

DIARY

Book 110

February 12 - February 15, 1938

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" Unemployment Relief

February 12, 1938.  
9:16 a.m.

H.M.Jr: Hello.

Operator: Are you ready for Mr. Butterworth?

H.M.Jr: Yes.

O: I'll have it in a minute or two.

H.M.Jr: Thank you. Hello.

O: Mr. Butterworth. Go ahead.

H.M.Jr: Hello. Hello.

Butterworth: Hello.

H.M.Jr: Good morning.

B: Hello.

H.M.Jr: Hello Butterworth.

B: Good afternoon, sir.

H.M.Jr: Go ahead.

B: I - I telephoned Sir Frederick Phillips.

H.M.Jr: Yes.

B: At his house last evening, and he made a point of coming to the British Treasury this morning.

H.M.Jr: Oh, for heaven's sake.

B: Where I gave him your message.

H.M.Jr: Yes.

B: And I got in touch with Phillips, not only because I know him well.

H.M.Jr: Yes.

B: But because without doubt, he can influence the British monetary policy more than any other individual in the Treasury.

H.M.Jr: Yes.

B: And Phillips was obviously attracted by the idea.  
H.M.Jr: He was what?  
B: He was obviously attracted.  
H.M.Jr: Yes.  
B: By the idea.  
H.M.Jr: Yes.  
B: But he explained that he was without a Chancellor of the Exchequer.  
H.M.Jr: Yes.  
B: And the Bank of England.  
H.M.Jr: Yes.  
B: And he went on to mention that the Bank of England was still in charge in theory and to some extent in practice with the regulation of credit in this country.  
H.M.Jr: Yes.  
B: Obviously, he had no definite idea and to what parallel action, if any, could be taken.  
H.M.Jr: Yes.  
B: And for both of these reasons, he wished to postpone giving their answer until early Monday afternoon.  
H.M.Jr: Uh-huh.  
B: I tried to ascertain what chance there was, in his opinion, of the British authorities going beyond making an approving statement.  
H.M.Jr: A what?  
B: An approving statement.  
H.M.Jr: Yes.  
B: And I suggested that if it was merely a question of making such a statement.

H.M.Jr: Yes, sir.

B: To the House of Commons on Monday afternoon, you would probably wish to go ahead and make the announcement from Washington over the week end.

H.M.Jr: That's right.

B: On the other hand, I said that if he thought that there was a substantial chance of parallel action taken here.

H.M.Jr: Yes.

B: You would, of course, want to synchronize the timing.

H.M.Jr: That's right.

B: And, therefore, would be willing to postpone the announcement until arrangements could be completed here.

H.M.Jr: That's right.

B: This Phillips said, and he asked me to convey to you his word, that he did not like to say that there wasn't any substantial chance of action.

H.M.Jr: That there was not.

B: That there was not. He did not want to say that there was not.

H.M.Jr: I see.

B: But he could not, in the circumstances, promise that if you delayed your announcement, he would be able to give a favorable reply on Monday.

H.M.Jr: I see.

B: But he requested earnestly that you do delay it.

H.M.Jr: Oh, he did.

B: Yes.

H.M.Jr: Well, then there's only one thing to do under those circumstances, and that is to delay it until Monday.

B: Yes. And so I said that unless I called him up to the contrary, that he could communicate with me on Monday afternoon, and pending the receipt of his answer, no announcement would be made in Washington.

H.M.Jr: Well, now, just a minute, and let me see whether the people agree with me. Shall you? Stand by, please.

B: Right.

H.M.Jr: Hello.

B: Yes.

H.M.Jr: Just repeat again what Sir Frederick Phillips said. I mean it's important enough to go through it once more and let me get it.

B: Right. Well Sir Phillips said that - he asked me to convey it to you in these words, that he did not like to say that there was not a substantial chance of action here, but he could not, in the circumstances promise now that if you delayed your announcement, he would positively be able to give a favorable reply on Monday.

H.M.Jr: Yes.

B: He was obviously attracted by the idea.

H.M.Jr: Yes.

B: But he was obviously not able to not only to make up his mind on the spur of the moment, but without his Principal there, the Chancellor of the Exchequer.

H.M.Jr: Yes.

B: And without consulting Montague Helman.

H.M.Jr: Yes.

B: Who has some say in the credit policy.

H.M.Jr: Yes.

B: He wasn't able to give any definite answer, so that I think that you will simply by delaying the action, I think they'll hear that they will do something.

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H.M.Jr: Well, now, the late, but not the lamented, Mr. Herbert Feis, has just come in and I'll ask him, see?

H.M.Jr: Hello. Hello.

B: Hello.

H.M.Jr: I say the late, but not the lamented Mr. Herbert Feis has just arrived.

B: (Hearty laughter)

H.M.Jr: Well, just a moment, I foolishly told him nine fifteen. I should have told him eight thirty. Just a minute.

H.M.Jr: Hello.

B: Yes.

H.M.Jr: Well, under those circumstances, of course we'll wait.

B: Right, sir.

H.M.Jr: Now, let me give this to you. I normally have a press conference on Monday at four o'clock.

B: Monday, at four.

H.M.Jr: Now - you - it would be <sup>important</sup> that I have some word from you before that.

B: How's that?

H.M.Jr: Hello. Hello.

B: Hello.

H.M.Jr: Usually, but not always, I have lunch with the President at one o'clock.

B: At one o'clock on Monday.

H.M.Jr: Yes. Now if I could get something before that, it would be very helpful.

B: Yes. Now if he gets in touch with me at, shortly after lunch.

H.M.Jr: Yes.

B: Then you should be able to - to have the word in time for lunch with the President.

H.M.Jr: That would be most helpful.

B: Now, I'll see what we can do about that here.

H.M.Jr: See?

B: Now, would you like me to tell you a little bit more about my discussion, just that there were some odds and ends that have supplementary interest.

H.M.Jr: Yes. Well tell me everything - it's most necessary. Most useful rather.

B: That is the main <sup>point</sup> /, but in the course of our discussion, Phillips did - he did a certain amount of thinking out loud.

H.M.Jr: That's good.

B: I think may be of interest. In the first place, he realized immediately that this action on our part would tend to make the dollar weaken.

H.M.Jr: Yes.

B: But he said that it wouldn't be at all a bad thing for it to be weak against such policies as the franc.

H.M.Jr: Uh-huh.

B: I just take these word pictures, much in the way it happened.

H.M.Jr: Pardon me?

B: He also said that this action might be called removing one of the deflationary brakes, but it might also be termed revising inflationary thoughts.

H.M.Jr: Say that again.

B: He also said that this action might be called removing one of the deflationary brakes, but it might also be termed revising inflationary thoughts.

H.M.Jr: Just a minute. (aside)- revising. All right.

B: Revising.

H.M.Jr: Yes.

B: And he went on to mention that the cost of living was becoming a political issue in this country.

H.M.Jr: In England?

B: Yes.

H.M.Jr: Yes.

B: And even though that action would have no direct connection with the cost of living, it might be so interpreted politically here.

H.M.Jr: I see.

B: If there's any action on the part of Great Britain.

H.M.Jr: I see.

B: To this, I asked whether the rate of increase of unemployment was not also becoming an important political issue.

H.M.Jr: Yes.

B: And whether the depression psychology was not growing somewhat.

H.M.Jr: Yes.

B: Phillips also said, and he used the personal pronoun.

H.M.Jr: He what?

B: He used the personal pronoun.

H.M.Jr: Yes.

B: Which I thought was simply a matter of interest. He said, "I have taken recently, the only step I could, to bolster psychology and implement the Van Zeeland report, by removing some of the obstacles through foreign blending.

H.M.Jr: Yes. Just a minute.

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B: He went on to say, that -

H.M.Jr: Wait a minute - wait a minute, Herbert Feis didn't get that.

B: He went on to say -

H.M.Jr: Wait - hello. Wait a minute. Wait a minute. Feis wants you to repeat what you said about the Van Zeeland report.

B: Right. Sir Phillips said, "I have taken recently, the only step I could to bolster psychology and implement the Van Zeeland report, by removing some of the obstacles through foreign lending. "

H.M.Jr: All right.

