explain to you why he needed the money, and he said he had as you came in, and I said, "Well, evidently you didn't do a very good job." And that's word for word what I said. And I wouldn't talk to you, because I go over there with you and I can't pass on my own department. Check?
- Bell: Well, I haven't passed on the estimate as Wayne subsequently explained it to me. In my original recommendation, I recommended four million, and the President cut it to three million.
- H.M.Jr: You went so fast that day, Dan - all I knew, I was out a million, but I didn't know where. I mean you were going - and neither did the President. I didn't want to say anything, but you were traveling awfully fast.
- Bell: Well, we were getting at the end of the time.  
Well, I recommended in my statement four million dollars for expense alone, as compared with four million four recommended by the Treasury. In other words, I cut the Treasury \$400,000.
- McR: And we can get along on the four.
- Taylor: Do that all right.
- H.M.Jr: Then what are we arguing about?
- Bell: The President cut my four million another million, down to three. Now, what is in my mind - I can take the responsibility, I think, and put it back to four. But I hesitated to do it because you were sitting there when he cut it and I said, "There goes your Baby Bonds,"

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and you didn't say anything.

H.M.Jr: I can explain.

Bell: I'm perfectly willing to take the responsibility and put it back to four. But I do think you're faced with this problem ...

H.M.Jr: I'll never go over with you on departments and talk in behalf of the Treasury. I won't do it.

Bell: The committees in Congress are looking at this - Appropriation Committee is looking at this expensive loans item. Last year they put a limit of \$2,975,000 on it, something that's never been done before; it's been there for 17 years. Now, the Treasury has gone ahead on a program which deliberately creates a deficit of about a million and a half, and you may be severely criticized when you go up for a deficiency this spring. Now, next year you come along on a four million dollar program, carrying that program of '38 forward, and they may cut you again to the two million 975. Now, you always have to face that.

H.M.Jr: Well, I think it is up to whoever is in charge of Baby Bonds to explain it. Now, after all, we've got almost twice as many names, and the whole idea back of this thing is - what I hope some day is to get five million people that own Governments, and if we get five million people to own Governments, I think they're going to take an interest in their government; going to have a tremendous correspondence - constantly writing in, asking questions about expenditures, taxes, etc. We've got to develop this - what they call in France the rentier class, the middle class, in America, who are Government bondholders. And I think it is a real investment to get these people owning Governments and I think eventually it is going to save us a great deal of money; we've got somebody we can appeal to.

Bell: Well, I think somebody has got to go into that phase of it before the Committee, because you've got to .....

Taylor: Well, I'd be delighted to do that.

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H.M.Jr: I think it is Mr. Taylor's job.

Bell: You've got to say frankly that you realize this is the most expensive form of financing that we do, yet there is this aspect, that it has an appeal and good from the standpoint of the country, and get the Committee sold on it.

H.M.Jr: Are you willing to defend it?

Taylor: Absolutely.

Bell: All right, then, I'll restore the four million dollars on my own responsibility and make a ....

Taylor: Be delighted to be the Roman sacrifice on that one.

H.M.Jr: Talking about the French, they'd go over and kiss them on both cheeks.

Taylor: Let me pick my Congressman that I kiss, will you?

H.M.Jr: Well now, I'll give you an idea. I'd say, take one advertisement and explain the thing right in the advertisement.

Bell: Can you take an advertisement and explain the results?

Taylor: You bet.

Bell: That's fine.

H.M.Jr: Why not say, "This is what it costs, this is what we're doing, and this is the results," and put it on a page in the Saturday Evening Post.

Bell: I'd be frank about the cost. I'd say you realize it is the most expensive form of financing.

Taylor: No question about it. We did it deliberately.

H.M.Jr: Why don't you have them write an ad, put it right in the advertisement?

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Bell: You mean right in the hearing.

H.M.Jr: No, on the full page ad; come right out publicly and say it.

Oliphant: Say what?

H.M.Jr: Just how much it costs to do this thing, what the results are, what we get for this money, and why we're doing it. Now, why not take the wind out of their sails and say so right now? They've had this ad written for some time about the results, but not what it costs. In other words, come out first before they attack us.

Bell: I don't know where your interest rate would go ~~is~~ you had your cost of financing, do you?

Taylor: Huh?

Bell: How much would your 2.91 be increased by your costs of financing?

Taylor: All depends on what you call the cost of financing.

Bell: Well, I call it all the overhead.

Taylor: You mean all over, the Post Office stuff, the Federal Reserve, and so on.

Bell: Including that.

Taylor: Yes.

Bell: In other words, I call about \$2,200,000 of the budget that you have outlined for this year as the over-all cost.

Haas: Well, on the other bonds you put a one-point premium all the time. That's really a cost on those.

Bell: But your coupon reflects that.

Haas: But the cost is there just the same.

Bell: That's your interest cost.

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H.M.Jr: Very definitely has to be a job of education, and I think it's up to you to do it.

Taylor: Yes, sir.

Bell: That's what I came down for.

H.M.Jr: May I say - may I address the Director of the Budget and thank him for his very fair attitude in this matter.

Bell: You're very welcome.

Taylor: The Savings Bonds thank you.

H.M.Jr: Because you know what I thought you were going to say to me? I thought you were going to say, "I'll put back two million if you'll save it out somewhere else." Then I'd say, "All right, take it out of one of Steve Gibbons' bureaus."

Bell: I have a bee on almost all of them.

H.M.Jr: Danny, make a note that - if somebody should ask - that even though you were Assistant to the Secretary, the whole time you were here, the Secretary of the Treasury never asked you for a nickel as Director of the Budget. Not once. And I never will.

All right, we thank you.

Now, you're all through with my speech?

Bell: Yes. I'll talk to Herbert as soon as this is through, if you want me to.

H.M.Jr: Well, can you do it right now? Did you read it? How did you like it?

Bell: Fine.

H.M.Jr: No!

Bell: Yes.

H.M.Jr: My gosh! Do you really like it?

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- Bell: There is one matter of policy that I'd like to raise. Who's going - you're going to speak first?
- H.M.Jr: No, Byrd.
- Gaston: Last. Parker Gilbert, 15 minutes; Byrd, 30 minutes; and then the Secretary.
- Bell: Of course, Byrd is going into the waste - wasteful expenditures - and I was just wondering if you couldn't say that this war, like - just like any war, you had - you naturally had wasted expenditures because of the large programs that have to be carried on.
- Olyphant: Prepared hastily - initiated and carried on hastily.
- Bell: When we went into the War, we bought enough leather to carry on ten wars. That was a complete waste. But it had to be done overnight. And just the same way, this program had to be done hurriedly, and it was in those cases justified from that standpoint. I just wondered if you would take some of the wind out of Byrd's sails.
- Haas: Mr. Secretary, you had that put in about draft eight, and I guess cutting down we cut it out.
- Gaston: That was in once.
- Haas: Just take a sentence or two. I think it would be a good point.
- H.M.Jr: See if you can take .....
- Haas: Just a sentence or two; I think it's a good point.
- H.M.Jr: Yes.
- Bell: On page 8, where you talk about the revenue and expenditures of this year, the difference between the revenue and expenditures comes out to a definite figure, and yet you go up to 700 million. I think I'd change that to 695 million to make the figures gee, wouldn't you?