B: But he went on to say that unlike conditions in America.

H.M.Jr: Unlike.

B: Unlike.

H.M.Jr: Yes.

B: Conditions in America, in Europe today the International political situation was overshadowing all other considerations.

H.M.Jr: Yes.

B: All markets, in this country, were at the moment, quiet.

H.M.Jr: For the moment, quiet?

B: Quiet.

H.M.Jr: Yes.

B: Due mainly to the shadow - and by the European and Far Eastern political -

H.M.Jr: Political, what?

B: Happenings.

H.M.Jr: Happenings.

B: Yes.

H.M.Jr: All right.

B: I make those remarks simply because they might have interesting complications.

H.M.Jr: They do. They do. Now, what else?

B: That's all, sir.

H.M.Jr: Now, what did he say? Did you find out anything about English selling our stocks?

B: I did, but I didn't find it out from him. I found it out from some of my sources in the city.

H.M.Jr: Well, what did you find out? Hello.

B: Over the past few days.

H.M.Jr: Wait a minute. I didn't - you'd better start over again. The telephone was interrupted.

B: Right. My inquiries in the city do not indicate that these sales, during the past three days, are due to - to any action on the part of investors.

H.M.Jr: Yes.

B: But as the big insurance companies and investment funds.

H.M.Jr: Yes.

B: And they are the result of the action of operators.

H.M.Jr: I see.

B: But inasmuch as, with the as a rule, it is impossible to sell in New York, on a folding market, certain operators, both American and foreign, are - have recently been selling through London at night, and buying back, through New York, next morning or so.

H.M.Jr: I see.

B: Increase in the figures regarding sales from London.

H.M.Jr: I see. Well that's very interesting. Hutterworth?

B: Yes, sir.

H.M.Jr: I wish on that, if you have any more, you'd get us off a cable, so I might show it to the SEC people.

B: I beg your pardon, sir? I couldn't hear that.

H.M.Jr: I wish you'd get us off a cable about the way they're handling the sales of American securities, just the way you described it.

B: I will indeed.

H.M.Jr: Because I'd like to use - I'd like to show that to the SEC people.

B: All right, I'll do that, sir.

H.M.Jr: I mean if you - if you had that.

B:

H.M.Jr: I just -

B: I'll do that and I shall get in touch with you as soon as I learn from Phillips, on Monday, what the answer is.

H.M.Jr: Now just a moment. Archie is making faces at me. Well, just wait a minute.

B: Right, sir.

H.M.Jr: Hello.

B: Yes.

H.M.Jr: I gathered that Sir Frederick felt that this would be helpful to the French franc.

B: But he didn't put it quite in that way.

H.M.Jr: Yes.

B: He - one of his reactions, when he was thinking out loud, was that this - any action we took, that you outlined, would have a weakening effect on the dollar.

H.M.Jr: Yes.

B: And that therefore, and didn't find that, and its relation to the franc, because he thought it would tend to make funds go back.

H.M.Jr: Well -

B: That's substantially the way he put it.

H.M.Jr: Well, did he think any further as to - would that mean possibly that gold would leave America.

B: He didn't go into that, sir.

H.M.Jr: He didn't go into that.

B: No, I - I've given you about as much as he expressed it. But - I was not trying to discuss it. Simply gave it to him. I was trying to put up this proposition to him.

H.M.Jr: But you gathered he liked the idea?

B: I gathered he was very much attracted to the idea, yes.

H.M.Jr: Good. Now, just a minute, Herbert Feis wants to talk to you.

Herbert Feis: Walton.

B: Yes, Herbert.

F: Have you had any further word as to how they intend to proceed with the Van Zeeland report?

B: Not a thing.

F: We haven't yet replied, either to their note here, or to Leith Ross' approach to you, but I think we will within -

B: Leith Ross said, "If you get anything, why come and see me, as we haven't got anything."

F: I beg your pardon?

B: Leith Ross' approach to me was, "when you get anything from your people, come and see me."

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- F: Well, probably within a few days.
- B: And we haven't gotten anything, so that I have simply done like Erer Rabbit, and laid low.
- F: If you have any thoughts - bearing on the question, why would you put them in a cable?
- B: I will                      Let me just say this.
- F: Certainly.
- B: My own personal idea is Leith Ross is the only in high places, who is personally at all hopeful, that is he - Leith Ross is hopeful. Now I think the view is here, that it's a highly political document, that it cannot be made to be a parade in itself, but it might be part of another parade. You see what I mean?
- F: I do. Well, as I say, perhaps within a few days, we'll give them their answer. Just because it seems to us, too, a highly political document, the Secretary has been letting things - define themselves a little bit before replying.
- B: I understand.
- F: Now one other thing Walton. The newspapers carried a story this morning, that there's a Cabinet discussion on in regard to making a loan to Italy.
- B: That's bunk.
- F: Well, if you see anything -
- B: Yes.
- F: Confirming it.
- B: Yes.
- F: I mean, not the Cabinet discussion necessarily.
- B: No.
- F: But the idea itself.
- B: Well, but what's happening here is, and I sent a cable off about it, today.

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F: Did you?

B: Yes. There are rumors here of a disagreement within the Cabinet, as to procedural policy in regard to Italy in particular, and Germany in general.

F: Uh-huh.

B: I don't think there have been discussions between Eden and Grandi, and Eden and Chamberlain. Until we hear I thought about the same time exactly.

F: Uh-huh.

B: How that is going to develop, no one really knows at the moment.

F: Uh-huh.

B: Now there is an Italian coming here, I think next week, to meet with the Treasury. I haven't heard this from the Treasury. I've gotten it from somebody else, and I am planning - I'm lunching with Waley on Monday, and I'm going to that situation then.

F: Good. What you just say almost necessarily means that we'd have to leave the ball in the British hands, as far as moving under the Van Zeeland report. You agree to that?

B: I don't think I quite understand.

F: Well, if they had those other balls up into the air, we'd better let them keep this ball up into the air.

B: That's right.

F: Right. All right. Thank you Walton.

B: Not at all.

F: Here's the Secretary again.

B: Right.

S.M.Jr: Hello.

B: Yes, sir.

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H.M.Jr: Well I hope you can get me before one o'clock Monday, see?

B: I shall make every effort to do so, sir.

H.M.Jr: And - unfortunately the newspaper men saw that we were meeting here all day, yesterday, and there's all kind of guesses in the paper as to what we were meeting about.

B: Yes, sir.

H.M.Jr: So, - and they were pretty close - they made some very good guesses.

B: Well, the people report, in London, about it, and I sent that off, this morning, to you for your record.

H.M.Jr: Good. So, the quicker we get around to it, the better. But Sir Frederick's earnest request, there's only one answer and that is that we be more than pleased to wait.

B: Right. Thank you, sir.

H.M.Jr: By now I've learned about the honorable institution - the British week end. All right.

B: You don't mind if I

H.M.Jr: I don't think I've learned my - I don't think I've learned my lesson good though. All right. Goodbye.

B: Goodbye, sir.

February 12, 1938

The Secretary, after returning to his office from the White House, sent for Mr. Bell and related the following to him:

HM, Jr: He gave me all the time in the world on gold and then he said he wanted to do direct relief. I said, 'This is so terribly important I want you to repeat, word for word, what you said. I have got to get this thing straight, because you realize what you are saying is terrifically important.' And he gave me just how he wanted to handle it and he does not think we have the legal right to do it and he wants it changed in the Bill.

Mr. Bell: I think so. It has 'Relief and Work Relief.'

HM, Jr: He does not think so.

Mr. Bell: Oh, I guess not! When we put it in, they went and changed it and balled it up so that it applies now only to Resettlement. I believe that's what they did.

HM, Jr: I did not want to say, because he has a speech to make tonight and he just waited until the last second and I did not want to argue with him and he was quite definite that we did not have the right.

Mr. Bell: I am not so sure that the country won't take it very well.

HM, Jr: Dan, I did not want to argue. If he once starts this thing and you see the difference in the cost!

(At this point, HM, Jr spoke to Mr. Aubrey Williams on the phone and attached is record of their conversation.)

Mr. Bell: I believe that if you are doing to do that, you will have to change the Act. That might be done in confidence with ....

HM, Jr: Did you say 'confidence' or 'conference'?

Mr. Bell: In secret with Taylor and not in the Committee.

HM, Jr: Well, we will talk to him about it. I can

February 12, 1938.  
11:45 a.m.

Operator: Operator.

H.M.Jr: Mr. Aubrey Williams, please.

O: Right.

H.M.Jr: Hello.

O: Mr. Williams. Go ahead.

Aubrey Williams: Hello.

H.M.Jr: Hello, Aubrey?

W: Yes.

H.M.Jr: I've just left the President, and he asked me to get in touch with you and Bell, and give you this message. Hello?

W: Yes.

H.M.Jr: And I want to impress upon you, that this is entirely the President of the United States, and comes to me as much as a surprise as it will to you, unless maybe you know about it. Neither Bell nor I did. The President said, "Tell Aubrey Williams this. Let's take a city like Cleveland, where we are convinced, from our own information, they do not have enough money to take care of the need situation. Let's say that they had a thousand - one - twelve hundred people in need. Williams says, 'With the money available two hundred and fifty million, he can take care of one thousand people, which leaves two hundred people, which neither the Federal Government, nor the city of Cleveland can take care of, because they haven't got ample funds.'"

W: Yes.

H.M.Jr: He said, "I then would want Williams, not to put a thousand people at work, but to put eight hundred people at work and put the other four hundred people on home relief."

W: Oh my God!

H.M.Jr: Now, I want you - and I said, "Now Mr. President, what you're telling me is terrifically important, please repeat it once more until I get it exactly right."

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So he repeated it exactly right. I said, "How do you want it handled?" He said, "Well, if Williams is satisfied that the local organization is all right, let the local organization handle it and let him give them the money. If he's not satisfied with the local organization, let him set up his own." He said, "That's unimportant." But he said, "That is the way I want it handled, and we haven't got the money - haven't got the legal right, I want it put into this Bill, that you and Williams are going up on the Hill this afternoon." Now he was very positive, and I want you to be a thousand per cent sure that this is his idea, and comes to me as a complete surprise.

W: Yes.

H.H.Jr: I don't know where he got it from, but those are his orders.

W: Yes.

H.H.Jr: Now Bell is sitting here with me. Bell said that he doesn't think we have the legal right to do that.

W: Well I do, I think we have.

H.H.Jr: Well would you have your lawyers examine it?

W: Yes. Yes, I'll do that right away.

H.H.Jr: Pardon me?

W: I'll do that right away.

H.H.Jr: And I don't know where it comes from, I didn't ask, but he was very, very positive, that this was what he wanted, in places where we were satisfied that the communities didn't have enough money to take care of the need.

W: All right.

H.H.Jr: See?

W: I'll find out before we get up there whether we've got - it all depends on the Comptroller's interpretation.

H.H.Jr: Well, if there's any doubt about it, let's get the legal right. Bell says he thinks that direct relief

- 3 -

can only be administered by Resettlement.

W: Well that's what I thought too, but I talked it over with Gill last week, and Gill didn't agree with me. He said that he thought we also could give direct relief.

H.M.Jr: Where do you suppose he got this from? This idea.

W: Who, the President?

H.M.Jr: Yes.

W: Why, I think that the work of the Lions, and the United Mine Workers, out there at Detroit, have been pushing it.

H.M.Jr: Yes.

W: I don't know. Young Taft, of course, has been pushing.

H.M.Jr: Well, anyway, you - I've given you the message exactly the way he gave it to me.

W: Yes.

H.M.Jr: See?

W: All right.

H.M.Jr: All right Aubrey.

W: And I'll - I'll see you this afternoon.

H.M.Jr: Yes, and - and if you want to talk to Bell, he's available.

W: All right.

H.M.Jr: Thank you.

W: Goodbye.

stay afterwards and you and Williams and I can talk to him.

Mr. Bell: I think we ought to do it before the meeting.

HM, Jr: This thing, that you build up the morale by giving the fellow work, I believe you build up a fellow's morale if you prepare him so he can get a job and hold it. That's morale, building character. Give him a trade and let him go out and get a job and work at it so he has something, but giving a fellow a job for 90 days, then letting him off, I can't see where it is any better than giving him enough food and clothes especially because he has to fake all this stuff. He gets two or three days from the Government and then goes around and tries to get two or three days' work. But I have never said it before because the President has been completely sold on it and if anybody said anything about it, he just jumped down his throat.

Mrs. Klotz: That was Ickes, wasn't it?

HM, Jr: No. That's the President himself. He would just jump down his throat.

Mrs. Klotz: I thought originally it was Ickes.

Mr. Bell: Hopkins, too.

HM, Jr: Oh, it was just like a red flag. He would just jump down his throat.

Mr. Bell: I am greatly surprised.

HM, Jr: Well, you heard what Aubrey said over the phone: 'My God!'.  
phone:

Mr. Bell: Of course, I think there is a feeling throughout the country that this WPA is a racket. Of course, it takes care of a lot of people in need, but I think there is a feeling in the community that it is a racket and some people here in the District have been on WPA for five years and made no attempt to get out.

HM, Jr: Decent food and decent clothing. How much per month per family of say three?

Mr. Bell: Gosh! I don't know.

HM, Jr: Certainly \$30.00 will do it. A dollar a day, where they buy the food wholesale.

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Mrs. Klotz: I think so.

Mr. Bell: They did do it.

HM, Jr: They did it for less than that.

Mr. Bell: \$27.00, I think.

HM, Jr: My figure was \$28.00.

Mr. Bell: In the rural sections they are doing it for about \$21.00.

HM, Jr: I am not advocating it. I am just carrying out orders.

Do you (Mr. Bell) want to hear something else interesting? Got a minute? Because this is something terribly interesting.

\* \* \*

(The Secretary sent for Mr. Haas and Mr. Gaston and they came in.)

HM, Jr: Saw the President and explained to him what the situation was in regard to sterilized gold and the British. He thought it was distinctly worthwhile waiting to hear from them until Monday.

He said, 'Have you heard about these people who feel that with the growth of population, the normal growth of population, that we have to increase the amount of credit base, money in circulation, from \$4 billions to \$13 billions a year?' He said, 'I am beginning to get interested in that school of thought.' I said, 'Well, I heard about it for the first time from Wallace yesterday.' The President watched me and saw that it left me cold, and before you could snap your fingers he switched and said, 'Well, I think it is time that I said something about commodity prices and the 1934 price level.'

I said, 'Now you are talking!' I said, 'You know, Mr. President, that the day you made your statement on prices, on April 2nd, from that day on prices hit the toboggan slide. Then he launched into a twenty-minute lecture on what he said on April 2nd and the way he was misunderstood and, he said, 'I have read again what I said,' and, he said, 'The papers completely misquoted me, just the way they misquoted what I said

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about holding companies.' And, he said, 'I want to say something.'

I said, 'While you are at it, Mr. President, you ought to clarify in the mind of the public the difference between what you said and believed on April 2nd on prices (and, incidentally, he said I was right in what I said about it at that time) and what you said about monopoly prices.' I said, 'You just have not got that over.' And, I said, 'If you could say something about this right after we do something on gold, I think it would be most helpful.' He said, 'Get something ready for me.'

I was surprised to see how strongly he felt on this and how much he realized that the people were more or less blaming what he said on April 2nd for the drop in prices.

It will be most helpful if he will do it, because nobody knows what the President meant, and it's all confused just what he wants. Now, if he could come out and say, Yes, I want this gentle rise in commodity prices, all right. He went so fast from this stuff that somebody is giving him about credit base to prices, it almost scared me, but when he was talking about commodity prices and will back us up, it will be wonderful.

Now, George, this is your particular field. Bell was here on other matter, but I wanted him to hear this. So burn a little midnight oil. If you could have something I could show him Monday noon, it would be very interesting.

(Bell, Gaston and Haas left.)