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- H.M.Jr: Yes.
- Bell: In other words, your result is five million off from the actual subtraction.
- H.M.Jr: Just as easy to make it exact.
- Bell: On page 9, you say "to attain an ordinary balancing of the budget next year," and then you put in a parenthetical phrase ....
- H.M.Jr: Which is yours, word for word.
- Bell: Then you go on, "it would therefore ...." I wonder if the "therefore" shouldn't come out. "To attain an ordinary balancing of the budget, it would be necessary ....."
- H.M.Jr: I read that thing over three times. I knew there was something the matter. Herbert, do you want to look at that? I've read that thing three times; I knew there was something the matter with it. "... ordinary balancing of the budget next year, it would be necessary ....."
- Bell: You see, your "therefore" is hung on the parenthetical part of it.
- H.M.Jr: There's something ....
- Gaston: What it means is that in view of our decision not to count on more revenue, it would be necessary.
- H.M.Jr: Well, do you want the "therefore" in?
- Gaston: No, it isn't necessary; it isn't essential.
- Bell: Little awkward, I think.
- Gaston: It was just ~~meant~~ to refer back to that original assumption.
- Bell: On page 10 - I don't think there is much you can do about this - of course, you have picked out certain expenditures which you want to comment on and talk about later on as the ones responsible for the past

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deficits. No particular expenditure is responsible for any deficit. Now, maybe that's all right. I don't see how you can correct that item.

Gaston: Well, they are the added things, aren't they? They are the major added items to an ordinary budget.

Bell: Public highways and public works, normally no; but they have always been in our budgets.

Gaston: But what we're speaking about is huge additions to those items which are largely responsible.

Bell: You don't say that. You say that several of these items of expenditure have been mainly responsible for our past deficits; then you talk about Agriculture, and we added five hundred million dollars to the tax structure two years ago to take care of your agricultural payments, largely your agricultural payments. I haven't any suggestion for correcting it.

H.M.Jr: I think that's all right, Dan; I think they'll get that. It's the large - those are the excess expenditures, in those items.

Bell: Well, if they were eliminated, our budget would be balanced, certainly.

H.M.Jr: Right. I think that's all right.

Bell: Now, you take them up one at a time - the highways - and you say, "Prior to the depression, the Federal grants to the states for public highway construction regularly ran under one hundred million dollars annually." There are two cases where they ran slightly over. I'd like to suggest one of two things. Either say "generally" instead of "regularly" or say "rarely ran over." On two occasions they ran over a hundred million.

H.M.Jr: What page are you on?

Bell: Bottom of page 10.

Gibbons: Why not say "with one or two exceptions"?

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Bell: If you wanted just one word changed, you can say "generally ran under one hundred million dollars." If you want to make it the other way, you can say "rarely ran over one hundred million dollars."

(McReynolds leaves)

Oliphant: "Ran about one hundred million dollars" - shorter yet.

Bell: Sometimes it went down to about 75. So "generally" is a good word.

H.M.Jr: "Generally" is all right.

Bell: Down at the bottom of page 11, you say, "Next year, despite the fact that available unspent appropriations for this purpose already exceed a hundred million dollars....." I'd like to suggest this: "Next year, despite the fact that there will be available in appropriations and allocations already made for this purpose more than 600 million dollars ....."

H.M.Jr: You (Gaston) get that.

Bell: In other words, what you're trying to state is that there is already on the books 600 million. Say "already made."

H.M.Jr: As a matter of fact, when you go out of here, just go over this with Gaston. But I want to make - my time is getting short; I want to get it right from the "horse's mouth," as the English say.

Bell: Page 12, that third numbered paragraph. You say, "These expenditures are already being reduced by 780 million dollars below last year."

H.M.Jr: Where are you, Dan?

Bell: Last line .....

Gaston: Page 11.

Bell: 12.

H.M.Jr: 780 million dollars.

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Bell: There are some switches there in these figures. See, we get into difficulty when we take one statement on a functional basis and another statement on an objective classification basis. I'd like to change that to "more than three quarters of a billion." About 20 million dollars difference. That's better reading anyhow.

H.M.Jr: All right.

Bell: Now, included in the third paragraph are some figures that you've got down in the second paragraph. You see, that's the trouble we get into when we take a functional and an objective classification, because they overlap. The Resettlement expenditures include grants for relief, which you've got in the third paragraph above, and lower interest rates for Federal Land Bank borrowing is relief. And there's about 90 million dollars in that paragraph - the figures are correct, the statement is correct, but there is that overlapping, and there isn't anybody that can check it. I think that you probably ought to leave Resettlement and lower interest rates in that paragraph, even though there is some duplication.

Gaston: I think that's all right. I thought about it.

H.M.Jr: Nobody can check it?

Bell: No.

H.M.Jr: (Laughing) Leave it.

Gaston: We're talking about isolated expenditures from the standpoint that .....

H.M.Jr: See how legalistic I am?

Gaston: We considered that.

Bell: I don't think it is serious.

H.M.Jr: And I can call on you to justify it.

Bell: Well, I can check it. I don't think anybody will object.

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Now, down at the bottom of page 16 and top of page 17, you say, "This net improvement of more than two billion dollars in a single year provides the best answer to those who, in most cases ignorant of the true facts, ...." etc. "True, much of this year's anticipated budgetary improvement comes from increased revenue, but we are supplementing this by seeking reductions in expenditures."

The seeking reduction in expenditures, in my way of interpretation, would apply to the present year, if that's what you're talking about, only ....

H.M.Jr: Yes, that's right.

Bell: There's an improvement of two billion and 12 million ...

H.M.Jr: How much?

Bell: Two billion and 12 million, and there's 98 million applied to reduction in expenditures.

H.M.Jr: How much?

Bell: 98 million. You see, 557 million of the reduction is bonus, elimination of the bonus; and one billion 357 million is increased revenue. So that accounts for one billion 914 million.

H.M.Jr: Well, we still saved something.

Bell: If you will change that a little so you will indicate it's going to apply to 1939 ....

Gaston: Of course, the present picture, I think, is a little better than that. While that revenue increased all that amount, we took on - we had only about 250 millions in revenue from Social Security and we took on huge expenditures of over 400 million in Social Security there.

Bell: Well, if you take the additional expenditures we took on because of last minute acts of Congress .....

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- H.M.Jr: Well, what the hell have you and I been doing the last six weeks?
- Gaston: But to make up for that we did make some other cuts.
- Bell: But it is on its face ....
- H.M.Jr: I think I'm very noble to say, "True, much of this budgetary improvement comes from increased revenue."
- Bell: Well, I think it can be explained like Herbert has explained it, but it isn't explainable on its face.
- H.M.Jr: No, but I feel I am perfectly sincere in that we did go right out and make cuts and if it hadn't been for Congress we would have cut that 418 - it was originally..
- Bell: We would have cut it to 150.
- H.M.Jr: Yes.
- Bell: I'm agreeable to leaving it like that.
- H.M.Jr: That isn't the way it was written at first, but this that is written now is the President of the United States.
- Bell: I have no serious objection to it.
- H.M.Jr: I didn't tell you that until I got through arguing with you; I didn't want to embarrass you.
- Bell: 18, top of the page.
- Gaston: Herman suggests - I suppose it's impossible to change it - it says "ignorant of the true facts"; if we had a word like "unaware" of the true facts, it would be much better.
- Taylor: "Ignorant" is all right.
- Gaston: Of course, technically they mean the same thing, but "ignorant" has some contemptuous connotations.
- H.M.Jr: Let me just tell you gentlemen this. The President raised the question, "Where is the Social Security

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thing?"

"Now, Mr. President, I lifted that out of there. But there are the sentences that you have written in with your own handwriting and I want to give you my word that I haven't changed a single word." That's what I told him. I decided this is no place to argue about whether Social Security is right or wrong; I'm not going to argue about it. But I said, "As to the individual words that you put in there, every single word is in there." And I wouldn't even want to change one word, because if something comes out - now, there's a lot of stuff in here which he's read three times, and I was dumfounded that he let it go back. So subsequently he can't say, "Well, Henry must have changed it." "No, Mr. President, every single word that you've got is there." I know - I think after the speech is over that may be worth a great deal to me.