\* \* \*

The President has a friend by the name of Arthur Murray who used to be the secretary to Sir Edward Grey and he has been in correspondence with him and in this correspondence the question came up, How did the Germans get the impression, back in 1914, that the English would not fight? And Mr. Murray has written the President a letter saying that at that time Sir John Simon told the German Ambassador to England that he had counted noses in the British Parliament and that only about three or four members were in favor of coming to the assistance of France in case Germany attacked.

As a result of this conversation between Sir John Simon and the German Ambassador to England, which was of course immediately reported back, within three or four days Germany

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struck. The President wanted me to have this information so that I could be guided accordingly in my negotiations with Sir John Simon.

February 12, 1938

10:30 a.m.

Present:

- Mr. Aubrey Williams
- Mr. Emerson Ross
- Mr. Bell
- Mr. Gaston
- Mrs. Klots

HM, Jr: I would like to have you present when I appear this afternoon. They might ask me something and try to drive a wedge. If you are there, I would simply say, 'Well, now, Mr. Williams can answer that.'

Mr. Williams: That's right. Mr. Taylor thought inasmuch as Woodrum was not there yesterday, it might be just as well for us to be there anyway, because Woodrum might want to ask us some questions.

HM, Jr: Because I have seen that happen before as to -- they are going to give us the money, but if they can make a little politics out of the suffering of these human beings, that does not bother them at all.

I have no prepared speech. I am simply going up and listen to you. You people have the information that the situation is shocking and we have got to have the money. That's all there is to it.

And I thought I would stress the terrible condition of the States in handling direct relief, and that by taking this many people off it makes it that much easier and the States are doing about all that they can do.

Mr. Williams: I think that will be very good.

HM, Jr: See? And as I get it, there are about 1 1/2 millions on direct relief. Is that right?

Mr. Ross: 1,800,000.

HM, Jr: That's the sort of thing I can turn to you and say about 1,800,000. And, furthermore, the most recent

-2-

information from Illinois was particularly bad in Chicago.

Mr. Williams: That's right. That's all right.

HM, Jr: And that this is the situation. Why did I change? That we waited until the very last minute and we did not want to ask for the money until we needed it.

Mr. Williams: That's right.

HM, Jr: And, furthermore, that the Administration, working as a whole, made an effort to make the money last until the situation was so critical that we just had to have more money and that we did not want to ask Congress for the money until we knew we desperately needed it. We could have been crying 'Wolf! Wolf!', but we did not want to cry 'Wolf!' and we waited until we really needed it and our hands were tied with the Woodrum amendment and therefore we just had to have it.

Mr. Bell: I wouldn't say our hands are tied by the Woodrum amendment.

Mr. Williams: No. I don't think we need to say that. I think we are just as much duty bound to apportion this money without the Deficiency Act.

HM, Jr: That would irritate Woodrum?

Mr. Bell: I think it would. Yes.

Mr. Williams: As a matter of fact, we have scheduled this thing on that basis and were prepared to go along on it until this avalanche hit us. That's the story.

HM, Jr: What I get is -- Why did I change from week to week? Because conditions changed and we did not want to cry 'Wolf!'.

Mr. Williams: I explained that to them yesterday in detail and said the people were being taken care of out there on the basis of our giving them an over-top and put all the people that came to you on, and then there came a day when we had to put a top on and that was the time we came to you and that was in between that time. And Cannon and Taylor said that was a perfectly good explanation and one that Tabor could not make anything out of. Tabor is saying, 'Why, all of a sudden, are you running in and asking

for \$250,000,000. It's poor politics. Have a congressional election on. And so forth. And that's what he's -- one thing he's trying to do; the second thing is to show we violated the Woodrum amendment.

HM,Jr: Well, that's where Dan comes in.

Mr. Bell: My letter was very clear on that.

Mr. Williams: It was. And I quoted it. And Wigglesworth kept driving at them, trying to show that the thing they are talking about is that \$375,000,000 in the first quarter and if we really had intended to keep the spirit of the amendment we would have gotten down to at least \$300,000,000 and saved more for the winter. My explanation of that was that we simply could not, in common decency, cut those rolls any faster than we did and that we had every reason to expect that employment that was at that time growing and was increasing would continue. We had 15 to 18 months' of increase in employment and had every reason to believe it would go on in the winter months. Anyway, that was my explanation.

HM,Jr: I think we are all right.

Where is this room?

Mr. Williams: Second floor.

Mr. Bell: Regular Appropriation room.

Mr. Williams: Regular appropriation, House Appropriation room.

HM,Jr: I will go directly from the House.

Mr. Williams: At three o'clock.

Mr. Bell: I will go from here.

HM,Jr: Herbert, do you want to pick me up at 2:30 and you come along with me?

Mr. Gaston: Fine. All right. But I can come down to your house.

HM,Jr: No. I will send a car for you.

Mr. Gaston: Thank you.

February 12, 1938.  
11:47 a.m.

H.M.Jr: Hello.

Operator: Dr. Feis. Go ahead.

H.M.Jr: Herbert?

Herbert  
Feis: Yes, sir.

H.M.Jr: I had a chance to talk to the President, what happened to Fish Armstrong.

F: Yes, sir.

H.M.Jr: And I was able to give him an angle.

F: I beg your pardon.

H.M.Jr: I was able to give him an angle which he hadn't had on it before.

F: Yes.

H.M.Jr: He thinks very highly of him.

F: Yes.

H.M.Jr: And, I would say there's a very good chance.

F: Well that's swell.

H.M.Jr: And I think there's a very good chance.

F: I didn't want to spoil it by doing over much. The one thing that hasn't yet come through is Wagner. Apparently, some one's been ill, or Miss Perkins has been away or something.

H.M.Jr: Uh-huh.

F: That - your guess is that would help, not hurt it, isn't it?

H.M.Jr: Oh, that would help.

F: Wagner would help?

H.M.Jr: Oh, yes.

F: That's fairly certain, is it?

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H.M.Jr: Oh, definitely.

F: All right.

H.M.Jr: Definitely.

F: All right, now -

H.M.Jr: Definite. I don't think it would be very hard to push a - I gathered the thing is still wide open, and he thinks very highly of him.

F: Well that's - you did get an adequate chance to give him the various -

H.M.Jr: Not adequate, but enough to register very distinctly. Not adequate, but enough.

F: Well, that's - well, if I can get Welles again to push the thing, and - and Wagner.

H.M.Jr: Yes. Now -

F: I'm extremely obliged to you.

H.M.Jr: Well -

F: The more - the more I think it over Henry, the more important it is, as I wrote someone last night, I thought that if this country goes Nazi, the question of who we've got over there is going to make a terrible difference in determining what happens to the poor devils that come under the rod. You see?

H.M.Jr: I understand.

F: And - Thank you very much, Henry.

H.M.Jr: One other thing.

F: Yes.

H.M.Jr: If you know anything about this fellow Paul Wein - Paul W-E-I-N-P-A-L.

F: I don't get the name.

H.M.Jr: Paul Weinpai - W-E-I-N

F: You mean up in -

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H.M.Jr: Polish Embassy.

F: Polish?

H.M.Jr: Yes.

F: I know him, but -

H.M.Jr: Well I mean is - is he the kind of fellow who we could invite to our house, if we wanted to?

F: Oh sure.

H.M.Jr: He is.

F: Yes. You'll be getting the typical man about town.

H.M.Jr: Well I mean is ~~is~~ he's perfectly respectable.

F: Oh perfectly respectable. I daresay - I mean he's one of these fellows that keep their feelers out in all directions.

H.M.Jr: Yes.

F: But he's perfectly respectable.

H.M.Jr: Thank you.

F: Right.

Prepared by Mr. Daggit  
Reviewed by: Miss Michener,  
Mr. Murphy, Mr. O'Donnell,  
White, and Mr. Haas.

February 12, 1938.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you let me have  
something like this, brought  
up-to-date, the end of this  
month?

F. D. R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 24, 1938.

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

Summary.

While business activity during January has so far shown but a slow improvement from the low levels reached at the end of December, a rising trend of retail sales is an encouraging factor in the business outlook. Indications so far give no evidence that the FRB index of industrial production for January will differ from the December index of 84 (revised).