Oliphant: I didn't know about that.

Taylor: But I think "ignorant" is all right.

H.M.Jr: But I don't want him to say afterwards to Steve Early, "How did you let Morgenthau say that?" I want to say that every single word is as he wrote it, but there are certain things which he wrote which I lifted out bodily. Huh? It's worth a lot. Say, listen, there are things in those last two pages that I don't like to say either.

Bell: I only have one more.

H.M.Jr: That's for the New York Tribune. That's what the President says.

Bell: Top of page 18, second line, you say, "The maximum reduction made in any single year in the public debt held by private investors was one billion 350 million dollars." Published records show one billion 286, and by taking in unpublished material we can run it up to one billion 350, as here stated. I'd like to say "more than one billion and a quarter."

H.M.Jr: Put it in.

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Gaston: Larry suggested to me that we change it to a billion three.

Bell: Billion and a quarter, I think, is a good round figure, nice to say.

Gaston: Yes.

Bell: Those are the ....

H.M.Jr: If the President of the United States should say to me, "What does Danny Bell think of this speech?" what should I tell him?

Bell: I think it's a good speech.

H.M.Jr: That's what I told him.

November 9, 1937.  
11:57 a.m.

H.M.Jr: Hello

Operator: Mr. Butterworth.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Butterworth: Hello, how do you do, sir?

H.M.Jr: I'm fine. Butterworth, what I wanted was just a little gossip on the reaction to what I said yesterday about gold leaving the country.

B: Well, your statement had the desired effect.

H.M.Jr: Yes.

B: It's been quiet today. The trend has been reversed, at least temporarily.

H.M.Jr: Yes.

B: I think it will take a day or two to work itself out.

H.M.Jr: Yes.

B: There was still some signs of a demand for gold this afternoon.

H.M.Jr: Uh-huh.

B: As you know the price of gold was six and a quarter, and with a premium of only one shilling and fourpence.

H.M.Jr: Uh-huh.

B: The dollar has been dead this afternoon, but not only are some of the continentals reversing their position -

H.M.Jr: Yes.

B: But there's been some buying on commercial account as well.

H.M.Jr: Uh-huh.

B: And I understand from one of the dealers that there's

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been some buying of dollars on behalf of China.

H.M.Jr: Uh-huh.

B: The Bank of France, according to my information, has been bidding for dollars, while the British controls here have been selling them this afternoon at five dollars to one pound.

H.M.Jr: I see. But the general effect was good.

B: As far as the general atmosphere is concerned, I think that the facility which your statement gave to the exchange situation has helped the commodity markets as well.

H.M.Jr: Good.

B: They've strengthened up in this country; and copper, for instance, went up to 39 pounds, for instance, this morning.

H.M.Jr: Uh-huh.

B: And the stock exchange has likewise strengthened up a little bit.

H.M.Jr: Good.

B: There is still a general atmosphere, of course, of uncertainty.

H.M.Jr: Well, that's to be expected.

B: And, even in the short time that I've been back, three weeks, I've noted the change in the atmosphere here.

H.M.Jr: Yes.

B: It's become more uncertain, and every day it's becoming more apparent to more people, that the key to the position lies in the United States.

H.M.Jr: Uh-huh.

B: These people here, as you know, sir, are more susceptible to the movements in the commodity markets, than they are to the movement in the stock exchange.

H.M.Jr: I see.

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B: And the declines in the commodities put the fear of God into them.

H.M.Jr: Uh-huh.

B: The government is concerned that they have been - they're making credit pretty stringent now, and they seem to have gotten control of the government security markets.

H.M.Jr: I see.

B: British governments have been appreciated, but there have been rumors here that - that is preparatory to the issuance of a new loan.

H.M.Jr: Uh-huh.

B: But I have no - I have made no official inquiries about that, but personally I should doubt it.

H.M.Jr: I see.

B: I think they're trying to use that as a measure of establishing confidence.

H.M.Jr: Uh-huh. Well, that's about all that I wanted.

B: Right, sir.

H.M.Jr: Uh - that's all - you're all right, are you?

B: I am very well, sir, thank you.

H.M.Jr: That's good.

B: Are there any - I am going to see Phillips shortly; are there any particular questions you'd like me to take up with him?

H.M.Jr: No, no.

B: He asked me last time, he said "If there's any particular thing that your people want, you just let me know", so I thought I'd pass that on to you, when you telephoned me next, so in case there was anything, you could just give me a flash.

H.M.Jr: No, everything - I said everything that I had to say, yesterday.

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B: Good. Right, sir.

H.M.Jr: All right.

B: Thank you very much.

H.M.Jr: Goodbye.

Memorandum of conference with the President on November 9, 1937,  
at 2 P.M. attended by Secretary Morgenthau, Secretary Wallace,  
Congressmen Doughton, Marvin Jones and Vinson, Messrs. Bell  
and Magill

Secretary Morgenthau slipped in ahead of the rest of us in order to request the President to discuss the tax revision program first. As soon as we were all seated the President turned to Mr. Doughton and asked how the tax revision program was coming along. Mr. Doughton said that the subcommittee was proceeding very satisfactorily; and that the Treasury was supplying all the necessary information. He asked Mr. Vinson, whom he characterized as the greatest tax expert in the United States, other than the President, Secretary Morgenthau, and myself, to tell the President what the committee had done.

Mr. Vinson said that the committee had been working on capital gains and expected to take up the undistributed profits tax next. It had been agreed that capital gains realized on sales of property held for less than a year should be taxed exactly like ordinary income; and that net losses from the sale of capital assets should be carried over for one year and applied against any capital gains for the second year. The committee was considering various methods of taxing capital gains and had not yet decided upon one, pending the receipt of estimates from the Treasury as to several alternative plans.

The President said that he had always thought some consideration should be given to the taxpayer's intent in making a transaction and cited the case of an individual who buys a \$5000 house which, because a new boulevard is cut through, becomes worth \$25,000. The individual did not go into the transaction for the purpose of speculation. Mr. Vinson pointed out that the present method of taxing capital gains took care of this kind of situation by taxing less than 100 percent of the gain if the property sold had been held for more than one year.

Mr. Vinson said the committee wanted to go ahead with the undistributed profits tax tomorrow and wanted to get the President's views. The President said that he thought the general plan of the house bill last year was excellent and that the principle of the undistributed profits tax should be retained. He said he thought that some preferential treatment should be given for small corporations with incomes of \$15,000 or less, to permit them to use earnings on expansion of plant or on reserves. Mr. Vinson said that he felt it would be desirable to give some further exemption for small corporations diminishing as the amount of earnings increased; and that some special treatment should be given to deficit corporations. He did not define what he meant by a "deficit corporation." The President said that we would have to guard against the possibility of corporations defeating the tax through readjustments in their capital structures. The President

- 2 -

said that the Vice President and a number of other prominent Democrats were interested in attacking the problem of monopoly. He said that too much of the wealth of the country was controlled by 200 large corporations. He gave as an illustration the control by New York bankers over loans being made by small country banks. Consequently, he felt that in connection with the program of controlling monopolies it would be well for the subcommittee to consider the desirability of lessening the taxes on small corporations as compared to large ones. The President also suggested the possibility of providing that sums exempted from the undistributed profits tax should be set aside in reserves and the Treasury should make some efforts to see that if they were used for any other purpose a tax would be imposed. Vinson pointed out that it would be difficult or impossible to exercise such supervision. I told the President that in connection with the capital gains the committee was considering the possibility of a maximum rate of, say 20 percent, which the taxpayer might use at his option instead of the present rate scale. The President indicated no objection to this plan.