The Current Situation.

The New York Times business index for the week ending January 15 stands at 82.0, as compared with the low point of 78.3 reached two weeks before, and with a level close to 85 held for five weeks previously. The entire year-end decline has not yet been regained, despite a strong recovery in steel operations and cotton mill activity, largely because of continued low levels of automobile production, carloadings, and lumber production, on a seasonally-adjusted basis.

Retail Sales.

The movement of goods into consumption, as indicated by the trend of retail sales, has made a more favorable showing this month than it did during December, and continues to be one of the most encouraging features of the business situation.

While department store sales during December, in dollar values, were 2 per cent lower than in the previous year, the sales for the first half of January were about 1 per cent higher than in the corresponding period of last year. In terms of physical volume, the December sales are believed to have been about equal to those in the previous year, since prices were slightly lower. Further price declines during January have still further improved the comparison in terms of physical volume, making the sales for the first two weeks probably about 4 per cent higher than last year.

Variety store sales, in dollar volumes seasonally-adjusted, recovered strongly during December to a level appreciably higher than in the previous year. The December index of 110.5 compares with 101.0 in November and with 106.0 in December 1936.

Rural retail sales, in dollar volumes seasonally-adjusted, also turned upward noticeably during December, though remaining slightly below the previous year's volume. The December index of 127.5 compares with 118.5 in November and with 131.0 in December 1936.

The continued heavy movement of goods into consumption arises from the fact that the national income, as estimated monthly by the Department of Agriculture, has shown a relatively small decline despite the sharp setback in industrial activity. In this respect the business recession differs markedly from that in the fall of 1929, when national income fell off coincident with the decline in business activity, and compares more nearly with the situation in the summer of 1924, when a sharp setback in industrial production was accompanied by no more than a slight decline in national income.

Reports of marked reductions in inventories of retailers and wholesalers, with actual shortages in some lines, as a result of the continued heavy movement of goods into consumption, suggest that a buying movement in consumers' goods is likely to occur during the spring. Buyers in the textile market have anticipated such a development by unseasonal purchasing in heavy volume during December and January. Noticeable improvement is also under way in the shoe industry and in the woolen and worsted industry, which has already been reflected in employment and payrolls during December. The same influences which are affecting retail sales, and consumer goods buying in general, should tend to maintain the level of automobile buying during the spring.

#### The steel situation.

Steel production during the current week has increased to 29.8 per cent of capacity, representing the third successive increase since the last week of December, when a low of 19.2 per cent was reached. This week's increase raises the steel production rate to the equivalent level of new orders, according to our estimates. An average of 28 per cent of capacity during January will be required to maintain the FRB adjusted steel production index at the December level.

The demand for steel products so far during January has proved disappointing, in that no real improvement in demand has occurred since the holidays. The rise in production during the past several weeks is attributed partly to the

filling of previous orders dated for shipment after January 1. Our confidential reports from the U. S. Steel Corporation show no indication of an improving demand so far, although new orders are being maintained at about the same rate as during December.

A better sentiment in the steel industry has resulted from the release of orders by the Buick Motor Company for a substantial tonnage of steel, sufficient to take care of manufacturing needs through the first quarter. Heretofore all automobile companies had been buying only for immediate needs, generally on a week-to-week basis. It is felt in the trade that the steel industry for the time being will be closely geared to orders from the auto manufacturers, since little is expected from the construction industry or from the railroads during the next few months. Reports of a slight clearing in the used car situation since the first of the month has contributed to a better feeling in the automobile industry.

The textile situation.

Heavy sales of textiles have continued through the past week, with new orders for cotton yarn during the week reported as the largest in six months. The high level of retail sales has contributed to the larger volume of textile buying, and brought a more optimistic feeling throughout the industry. Domestic cotton consumption during December, while declining by slightly more than the usual seasonal amount, was higher than expected in the trade. The increased sales of cotton goods will probably not be reflected immediately in mill activity, since mills are still selling from inventories. The report of the New York Cotton Exchange this week, however, mentions for the first time that mills whose stocks have been appreciably reduced are increasing operations. The report summarizes the situation by saying that "although unsold stocks at mills are understood to be now relatively light, and unfilled orders have increased, it is yet doubtful that orders are greater than stocks, and manufacturers want more forward business before they can be certain of a healthy position for expansion of output."

Cotton exports have picked up again, and are now about 407,000 bales ahead of last season, with the first half of the season not yet completed. An important factor in the increased export demand, despite Japan's decreased takings, is the low level of prices for American cotton. Our cotton is not only low in absolute prices, but is probably at a record low in relation to prices for foreign cottons.

### Commodity Prices.

Prices of sensitive commodities have sagged somewhat from the highs reached about the 10th of January, with copper and hides showing most noticeable weakness. A reduction in copper prices by primary producers, who had for some time been holding their asking prices above the general market level, was an unfavorable market factor. A recent reduction in demand for finished leather is reported to have weakened hide prices. The BLS index of prices for 30 sensitive commodities remains above the December level, while the decline in the Dow-Jones futures index has carried it back to its December level.

The development of drought conditions in the Middle West has recently had some effect on wheat prices. During the last four months of 1937, when moisture is normally stored in the ground to supply winter and spring crops, the amount of precipitation in Iowa was only 56 per cent of normal and in South Dakota 54 per cent. It ranged between 65 and 67 per cent of normal in Kansas, Nebraska, Missouri and Minnesota. A drought might become an unfavorable business factor in the fall of 1938, though its effect in stimulating price rises for agricultural products would be an offsetting factor.

Our studies of production trends in relation to basic demand indicate that the situations in the petroleum and lumber industries are likely to have a retarding effect on business activity over the next several months. The production of crude petroleum, which has a weight of 5.0 per cent in the FRB index, has for some months been running at a level substantially higher than consumption. As a result, the domestic stocks of gasoline on January 15 had increased to a level that could normally be expected at the end of March, when the peak is usually reached. Inventories of other petroleum products have shown corresponding increases. Production curtailment measures recently initiated seem likely to be continued for some time in order to reduce stocks to near normal.

Lumber production, which has a weight of 8.0 in the FRB index, has likewise been running for some months at a higher rate than consumption, according to our estimates. Despite a decline in lumber prices during 1937, which should tend to stimulate demand, residential construction has continued at a level apparently too low to reduce lumber inventories. A declining rather than a rising trend in lumber production seems likely over the next several months unless a substantial improvement in residential construction occurs.

- 5 -

The BLS index of factory employment during December (unadjusted) declined to a level 9.6 points lower than in December of the previous year. The December index of 88.5 represents a severe drop from the index of 94.7 in November. Payrolls were 14.3 points lower than in December 1936. The payroll index of 80.9 in December compares with 89.5 in November, and with 95.2 in December 1936.

The FRB production index for January, according to Dr. Goldenweiser of the Federal Reserve Board, on the basis of data available for the first half of the month, seems likely to be no different from the December index, which has been revised upward to 84.

EG

GRAY

London

Dated February 12, 1938

Rec'd 10:55 a.m.

Secretary of State,  
Washington.

126, February 12, 2 p.m.

FOR TREASURY FROM BUTTERWORTH

The following report from Washington was circulated on the ticker here this morning: "A series of secret conferences held by government fiscal officials during the past twenty four hours has revived speculation regarding a possible revision of the government's financial policies. Treasury officials remain uncommunicative on the subject, some denying that they were present at the conference. Conjecture is generally centered in the prospect of a large scale finance program to provide funds for renewed administration 'pump priming' activities, i.e., special measures designed to stimulate employment or relieve distress. Some observers are of opinion that there is a possibility that Treasury will release a large portion of gold from its inactive fund to finance government expenditures. There is also speculation as to the possibility that new funds may be sought in the public money market for the increased needs of relief and recovery."

JOHNSON

PEG:KLP

JR

PLAIN

London

Dated February 12, 1938

Rec'd 11:35 a.m.

Secretary of State,  
Washington.

127, February 12, 4 p.m.

FOR THE SECRETARY OF TREASURY FROM BUTTERWORTH.

With reference to your query respecting the sales from London in the New York stock market during the past few days my inquiries in the City indicate that the selling is not now due to any change of mind on the part of British investors in general and the insurance companies and investment trusts in particular but is due almost entirely to the action of stock exchange operators, both American and foreign, who find it advantageous, particularly in the matter of short sales, to operate in London as well as New York.

What proceeds may be described roughly as follows:

(1) Short selling in New York being limited (a) by the condition that the seller may not repeat not engage in a short sale below repeat below the last noted quotation; and (b) by the fact that delivery of the stock sold must take place on the day following the sale,

the

-2- #127, February 12, 4 p.m., from London.

the London market is frequently used (and apparently can be successfully used owing to its different technique) for these operations.

(2) With the premise that a speculator or an operator must always take a view and accept a hazard, possibly involving loss (by which it is understood that the foregoing are not repeat not arbitrage transactions, simultaneously closed with a net profit margin) this seems to be the manner of it: in London all securities (except gilt-edged) including the leading New York stocks are dealt in "for the account" (the average account is exactly two weeks; four times a year there is a three weeks' account) thus the short seller in London, whether dealing in American or London stocks, has two weeks or less for the contingency -- fall in price -- on which he is reckoning, to eventuate -- a facility debarred to him in New York. In addition, on very short operations, but on a falling market which of necessity precludes his selling short in New York, he can sell in London in the morning (London time) and if the trend is downward cover in the late afternoon or evening in New York. Furthermore he also has the advantage, the New York Market having risen that same afternoon,

-3- #127, February 12, 4 p.m., from London.

afternoon, of deferring the covering purchase for two weeks or a fraction thereof depending on the termination date of the account.

The upshot seems to be that an operator or speculator following this procedure can recreate and in fact improve upon the previous facilities available to him for short selling in New York. In other words the recent SEC impositions seem to be driving -- thus far on a moderate scale -- short selling to London where incidentally the traditional procedure of buying and selling for a fortnightly account already offers definite advantages and the operator thus has the advantage of the facilities of a steadier market geared into a market which is noted for the rapidity of its movements.

JOHNSON

KLP

TREASURY DEPARTMENT

39

INTER OFFICE COMMUNICATION

DATE FEB 14 1938

TO Secretary Morgenthau

FROM Herman Oliphant

*For Information*

Trip, President of Netherlands Central Bank, wrote a letter to Harrison of the New York Federal, raising the following questions:

1. Since the Tripartite Declaration may be terminated at any time, would New York Federal assist Netherlands Bank in (a) selling to us Netherlands' earmarked gold; or (b) transferring earmarks of such gold to another central bank?
2. Will gold earmarked for Netherlands Bank be free for export anywhere in times of war and peace?

Knoke forwarded to us a copy of these inquiries and a proposed reply, and asked for our suggestions. We are working with Taylor, Lochhead and Knoke on the proposed reply.



RE GOLD MOVE

February 14, 1938.  
9:30 a.m.

- Present: Mr. Taylor
- Mr. Oliphant
- Mrs Klots
- Mr. Bell
- Mr. Upham
- Mr. White
- Mr. Haas
- Mr. Lochhead
- Mr. Gaston
- Mr. Viner

H.M.Jr: Now, gentlemen.

Gaston: Well, I've got it pretty near approved by everybody.

H.M.Jr: Mrs. Klots and I can't wait for many of you much longer, can we? How's this? What?

Gaston: The only difference now is this sentence here included by Mr. Oliphant and Mr. Opper; and Mr. Lochhead wants that sentence out, and I left it out in the final draft.

H.M.Jr: Well, I wish you hadn't told me who wants what. I've got to decide strictly on a non-partisan basis. You mean to say this is Archie against the legal staff? God, Archie, I didn't know you had that much courage.

Lochhead: Oh, we've been up against them before. We fight a good friendly ...

Oliphant: Fight the good fight.

H.M.Jr: In the first place, you say "For Immediate Release." You want that?

Gaston: Well, I think it could be immediate if we release it at the time of the press conference.

H.M.Jr: Well, that would put it on the air tonight, which would give the Americans a break against the English operators tomorrow. That's all right.

"On December 22, 1936, the Secretary of the Treasury stated that, after conferring with the Board of Governors of the Federal Reserve System, he proposed

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to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department whenever it was deemed advisable and in the public interest to do so.

"In pursuance of that policy, the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, today announces that gold acquired by the mints and assay offices after January 1, 1938, will be included in the Inactive Gold Account only to the extent that such acquisitions in any one quarter exceed \$100,000,000. No change is being made in the procedure whereby any gold released by the mints and assay offices is taken from the Inactive Gold Account.

"The policy so announced is, in conformity with past practices in this field, subject to change without notice."

Why do you put the "only" where it is? I mean we'd get everybody on their ear; if we'd say "will only be included in" - "will only be" ....

- Olyphant: It's "only to the extent," I think.
- Gaston: "Only to the extent," yes.
- H.M.Jr: well, as far as I'm concerned, it's all right.
- Olyphant: Don't know whether or not you want that last sentence.
- Gaston: The last sentence says "without notice."
- Olyphant: No question of law involved. Merely a policy.
- H.M.Jr: The policy is subject to change without notice.
- Olyphant: Archie, I guess, had some feeling that it's unnecessary.
- Lochhead: I think it ends it up with a little weak tone; it has a note of indecision. Now, I feel that we have absolutely got our power to ....
- Bell: I just glanced over it. I think it's all right.
- H.M.Jr: Well, do more than that, will you?
- Bell: This says the same thing as that. It seems to me you change your policy whenever you want to anyway.
- Taylor: It seems you don't need that last sentence.

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H.M.Jr: Well, is it illegal if we don't say this?

Oliphant: Perfectly legal every way.

H.M.Jr: Well, what I've been trying to do - the reason I've taken so much time on this is that this is something which - it is awfully important how it is received. I think that 75 percent of it is psychological reaction that we get. I think that that's kind of adding a little bit of insult to injury.

Oliphant: To injury.

H.M.Jr: I think so.

Oliphant: I think so too.

H.M.Jr: You think so?

Oliphant: What I did was to follow our previous forms.

H.M.Jr: You wouldn't be ....

Oliphant: No indeed.

H.M.Jr: ... too unhappy if we left it out.

Oliphant: Perfectly happy.

Lochhead: I think Mr. Oliphant ...

Haas: Said "pursuant to the general policy."

H.M.Jr: Listen, Archie, my father said, "When you've won your case, stop arguing."

Gaston: It's a grand old rule, too.

H.M.Jr: I told that to Henry Wallace. He came over here all primed. I said, "You've got your 25 and 5." He said, "Can't I give you all the stuff? I'm all prepared." I said, "Henry, what's the use? I may change your mind." He said, "Well, all right, it's hard, but I'll quit."

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(Viner comes in)

H.M.Jr: Hello, Jake. Now the newspapers have got a story: "Dr. Viner Joined The Mysterious Conference."

Viner: Oh, I've already talked to the newspapermen.

H.M.Jr: Now, Jake, what I'm doing is this. We'll go right ahead, and then after the meeting, I think you should go in and have a talk with Taylor while I'm listening to Eccles. He'll bring you up to date. Because we got what I think is two important things on the fire. I'd be most pleased, after you have absorbed it, to get your reaction.

Now, one other thing. This is extra extra confidential. If we do this thing this afternoon, the President wants to clarify his statement of April 2 on commodity prices, plus his statement on monopoly prices, and he asked me to prepare something for him. Now, who's got that?

Taylor: George has it ready.

H.M.Jr: Thanks.

"We have been observing the course of business and of prices very closely. We are impressed by the fact that the trend of sensitive prices and of business activity which turned down sharply last fall has tended to level off since December. The time seems propitious to place our monetary and credit structure on a more expansive basis. The action taken yesterday with respect to the gold sterilization program is a move in that direction.

"I do not wish to exaggerate the importance of this step nor of any other monetary measure which may be taken. We all understand that monetary and credit measures, in themselves not sufficient to bring about our ultimate objectives, yet there are times when they may be of first rank importance not only in their relation to business activity but in their influence on price trends.