The conference then proceeded to a discussion of the financing of the agricultural program. The President insisted that the amounts required for emergency expenditures, now being made under section 32, should be provided by some permanent form of taxation. Mr. Jones insisted equally strongly that it was proper to earmark part of the receipts from the tariff for use for agricultural benefit payments, since the tariff receipts came out of the farmers. It was suggested that the tax provisions ought to be referred to the Ways and Means Committee, but no agreement was reached on that subject. Mr. Jones stated that the provisions were now part of the agricultural bill but in a separate title.

At the close of the conference the President suggested that there was a great deal of discussion to the effect that the Supreme Court would reverse its position on the taxation of stock dividends if the law were amended to provide that all stock dividends should be taxable. Mr. Vinson pointed out that the law had been amended in such a way that all stock dividends are now taxable except those the Macomber decision holds are not taxable. The President said he thought that the only stock dividend which should be exempt is a dividend of no-par common stock to a holder of no-par common. Mr. Vinson argued that legally a holder of par value common was in the same position and that indicated that he did not favor any further change in the law. The President asked me whether we were getting a tax on stock dividends now. I told him that we had cases before the Supreme Court under the prior law and that under the present law we were collecting the tax on stock dividends so far as they are legally taxable.

At the close of the conference Secretary Morgenthau told me that he suggested to Mr. Early in an aside that his four o'clock press conference the President might as well take credit for what had been decided as to the undistributed profits tax. Mr. Early said that he

- 3 -

had spent the morning urging the President to do so; and he immediately passed on the suggestion to the President. The President called out, "No, nothing has been decided. Everything is still in the study stage. The Treasury is still submitting information." By this time everyone was leaving the room except Mr. Jones, who continued in conversation with the President.

*Am*

Notes taken by Mr. Magill

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

FILE 195  
(per NMC 12/17/37  
mas)

DATE NOV 9 1937

TO Secretary Morgenthau  
FROM Herman Oliphant

In further reference to a utility and railroad for a model reorganization, I have learned, since I gave you the data on a number of companies, that the best possibility in the utility field is apparently the reorganization of the Utilities Power & Light (in the Chicago<sup>3</sup> area). This is now in progress under the auspices of the SEC, in connection with its control over public utility holding companies and not because there is any Government claim against the company. Rogge is handling it. Do you want me to do anything further? X

As to a railroad, the best of the three possibilities I suggested appears to be Wichita, Northwestern Railway Company, if the matter is to be handled strictly within the Treasury. If, however, it can be operated through the RFC, the best possibility would seem to be the Alabama, Tennessee & Northern Railroad Corporation. Do you want further work done on either of these in line with your original suggestion? X

*Herman Oliphant*

November 9, 1937  
9:28 a.m.

196

H.M.Jr: Hello

Knoke: Yes Mr. Secretary.

H.M.Jr: How do they feel in New York after my little announcement?

K: Well, it seems to me the whole world has turned off.

H.M.Jr: Really.

K: Oh, yes, you see all the rates are down. The guilder rate is down, the Swiss rate is down and the belga is down, and sterling is down.

H.M.Jr: So it had a good effect.

K: Yes - oh, yes, I think the - it surely had a good effect.

H.M.Jr: I thought so. Hello.

K: May I just one say - say one thing Mr. Secretary.

H.M.Jr: Say two.

K: I think, you see the fact that you mentioned ten million, two fifty, I think, showed that your information was based on something that the Bank of France gave.

H.M.Jr: Yes.

K: I had hoped you would say something that was based on the reports here in the market that freight and insurance had been booked.

H.M.Jr: Had been what?

K: That freight and insurance had been booked, and -

H.M.Jr: You mean why I mentioned the amount.

K: Yes.

H.M.Jr: The reason I mentioned the amount, the United Press said that there was six billion francs had been engaged.

- 2 -

K: Six billion francs.

H.M.Jr: Yes. So, that was the story the United Press had.

K: I see.

H.M.Jr: So I felt it was - I did what I realize was unusual, I mentioned the amount.

K: Well, if you had just mentioned ten - ten million dollars, I think that would have -

H.M.Jr: Well, Archie told me ten and a quarter.

K: Yes, all right, but don't you see, ten million and a quarter is what they bought and ten million is what they've asked us to ship.

H.M.Jr: Well, again -

K: There's no connection between the two.

H.M.Jr: No, you're perfectly right, but let me explain. I said - I said a little over ten.

K: Yes.

H.M.Jr: So they said well does that mean maybe twenty.

K: Yes, I see.

H.M.Jr: So I said all right, I'll give you the specific amount.

K: Yes.

H.M.Jr: You see what I mean?

K: Yes.

H.M.Jr: I mean, there's always two sides, you see, and first they had it six billion francs, then when I said, "A little over ten," they said, "Well, how much over?"

K: Yes.

H.M.Jr: So I said, "Well, I'll tell you the exact amount."

- 3 -

K: But at anyrate, the effect has been very good, there's no doubt.

H.M.Jr: Listen, outside of you and me and Mr. Cariguel, nobody knows whether it's ten or ten and a quarter.

K: Yes.

H.M.Jr: But, on account of the United Press having this perfectly asinine story, I thought it was better to give the exact amount. I first said, "Slightly over ten."

K: Yes.

H.M.Jr: Then they said, "Well how much over?" you see.

K: These birds do ask questions all the time.

H.M.Jr: Yes. I thought the New York Tribune handled it beautifully.

K: I tell you I never read the Tribune.

H.M.Jr: Well, read it today, will you.

K: Yes

H.M.Jr: New York Tribune handled the story the best of all.

K: The Tribune.

H.M.Jr: Yes, but it's - the main thing is it's - it's had a good effect.

K: Oh, that is definitely so.

H.M.Jr: Oh, I agree with you on the detail that if I didn't have to set any amount, it would have been better, but I had to.

K: Yes.

H.M.Jr: See

K: Yes

H.M.Jr: But it's had a very good effect, hasn't it?

K: Well that I am positive of, yes.

H.M.Jr: No, I am always glad to get suggestions and criticisms.

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K: Well, it was not meant as -

H.M.Jr: No, I understand.

K: It was meant as a - my personal reaction.

H.M.Jr: Righto. Thank you very much.

K: Thank you.

November 9, 1937.  
9:44 a.m.

H.M.Jr:

Operator: All right. Go ahead.

H.M.Jr: Hello

Sandy  
Klein: Hello

H.M.Jr: Sandy Klein.

K: Yes.

H.M.Jr: Morgenthau.

K: Good morning, Mr. Secretary.

H.M.Jr: As the President of the Treasury Press Club, I just wanted to tell you - I wish you'd tell the boys, that I'm simply delighted the way they handled that gold story.

K: Oh, swell, I certainly will tell them.

H.M.Jr: I thought that they handled a very difficult story, absolutely first class.

K: Well, that's fine, I'm glad to hear that, sir.

H.M.Jr: And I'm delighted.

K: All right, I'll be glad to convey that along to them.

H.M.Jr: Goodbye.

K: Goodbye.

November 9, 1937.  
10:30 a.m.

H.M.Jr: Hello

Operator: Chairman Eccles.

H.M.Jr: Hello

Marriner  
Eccles: Hello

H.M.Jr: Marriner?

E: Yes, Henry.

H.M.Jr: I just want to explain, in person, that that call yesterday was - I thought, today being Tuesday, I thought it was our lunch date, you see.

~~E: " "~~  
E: That's right.

H.M.Jr: Until I called you up simply to find out - I had nothing special other than I wanted just to have a -

E: Well, the - the only reason that I - I have always left Tuesday aside, but the reason that it came in now was this housing matter, that - that you know I've been working on.

H.M.Jr: I know.

E: I've got this conference, these men -

H.M.Jr: Fine.

E: In here today at one o'clock.

H.M.Jr: All right.

E: The five of them, Wharton, Swope and so forth.

H.M.Jr: All right.

E: And we have a meeting tomorrow with the President.

H.M.Jr: Fine.

E: And so, it was necessary on account of getting our meeting fixed tomorrow at the White House to get them in today.

H.M.Jr: Fine.

- 2 -

E: So that's the reason that I had to - I had to put off that - our regular meeting. I dislike to do it, because I would like to have had a -

H.M.Jr: Well, I just didn't want to have it go through operators, and have any misunderstanding. That's why I'm calling.

E: Well let's get together later in the week.

H.M.Jr: Well, I'm going to go away tomorrow, and I -

E: Oh, you won't be back until -

H.M.Jr: No, but -

E: You won't be back before next Monday.

H.M.Jr: No.

E: I see.

H.M.Jr: I hope not, unless there's some emergency, I'm not sure.

E: Yes, yes.

H.M.Jr: I mean, but -

E: And by the way, I've got Harrison and St Clair, the two members of the executive committee of the Open Market Committee. There's the three here and the two outside, so - what we call our executive committee. I've got them in here this morning and with the idea of discussing the question of buying notes or bills as we discussed doing in September, and I don't know - of course the excess reserves in New York - the situation has been pretty easy, it's just the question of doing something in contemplation. I don't know what reaction we'll get from Harrison. As a matter of fact I can guess.

H.M.Jr: Righto.

E: But at least, I just thought I'd tell you that that's - we got them in here for a preliminary discussion anyway.

H.M.Jr: Well, why don't you give me a ring later on this afternoon or tomorrow and let me know how you're coming along, if you feel like it.

- 3 -

E: Do you mean en - on the housing?

H.M.Jr: No, I mean on this thing with Harrison.

E: Oh, yes, you -

H.M.Jr: Let's put it this way. If you decide you're going to do anything, give me a ring, but if you decide not to do anything, I won't hear from you.

E: Yes.

H.M.Jr: How's that?

E: Do you - you don't see any objection to at least starting in. After all, it's a situation if you're going to accumulate any - a hundred - even a hundred millions of bills or notes over a period of a couple of months. It takes -

H.M.Jr: Well, if you're going to do it, now's the time to do it.

E: Well, of course, you don't want to do it in December.

H.M.Jr: But I don't know whether - whether that's - whether it's necessary now.

E: Well, nobody knows definitely.

H.M.Jr: No.

E: But if you wait until December.

H.M.Jr: Then it's too late.

E: Then it's too late because you can't pick up a lot of them in a hurry.

H.M.Jr: That's right.

E: Without raising hell with the market.

H.M.Jr: That's right.

E: And not only that, but what financing you may have to do that's uncertain.

H.M.Jr: That's right.

- 4 -

E: And you certainly don't want to be in the market at the time you have any kind of financing.

H.M.Jr: That's right.

E: So that it seems to me that it's now or never.

H.M.Jr: Check all around, yes.

E: All right, fine.

H.M.Jr: Goodbye.

E: Goodbye.

November 9, 1937.  
11:57 a.m.

H.M.Jr: Hello

Operator: Mr. Butterworth.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Butterworth: Hello, how do you do, sir?

H.M.Jr: I'm fine. Butterworth, what I wanted was just a little gossip on the reaction to what I said yesterday about gold leaving the country.

B: Well, your statement had the desired effect.

H.M.Jr: Yes.

B: It's been quiet today. The trend has been reversed, at least temporarily.

H.M.Jr: Yes.

B: I think it will take a day or two to work itself out.

H.M.Jr: Yes.

B: There was still some signs of a demand for gold this afternoon.

H.M.Jr: Uh-huh.

B: As you know the price of gold was six and a quarter, and with a premium of only one shilling and fourpence.

H.M.Jr: Uh-huh.

B: The dollar has been dead this afternoon, but not only are some of the continentals reversing their position -

H.M.Jr: Yes.

B: But there's been some buying on commercial account as well.

H.M.Jr: Uh-huh.

B: And I understand from one of the dealers that there's

- 2 -

been some buying of dollars on behalf of China.

H.M.Jr: Uh-huh.

B: The Bank of France, according to my information, has been bidding for dollars, while the British controls here have been selling them this afternoon at five dollars to one pound.

H.M.Jr: I see. But the general effect was good.

B: As far as the general atmosphere is concerned, I think that the facility which your statement gave to the exchange situation has helped the commodity markets as well.

H.M.Jr: Good.

B: They've strengthened up in this country; and copper, for instance, went up to 39 pounds, for instance, this morning.

H.M.Jr: Uh-huh.

B: And the stock exchange has likewise strengthened up a little bit.

H.M.Jr: Good.

B: There is still a general atmosphere, of course, of uncertainty.

H.M.Jr: Well, that's to be expected.

B: And, even in the short time that I've been back, three weeks, I've noted the change in the atmosphere here.

H.M.Jr: Yes.

B: It's become more uncertain, and every day it's becoming more apparent to more people, that the key to the position lies in the United States.

H.M.Jr: Uh-huh.

B: These people here, as you know, sir, are more susceptible to the movements in the commodity markets, than they are to the movement in the stock exchange.

H.M.Jr: I see.

B: And the declines in the commodities put the fear of God into them.

H.M.Jr: Uh-huh.

- 3 -

B: The government is concerned that they have been - they're making credit pretty stringent now, and they seem to have gotten control of the government security markets.

H.M.Jr: I see.

B: British governments have been appreciated, but there have been rumors here that - that is preparatory to the issuance of a new loan.

H.M.Jr: Uh-huh.

B: But I have no - I have made no official inquiries about that, but personally I should doubt it.

H.M.Jr: I see.

B: I think they're trying to use that as a measure of establishing confidence.

H.M.Jr: Uh-huh. Well, that's about all that I wanted.

B: Right, sir.

H.M.Jr: Uh - that's all - you're all right, are you?

B: I am very well, sir, thank you.

H.M.Jr: That's good.

B: Are there any - I am going to see Phillips shortly; are there any particular questions you'd like me to take up with him?

H.M.Jr: No, no.

B: He asked me last time, he said "If there's any particular thing that your people want, you just let me know", so I thought I'd pass that on to you, when you telephoned me next, so in case there was anything, you could just give me a flash.

H.M.Jr: No, everything - I said everything that I had to say, yesterday.

B: Good. Right, sir.

H.M.Jr: All right.

B: Thank you very much.

H.M.Jr: Goodbye.

November 9, 1937.  
12:55 a.m.

H.M.Jr: Hello.

Operator: Mayor LaGuardia.

H.M.Jr: Right.

O: Go ahead.

H.M.Jr: Hello.

LaGuardia: Hello, Mr. Secretary, how are you?

H.M.Jr: Fine. My belated congratulations.

L: Thanks very much. Say, I suppose you're coming to the football game.

H.M.Jr: (laughs) I'm having a football game of my own, I'm talking - I'm spending Wednesday night in your city.

L: Oh, and then you won't - will you be in town next Monday, in Washington, I mean?

H.M.Jr: Yes, yes.

L: I'll be there Monday, Tuesday and Wednesday.

H.M.Jr: Well -

L: Can I phone your office and make an appointment then?

H.M.Jr: Yes, would you like to have lunch with me Tuesday?