"When I say price trends I do not wish to be misunderstood. Some comments I have made on the price structure have been confused with some earlier comments I made with regard to price trends. When I

speak of price trends I have in mind the general level of competitive prices. I do not refer to all of the prices that go to make up the price structure. I am specifically not referring to the prices of a number of commodities which to a considerable degree are determined by price fixing policies of certain groups, and which during an upturn in business rise too quickly and too far, and during the downturn fall too slowly, if at all. These privately controlled prices are insensitive to monetary and credit developments, and actually constitute an obstacle to recovery.

"It is the flexible portion of the price structure which we expect will respond in due time to expansive measures undertaken, and by responding assist recovery."

Now, this is very lovely. I think I know what you mean, but it is just absolutely useless. I mean you don't mind - I'm under such pressure, I can't use pretty words. But it's absolutely useless.

Now let me give it to you once more, see? I mean the great trouble is, you fellows are being too careful. You refine the thing so it says nothing.

Haas: Well, yes. Well, that's ....

H.M.Jr: What the President is groping for, if it is possible - either give it to him or say it doesn't exist - is two kinds of charts, one with the so-called sensitive prices and one with the insensitive prices, and name them - I mean this thing which you call "privately controlled," you see? I mean if you can separate those things, if you can separate the price of steel and the price of cement from the price of corn and cotton, and so forth and so on .... But what he's groping for - in the first place, look at what he said April 2, look at what he said on his monopoly prices, see, which I believe was written, if gossip was correct, by Jackson and Cohen, as I understand. Don't know whether you (Oliphant) know anything to the contrary.

Oliphant: I think you're right.

H.M.Jr: And give the President these two charts, and run it back, if possible, as far as - far back as necessary; or, if they don't show the story and they are not

correct, don't give him anything. But this isn't - this is useless.

Hans: Get in trouble, Mr. Secretary, on referring to April 2. That statement is a sound statement; it reconciles his previous statements.

H.M.Jr: I didn't say it wasn't, George; I didn't say it wasn't. But in the first place you've got to sell me and you've got to give me something which, knowing Mr. Roosevelt, I can sell him. I can't sell him this thing.

White: There's a lot in there, a great deal in there.

H.M.Jr: I'm not saying there isn't, but it is nothing that he will use, knowing the man. I mean he just won't use that kind of stuff.

Hans: Well, I'm just apprehensive, Mr. Secretary, if he goes on into the details - it's a very difficult thing to talk about without the danger of creating more difficulty.

H.M.Jr: Excuse me, Dan, I wanted you on the gold. You're more than welcome to listen on this, if you want to.

Hans: Very difficult thing to talk about without taking the chance of getting into more trouble than he's in now. On April 2, or whenever that statement was, he mentioned copper prices, you see, and they are not - they are to some extent, but they fluctuate over a wide angle, a wide degree. We have a chart, but they're - we have to take some criteria of classifying the prices. You can't prove that they're all controlled, Mr. Secretary, and all that. I'm just - I'd like to get Jake's view on that.

H.M.Jr: Now, after all, Oliphant believes in this thing 100 percent. Now, he can talk to you about it. He carries this next to his heart, see? I mean he always goes to bed with it, for fear that somebody will call him in the middle of the night and he hasn't got it.

Hans: Well, it's included in that statement, Mr. Secretary.

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- H.M.Jr: I mean that's only slightly exaggerated, isn't it?
- Olyphant: No, I should say that was a conservative statement.
- H.M.Jr: Must have got it out of your snop. Now, Mr. Gaston takes this so-called price monopoly chart; gives it to Mr. Arthur Krock, who writes about it and says, "This is the philosophy the President is acting on." Judge Rosenman reads it and says, "My God, has the President got a price philosophy? Let me have it so I can put it in my book." Now they've gone that far.
- Gaston: Went a little farther. Gave a lot of details to Charley Hughes - writes the business column of the Times.
- Viner: I saw the whole list.
- Olyphant: Discusses it every week.
- Daas: He's got all that.
- H.M.Jr: All right. Well, if they're building up that this is what he thinks, now let the President at least take a look at it.
- Viner: I'd say if you go any further on that, there are a number of things you ought to do. I've been looking at that, and there are a number of prices in the worst group that aren't reasonable.
- H.M.Jr: Worst group?
- Viner: Yes.
- H.M.Jr: What do you call the worst group?
- Viner: The most rigid group. And they ought to make a selection. There are a number of items there that have changed drastically in quality, but nominal prices remain the same; and those ought to be taken out. I mean make the group - give them the benefit of every doubt. Then there are other commodities like certain tools; if you remember, there was quite a sprinkling of tools. I've been inquiring about those, and those are branded tools which have fixed prices that don't change, but they represent a very

\*Sunday New York Times

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small fraction of the output of those factories which quote the prices.

The worst prices in the system are the prices over which the Government has influence. And if you put those in, you see the Government's own policy - I mean directly and indirectly - the worst chart you'd get is the chart of railway freight rates.

H.M.Jr: Well, the point is this, Jake. I can't ...

Viner: See? I mean that is part of the difficulty. If the Government had had a clear policy over the past ten years and been operating on it... But if this is going to be - and I would agree with Oliphant that this is a vital and proper direction to go, but if the Government goes in simply trying to make political capital out of the parts of the price structure that are in the hands of its enemies, and disregards the parts that are in its own hands and that have operated even worse, then I'd say it just leads to a useless controversy and it's going to do harm rather than good.

H.M.Jr: All right. Let me just lay a program down for you people. First place, only takes me 60 seconds to tell you (Viner) what we have had. After a week's work, we have something which is quite different than what I told you; I mean the program as it stands today is that we are proposing during any one quarter to deposit with the Federal Reserve up to \$100,000,000 in any three months that comes in, that we acquire - gold. Any gold that goes out, it goes out of the sterilization fund. Is that too brief? Is that boiling it down too ...

Viner: No, I get it.

H.M.Jr: What?

Viner: I get it.

H.M.Jr: Now, that was put up to the English on Saturday. We asked them would they do something similar or would they give it a nice pat on the back. Sir Frederick Phillips said he liked it tremendously; everybody was away, but he earnestly requested that I wait until Monday. So I waited until today. I

hope to do it at four o'clock this afternoon.

We really had some able people in here. We had Walter Stewart and Bob Warren and Riefler sit in on this thing, and they all are really quite - I'd say rather understating - I think they're quite happy about it.

After you have listened, I'd like to have your views, frankly, on the discussion, although the thing is pretty well jelled.

Now, in discussing this thing with the President, he feels - his press conference is tomorrow afternoon - this gives him a wonderful chance to clarify his position on prices, because, much to my surprise, he was very cognizant of the fact that his April 2 statement, which he has read two or three times over, was completely twisted, and that his statement on monopolies was also twisted. So he'd like to use this as an opportunity, and he asked me to prepare something for him. And he'd like to practically devote his whole press conference to it.

Now, either I want to say, "This is something I believe in and I am satisfied in," which I am not in this statement, or, "Please, Mr. President, wait until Friday, until we can have more time." And I think he is in that mood that if I ask him to wait, he would.

And I think that on this thing - I think that Lubin ought to sit in on this thing, because this thing is hooking up prices to unemployment. That's the whole thing. It is the question of prices and unemployment. And I think Lubin should sit in on this thing.

But if between now and tomorrow noon we can't get something, then I say I'd rather do nothing. But this - as I get the so-called - these charts - it is a question of prices and unemployment. Now, if we can't get something, why, I'd rather say nothing. I mean the President has got to make a statement, but if we can't be ready for him Tuesday we should wait for the other press conference, which comes when - Friday morning.

Gaston: Friday morning.