L: Yes. We'll do that, I'm there with the conference of mayors, so may I telephone Monday morning if I can do it Monday or Tuesday.

H.M.Jr: Well -

L: Because we have one luncheon of the mayors, see.

H.M.Jr: Well, you -

L: And I don't know what day it is.

H.M.Jr: Well, Monday, I usually lunch with the President, but either Tuesday or Wednesday -

L: All right.

H.M.Jr:        Would be fine.  
L:                Then I'll phone you Monday.  
H.M.Jr:        Thank you.  
L:                Thank you, very much.  
H.M.Jr:        All right.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 9, 1937, 9 am.

NO.: 1577

FROM COCHRAN.

This morning I returned from Basel where on Sunday and Monday the directors of the BIS had their meeting. The subjects discussed in the main were the successor for Quesnay as general manager, capital movements, and gold.

Following the confidential meeting on Sunday of the central bank governors, Governor Fournier told me that they had discussed the general managership. He said he did not press for a vote on naming a Frenchman because he felt he might <sup>possibly</sup> not have been successful. Fournier is very well thought of by Trip and some of his other colleagues, and these colleagues of Fournier's would not want anything to happen in the BIS which might be interpreted in France as a reflection upon Fournier's ability to hold his own with his friends at the BIS. The suggestion was made by Trip to have a Frenchman appointed for one year with the understanding that in the meantime a study should be made of the question of general reorganization of the BIS management. It is not believed that such a tentative arrangement would be accepted by a Frenchman. Therefore there were many informal conferences on the subject of the general

- 2 -

general managership. However, the matter was not brought up in the official meeting, and no decision will be taken before the board meeting in December. It was even suggested that the decision be postponed until next May when the annual meeting is held.

END SECTION ONE.

BULLITT.

EA:LWW

RECEIVED  
NOV 8 1937  
TREASURY DEPARTMENT  
Office of the Director  
Internal Revenue Service

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1577 of  
November 9, 1937, from the American Embassy, Paris.

It is thought that some of the directors who really are in favor of entire reorganization on an efficiency basis will in the end vote for a French general manager rather than risk injury to the institution. There is not much cause for the French feeling that the British are in favor of German assistant general manager Hechler for the post as a nice gesture to Germany; Hechler himself does not want it. The Germans furthermore prefer continuance of the present system of replacing an officer with one of the same nationality, lest the original assistant general managership of Germany eventually be lost. For the same reason the Italians want continuance of the system as at present they have the secretary generalship.

The BIS President, Beyen, still hopes he can make a visit to the United States but until the above question is settled he will not be able to leave his post.

The Governor of the Bank of England, Norman, told me that just before he left London to attend this meeting the Chancellor of the Exchequer had told him that an arrangement was being sought by the Ministry of Finance of France whereunder one-half of the London Banking Credit to the French Railways would be paid at maturity, and

the

- 2 -

the remainder consolidated into three-year bonds with no security to be pledged for this part of the loan. The Governor said that when he got back to London he would take this matter up with the city bankers. He believed that the bankers would be willing to extend one-half of the credit for say six months, but that consolidation or withdrawal of existing security provisions would be opposed.

Governor Norman said he is not at all convinced that France is soundly on the way to financial recovery, and he believes France may yet have further serious difficulties. He said that in his opinion the recent cantonal elections and party conventions have shown the mere glossing over of a fundamental difference of policy and opinion within the Popular Front party. No important return of confidence is anticipated by Norman as long as the real situation of the Government and its ineffectiveness in solving really basic problems are known to the capitalists. Norman does not think that a liberal policy can be followed successfully by a Left Government. Therefore it would not be a surprise to him to see further deterioration follow the present period of respite in France. After Parliament reconvenes and actual feelings are disclosed, he said, another Blum Government and exchange control might result. In his opinion the elections proved

- 3 -

proved that conditions in France are not yet sufficiently bad to demand that a Center Government be set up, and as this is politically impossible, he thinks that if the Chautemps Government fails the swing will be further to the Left. He expressed the belief that France can be more genuinely aided by being told the truth than by paying nice compliments to her.

Governor Norman said that the instability of the world situation is revealed by the recent market collapses, movements of capital and fluctuations of currencies. In his mind a problem is still presented by the gold situation. At the present price he does not want to take any more than he must. I asked Norman whether at present he was not losing a fair amount of gold; he replied that the few millions now going to France did not amount to much, and that all too soon he would be getting them back again. Each country, he said, should look after its own currency if it is at all able to, and he recognized that France did not have sufficient strength to do this. I gained the impression from this and a related remark that he does not wish to support the dollar and earmark gold in our country.

According to Niemeyer the French situation is still doubtful.

- 4 -

doubtful. He said that the stories of Bonnet maneuvering within the Chautemps Government had not had a good impression in London.

In strictest confidence Governor Trip told me that the British authorities had informed him a few days ago that they could not be looked to to take dollars against gold in unlimited quantities. Trip as you know has been converting gold into dollars at London, the dollars being purchased in Europe to steady the florin-dollar rate. Trip has been regularly transferring into gold in the United States only those dollars bought for him in New York by the Federal Reserve when the Netherlands Bank was closed. The above notice was received by Trip just about the time that an important premium on gold was developing on the London market.

END SECTIONS TWO THREE AND FOUR.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION FIVE OF TELEGRAM NO. 1577  
of November 9, 1937, from Paris.

Trip had to change his practice, since he was convinced that the British were willing to see the dollar drop to a point which might in reality be considered an export gold point for New York vis-à-vis London, and since he felt they were not willing to take all the dollars which he might accumulate. Trip would have been flooded with dollars, which perhaps he would not have been able to dispose of in London, if he had continued to hold the florin-dollar rate steady irrespective of the change in the dollar-sterling rate. Therefore he began to let up on his dollar purchases last week, allowing the dollar-florin rate to weaken and he started purchasing sterling and converting the latter into gold in London.

The Netherlands Bank Governor does not believe that the world is entering a second economic depression; he looks for improvement in the United States and elsewhere. This improvement would be facilitated if - as is expected by some observers at Basel - the Japanese may be satisfied with their achievements in China by the end of the year, and if by Spring Franco gains control of Spain. This period of deflation, he said, helped industries in the Netherland East Indies to get on such a basis that even

now

- 2 -

now they can make good profits despite the recent price drop for rubber, sugar and tin. Trip is still of the opinion that assurance to the world that the dollar's gold value will not be changed would go a long way toward aiding recovery in general.

Governor Trip said he was a little unhappy when he learned of Bachmann's plans, announced on Monday to the press, for checking the influx of funds into Switzerland. This plan, Trip believed, would be only partly effective. He said even if it were effective it would simply cause trouble for other countries of capital refuge - such as the Netherlands. He prefers a more natural settlement of these problems, believing that most of them will be worked out in time.

I quote below the English translation of the French draft of the confidential Gentlemen's Agreement between the Swiss National Bank and the banks in Switzerland, a summary of which was given to the press by Bachmann:

END SECTION FIVE.

BULLITT.

EA:LWW

RB

GRAY

Paris

Dated November 9, 1937

Rec'd 3:45 p. m.

Secretary of State

Washington.

1577, November 9, 9 a. m. (SECTION SIX)

"The banks, parties to the present convention, declare themselves prepared to aid the National Bank in its efforts to reduce the excess of foreign deposits accumulated in Switzerland, within the framework of the measures outlined below:

One. In the sense of the present convention all holdings with Swiss francs of foreigners domiciled abroad will be considered as foreign holdings. Also the banks will be prepared, according to the provisions of the present convention, to deal with the holdings deposited in the name of a Swiss holder of an account (individuals and legal entities, financial companies and holdings, et cetera) but in regard to which the bank knows or is in a position to know that such holdings are not the property of the Swiss holder of an account, but of foreigners. There will come under this category notably the holdings of holding companies established with Switzerland for the purpose of managing foreign

RB -2- No. 1577, November 9, 9 a. m. (SECTION SIX) from  
Paris

foreign funds.

Two. From the date of the coming into force and during the life of the present convention the banks undertake to suspend all interest allowances on all foreign sight deposits with Swiss francs. Maturing time deposits with Swiss francs as well as new time deposits, will be assimilated to these sight holdings unless they are firm for nine months minimum.

Three. The banks undertake no longer to accept foreign sight deposits but only at three months firm at least.

Four. The banks undertake furthermore to inform foreign holders of accounts of deposits already existing and to the extent to which these deposits exceed the balances at September 30, 1936, that they are bound for three months, and as concerns sight deposits, for as long as they still exist with the banks on December 1 and as concerns maturing time deposits, for as long as they still remain with the banks one month after maturity.

Five. The fixed deposits, in the sense of Articles Three and Four, which are bound for period of less than six months, will be subject to a commission of one percent per annum.

Six. The

RB -3- No. 1577, November 9, 9 a. m. (SECTION SIX)  
from Paris

Six. The following are excluded from the time limits and the commission provided for under Articles Three, Four, and Five:

(A) The accounts of banks in so far as their total corresponds to the amounts necessary for the settlement of normal business relations;

(B) The accounts of commercial enterprises in so far as they serve commercial purposes with Switzerland.

BULLITT

SMS

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GRAY

Paris

Dated November 9, 1937

Rec'd 4:26 p. m.

Secretary of State  
Washington.

1577, November 9, 9 a. m. SECTION SEVEN.

(C) The accounts of individuals and of legal entities, not intended for commercial use, which have been opened in correlation with a deposit of securities and the average holding of which does not reach 20,000 francs-- during, respectively, the second half of 1937, the first six months of 1938, and the last six months of 1938. In the event of a purely temporary passing of this limit, as the result of a credit of coupons or as a result of the reimbursement of securities, the provisions of Articles Three, Four, and Five will not be applicable;

(D) Foreign deposits which are intended to cover matured interest, the amortization or the reimbursement of credits and of loans in Switzerland.

Seven. The banks will refuse the safekeeping of Swiss bank notes in open accounts for the account of foreigners. At the time of the opening of new firm deposits  
and

RB -2- No. 1577, November 9, 9 a. m. SECTION SEVEN  
from Paris

and at the time of renting new safe deposit boxes, the banks will require from foreign clients a written declaration, on a standard form for all banks, attesting that they will not give Swiss bank notes in deposit or that they have not deposited such notes in the safe deposit box. This written declaration will also be demanded when the occasion presents itself from holders of deposits already existing and from present holders of safe deposit boxes.

Eight. The banks will adhere to this convention upon the condition that the Swiss National Bank and the Office of Postal Checks will also apply the preceding provisions, and that the Swiss National Bank will bind all banks and bankers likely to handle matters with foreign customers to adhere to the convention.

Nine. The convention will come into force on November 15 and will have effect up to December 31, 1938. At least three months before this date, the Swiss National Bank will communicate with the banks in case a renewal should appear opportune to it."

(Note: In the revised text of which no copy is yet available, there will appear an addition under Article

RB -S- No. 1577, November 9, 9 a. m. SECTION SEVEN  
from Paris

Six which provides that foreigners with financial interests  
in Switzerland are permitted to have on deposit 5,000  
Swiss francs without paying commission).

BULLITT

SMS

PARAPHRASE OF SECTIONS EIGHT AND NINE OF TELEGRAM NO. 1577 of November 9, 1937, from Paris.

The central bankers who were at Basel were quick to pick flaws in the plan quoted above. The owners of flight capital seeking refuge in Switzerland who do not want to leave their funds as long as this regulation (omission) can circumvent it by purchasing Swiss bank notes and holding them outside of Switzerland, or by investing in real property in Switzerland or <sup>in</sup> securities, including government bonds. Should these owner's chuse to invest in government bonds, the Swiss Government might have a real problem on its hands if dumping of them was once started by foreigners.

I had several talks with Bachmann. The large influx of foreign bonds is a source of concern to him; he is particularly concerned over the extent to which Swiss and some French are turning into Swiss francs their American securities or bank deposits. He said he had to take 21,000,000 dollars one day last week in spite of the shifting tactics followed by the Swiss control. During the past six months he has converted into dollars all of his stabilization fund, most of his other foreign exchange holdings, and some of his gold. He now finds that fear of further dollar devaluation has seriously alarmed the Swiss. Bachmann arranged for Schnorf, his exchange expert, to come to Basel to talk with me on Monday afternoon.

They

- 2 -

They gave me a number of questions on gold and dollars which I shall report to the Treasury on my visit to the United States.

The President of the BIS, Beyen, also discussed with me gold privileges for the Bank. Beyen does not think that there will be a change in the value of the dollar. He believes that the longer governments fool around with managed currencies the stronger will be the eventual clamor for an international gold standard system, and perhaps there will not be so many innovations therein as have been anticipated during the past few years.

From another source I learned, incidentally, that at the informal meeting on Sunday the fact that the BIS is long \$6,000,000 was made known to the Governors. The statement was made by Schacht that he did not trust any of these foreign currencies, and he suggested the unvarying Reichsmark as the proper medium for BIS investments, unless a guarantee of convertibility into gold of any Swiss francs they might hold could be given by Bachmann. Bachmann's already heavy spirit was further depressed by this teasing. The management was given no instructions (instructions?) about the dollars, but this occasion was taken by Rooth and Trip to express confidence in the American currency.

At Basel the one most nervous about the dollar's future

was

- 3 -

was Bachmann, but most of the bankers there were disappointed with the American situation. They were not at all sure that we may not continue to contribute to the uneasiness of the world. It was the consensus of opinion that nothing would lead more directly to complete chaos in the world's currencies than further dollar devaluation.

END SECTIONS EIGHT AND NINE.

BULLITT.

EA:LWW

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NOV 13 1954

THE STATE DEPARTMENT  
WASHINGTON, D. C. 20540

PARAPHRASE OF SECTIONS TEN, ELEVEN AND TWELVE OF TELEGRAM  
No. 1577 of November 9, 1937, from Paris.

These central bankers reason that the dollar rate will not be lowered by the President because (1) since the last depreciation he apparently has come to distrust monetary manipulation, (2) the cost of living would be increased, (3) the dollar sterling rate is now around five dollars and not four twenty four - which would merely provide gold producers with a further subsidy. Some of these observers at the same time reason, to put it concisely and somewhat brutally, that the President has given attention to emergency measures rather than to those that are constructive. A spurt through spreading purchasing power has resulted from these emergency measures, such as the N.R.A., the bonus to the veterans, silver, and the public works program; the force of these measures is spent, and <sup>they</sup> cannot be repeated; their place has not been taken by normal forces. Furthermore confidence has been shaken and peace has not been made with business interests. The question is asked whether the President as the second term advances can reach a successful mutually trusting compromise with these business interests, whether big business would rather see the Administration fail at this late day, or whether desperate emergency measures will again be resorted to by the President. European observers are disturbed by the latter possibility, including conceivable monetary change.

I had a talk with Schacht, in which he discussed

everything

- 2 -

everything from Bedaux to China. He related to me that at a party given by Consul General Jenkin a lady guest asked him a question to which he gave a joking reply - not knowing she was a newspaperwoman - which she immediately cabled to her American paper with the resultant injuries to story that Schacht was out of the Government. While we were speaking of Japan, I remarked that Japan's policy would certainly not make friends for her, would destroy her currency, and check the advances made in the past few years in world trade. Schacht agreed with all this, saying that the military powers "in some countries" seemed bent on destroying those countries. ~~XXXXXXXXXXXXXXXXXXXX~~ The undertakings and standard of living of Japan, Italy and Germany were compared by Schacht, and he insisted that this country was still better off than the others were.

There is a consensus of opinion on the part of Schacht's friends that within the next few days he will definitely leave the Ministry of Economics since he has not obtained sufficient concessions from Hitler and Goering on account of his resignation which he tendered on the eighteenth of August. He cannot run the Ministry independent of the four year plan, and prefers to leave to ~~arriving~~ Goering the undivided responsibility. The possibility was expressed by some of Schacht's friends that on April 1 Schacht and Under Governor Dreyse will leave the Reichsbank.

- 3 -

Some observers think, on the other hand, that before that time Hitler will have so thoroughly realized the folly of permitting the military to get control of German economics that he will make every effort to keep Schacht in the Reichsbank and will keep him in the Cabinet without portfolio in the interim.

The opinion was expressed by observers that Germany is at present losing a great opportunity for increasing her world trade while others are engaged in arming or in fighting. In the present circumstances Germany is prevented from being a dangerous competitor because her first attention is to munitions and because of her production with uneconomically prepared or obtained materials. A crash in Germany is not expected by any one. Germany has enough food and materials in sight to carry through the coming winter.

Just now Janssen is Acting Governor of the Bank of Belgium, and he came to Basel for the first time at this month's meeting. The former Governor, Franck, left the Belgian Bank, severing all connections when his vacation started in anticipation of retirement because of age at the end of this year.

I was informed by Galopin, the Belgian industrial director, that he thought Janssen had a good chance to succeed to Franck's post; he does not think that Paul van Zeeland will

be

- 4 -

be considered any more. Van Zeeland, he said, was continuing with his world economic study but in the present circumstances this task is hopeless. I was assured by Galopin that the latest depreciation in the French franc could be withstood by the belga.

There was not as much discussion about the French situation as there usually is. Pleasure was expressed by everyone ~~at the~~ slight progress France has made, but no one is yet convinced that there will be entirely smooth going for that country. The French Government is paying almost seven per cent for domestic borrowing which fact is not conducive to optimism.

With regard to the Japanese situation, no one expects sanctions since they would not be effective without war.

December 13 has been set for the date of the next meeting.

END MESSAGE.

BULLITT.

EA: LWW

RB

GRAY

Bern

Dated November 9, 1937

Rec'd 2:50 p. m.

Secretary of State

Washington.

90, November 9, 6 p. m.

Reference Legation's No. 89, November 8, 6 p. m.

Text of agreement mailed QUEEN MARY November 10,  
 Agreement enters into force November 15, 1937 to remain  
 in effect until December 31, 1938.

RECEIVED  
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 HARRISON

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 HARRISON

FLP

Gentlemen's agreement between the  
 National Bank and Swiss Bankers  
 Association with a view to restrict-  
 ing floating foreign capital and  
 hoarding of currency in Switzerland.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 9, 1937, 5 p.m.

NO.: 1578

FROM COCHRAN.

Offer of dollars on Paris market was lighter today. One Paris American bank purchased two and three quarters million dollars for the French control and a French bank did about two million dollars. The British control was reported this evening to be offering dollars at 5.009. French rentes are down and market sentiment is not good. While no tangible reason can be found, general uneasiness comes from fear that political difficulties arise when Parliament reconvenes and particularly that Blum may cause trouble.

I had a visit this afternoon from Morgan Paris partner. This observer thinks that there has been improvement in the French situation especially as compared with what it was a year ago. He does not feel, however, that everything is clear for the future. Last week his firm in London met with Lazard and Rothschild to discuss renewal of the British banking credit to the railways of France. Among the banks which participated in this credit in London there is general feeling that France should repay the whole amount. My contact thought it might be possible, however, for France

to

- 2 -

to get renewal for part of the credit. He thought it would be impossible to effect a change in the very nature of the credit through consolidation into medium term bonds which would probably have to be passed on to the public.

I invited to lunch at my home today Governor Rooth of the Swedish Central Bank. Governor Rooth came from Basel to Paris last night and will proceed shortly to London on his semiannual tour of central banks. The Bank of France Governor, Fournier, also had lunch with us. Governor Rooth told us that during the past few weeks business in Sweden has slackened, but pressure for appreciation of the crown, on the other hand, has died down and it is not anticipated that there will be monetary change in Sweden. The large amount of gold which the French fund had acquired yesterday while Governor Fournier was at Basel delighted Fournier. The attention being given to the first gold shipment from the United States to France amused him a little. Governor Fournier discussed with us the French railways and the real problem they present to finances in France. He anticipates an increase in rates of 25 percent, to be made effective the first of January. In order to overcome the deficit of the railways they must either raise the rates or there must be an increase

- 3 -

crease in taxes to permit the Treasury to cover the deficit of the railways. It has been considered just to raise the railway rates since France already has high taxes but comparatively reasonable railway rates.

END MESSAGE.

BULLITT.

EA:LWW

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NOV 19 1951  
TREASURY DEPARTMENT  
Office of the Director  
Financial Section of the Department

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 10, 1937, noon.

NO.: 1582

RUSH FROM COCHRAN.

This morning at 11 o'clock I visited the Bank of France. There was considerable demand for the dollar, and by that hour there had been no operations either in dollars or sterling by the French control. At the Bank it was the opinion that the dollar scare was <sup>abating</sup> ~~banks~~ and that an important cause was the widely publicized shipment of gold from the United States.

The French stabilization fund as of this morning contained in gold and foreign exchange approximately eleven and one-half billion francs. This amount of foreign exchange holdings includes the Swiss franc proceeds of the recent loan to the French railways from the French banks; however either today or tomorrow this amount will be converted into gold. In a previous telegram I reported that a gain of three hundred fifty-five million French francs of foreign exchange ~~was~~ was made by the control last Thursday. The control gained forty-four million francs on Friday, thirty-two million francs on Saturday, three-hundred sixty-two million francs on Monday, and two hundred fifty-seven million francs on Tuesday.

I sail on the SS QUEEN MARY this afternoon.

BULLITT.

EA:LWW

lw

GRAY

London

Dated November 10, 1937

Rec'd 2:10 p.m.

Secretary of State

Washington

706, November 10, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

There is little to add to the information given in yesterday's telephone conversation. The reversal of the trend effected by the statement regarding gold exports from America has continued. Gold was fixed at 140 shillings 2 pence the premium being reduced to 1 shilling 1½ pence. The demand since fixing has been within reasonable limits. In the circumstances the dollar has not been particularly active but the movement into the franc continues.

The rise in British Government securities is worthy of note and is not merely a result of industrial uncertainties. There are signs that the British monetary authorities are attempting to make credit easy, that they have taken control of the gilt-edge market and are engineering the rise in British stocks in the belief that it will have a beneficial psychological effect.

KLP

BINGHAM

lw

GRAY

Paris

Dated November 10, 1957

Rec'd 2:10 p.m.

Secretary of State

Washington

1957, November 10, 5 p.m.

FOR THE TREASURY.

Trading was quiet on the exchange market here today and the pound and the dollar moved within the comparatively narrow limits of 147.06 to 147.09 29.39 to 29.43 respectively. There was evidence that uneasiness with respect to the future of the dollar has considerably subsided.

The security market was more cheerful all around. Rentes gained about 75 centimes.

BULLITT

KLP

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