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H.M.Jr: We'll do it then. But I'd get Lubin in on this thing. And there's nothing more important. The whole thing we're trying to do, Jake - all I'm trying to do is, I'm hopeful that this may stop the downward spiral. I want you to get this direct. I'm hopeful, furthermore - what this country needs now is to give the President a breathing spell so he can think. See, he needs the breathing spell and he needs it very bad. I'm hopeful this will give him the breathing spell, and the pressure on him will let up so he can let up for 30 days, think this thing over. That's all I'm trying to accomplish, see? I'm not laying any great stress, but I am simply hopeful that out of this, especially if the English will back us up - and I saw a little statement by Nettleton of London this morning in which he says the British commodity picture has leveled off and is technically in a very good position. Now, it all depends on what we do. Which I thought was very interesting. But their technical commodity position was excellent. They have completely ....

White: May I make one remark, Mr. Secretary?

H.M.Jr: Please.

White: That this statement is not much, given to the press; it doesn't appear to be much, it is not spectacular. But I think that on a careful examination it is the sort of thing that contains some very effective statements which will give rise to just the kind of discussion, just the kind of impression that you want - may be modified, but I mean this type rather than the approach which I suspect you have in mind. This will bear examination and will be the subject of a lot of editorials, and there will be a constant return to this as a clarification of his price policy which he can stand on.

H.M.Jr: I'm not arguing about the merits of the statement. I'm just arguing with you about the way it's set up. I mean it leaves me cold. I can't sell it to him, Harry.

White: I think that anything that might not leave you cold would be the sort of thing that couldn't stand

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an analysis, because you have to avoid that kind of spectacular statement, which sounds awful good but has gotten people in trouble. However, I'm merely passing ....

H.M.Jr: That's your - it's important and I'm glad to get it. I still say, we got a new brain came to town this week; let him take a look at it and let him see what we've got. And I'd rather say nothing than not be satisfied that I am giving something to the President which he will accept.

White: I don't mean to imply that this is perfect, or anything of that sort.

H.M.Jr: I'm not arguing about it; but the point is, I can't sell that to the President. Now, it's ...

Haas: You might after you sit with us, after you get the background.

H.M.Jr: Give me this statement on gold.

(Gaston hands statement to Secretary)

H.M.Jr: Well now, just so that you get the timing on this thing, I won't be able to talk commodity prices with you people again until tomorrow morning. I might just as well say now I won't see Jones.

Klots: Just put Jones over.

H.M.Jr: Well, you can tell him. Put Jones over to Wednesday.

and I'll tell you now that I can't talk commodity prices - I can talk to you about it again 10:30 tomorrow. See, you got 24 hours on it. But I want pictures, I want charts. I want something that the President can have on his desk - a chart. He's chart-minded, just the way I am.

Haas: We'll give it to him.

H.M.Jr: Now get this straight. Don't - it oughtn't to be necessary, but in order to answer Harry - I don't want anything that you fellows don't believe in;

but, on the other hand, you're giving me something I can't sell.

White: Well, we'll try.

H.M.Jr: And you've got to start with - for me to sell it, you've got to start with a chart and put it down on his desk and say, "Now, here's an explanation." But you've got to start with a chart, and that's the way I've got to start with the President.

And you've got to go far enough back in this price structure to show - now, if you want to get somebody from ~~agriculture~~ so you can get the purchasing group who do those charts, the purchasing power of the farmer, what his dollar will buy. I mean to have an agricultural one as well. You don't - know what I mean? They run that.

Haas: Uh-huh. That's a problem involved. Cost of living is another one.

H.M.Jr: Well, that's the thing that Sir Frederick Phillips - he said that the cost of living one is an important one. I now think we ought to have - he said, "It is a question whether we can do anything, because of the cost of living being such a strong political issue in England." Now, when you get this thing, there is nothing in there about the cost of living.

White: We avoided that because of that.

Haas: We discussed it.

H.M.Jr: Well - but there are too many blind spots in that, there are too many ... I want the Department of agriculture chart, the one that they have run over there right straight along.

Viner: You mean their scissors chart.

H.M.Jr: Yes.

Viner: What the farmer pays, what he gets.

H.M.Jr: I want to see that. I want that. I want everything,

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Jake, that I can get - I mean so if we say this, that Agriculture doesn't come out and say, "Oh my God." Now, I told Agriculture, just to be cautious, what we're doing about gold. Wallace says, "Fine, swell, I can go right along with it." Mr. Hull says, "Fine." In other words, everybody's been told, so that the Administration - anything that comes will be out of this thing. Now, we don't want the President to say something on prices, then have Agriculture come along and say, "This is terrible, this distorts further the position of the farmer."

Viner: I don't think they'll say that.

Haas: No, their prices ...

Viner: Their prices would be the sensitive.

H.M.Jr: No. All right. I've said enough. But I mean you've got to go much further to sell me; because I want to know from Mr. Lubin's angle and Mr. Ezekiel's angle, does this look good, what we're trying to put in the mouth of the President? And I think I'd get somebody - who does their price structure?

White: Bean, I think, mostly.

H.M.Jr: Louie Bean.

Haas: Bean, I guess - Bureau of Agricultural Economics.

H.M.Jr: Well, whoever it is, let him sit in on this.

Haas: And Lubin, huh?

H.M.Jr: And Lubin. Let them sit in on this thing. It is too important.

Now Mr. Eccles.

Bell: May I ask a question on this gold?

H.M.Jr: Yes.

Bell: Does it include all gold? For instance, we have about five million dollars a month redemption of

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national bank notes. We still have about \$25,000,000 in earmarked gold for those notes. We also have some gold in the General Fund that we have put there since January 1, set aside for those notes. Does that mean that we put that into the System?

H.M.Jr: What do you (Lochhead) think?

Lochhead: Well, I don't think that really when you started in the first place - that you really wanted that tied up. This gives a good chance to untie that. I think it gives a good chance to get away from that.

H.M.Jr: I think I'd put every ounce of gold I could lay my hands on into the System, up to a hundred million dollars.

We have been observing the course of business and of prices very closely. We are impressed by the fact that the trend of sensitive prices and of business activity which turned down sharply last fall has tended to level off since December. The time seems propitious to place our monetary and credit structure on a more expansive basis. The action taken yesterday with respect to the gold sterilization program is a move in that direction.

I do not wish to exaggerate the importance of this step nor of any other monetary measure which may be taken. We all understand that monetary and credit measures are in themselves not sufficient to bring about our ultimate objectives, yet there are times when they may be of first rank importance not only in their relation to business activity but in their influence on price trends.

When I say price trends I do not wish to be misunderstood. Some comments I have made on the price structure have been confused with some earlier comments I made with regard to price trends. When I speak of price trends I have in mind the general level of competitive prices. I do not refer to all of the prices that go to make up the price structure. I am specifically not referring to the prices of a number of commodities which to a considerable degree are determined by price fixing policies of certain groups, and which during an upturn in business rise too quickly and too far, and during the downturn fall too slowly, if at all. These privately controlled prices are insensitive to monetary and credit developments, and actually constitute an obstacle to recovery.

It is the flexible portion of the price structure which we expect will respond in due time to expansive measures undertaken, and by responding assist recovery.

## MEMORANDUM

February 14, 1938.

Re: Gold move.

From 6:00 to 7:25 yesterday Mr. Taylor was at my house and explained to me various conversations he had had in the last two days with Mr. Eccles, pursuant to Mr. Eccles' coming to see me at 10 o'clock this morning.

Eccles called on me at 10 o'clock. His suggestion was that if a hundred million dollars of gold does not come in during any quarter, we make up the difference.

I told him, "Do you feel very strongly on this?"

He said, "No."

So I said, "Well, I don't like this suggestion for two reasons. First, we have all agreed on what the program should be. And second, what you are suggesting is that we go back to an artificially rigid program, and that is what I am trying to avoid. And if I understand what the rest of the world wants, that is what they are trying to have us avoid, and they want us to permit the normal flow of gold in and out of America to have the normal effects. Now, what you are suggesting is that we say that artificially a hundred million dollars of gold each quarter should be added. And that would, in my opinion, spoil the effectiveness of what we are suggesting."

He didn't press it very hard. He let that rest.

Then Mr. Eccles gave me a copy of a statement which he proposes to read from if and when we have a press conference on this subject. (Marked "A")

He again said that he wasn't very enthusiastic about this thing, and couldn't we wait 30 days until we had a whole program and go forward with everything at the same time. I told him that I didn't think that waiting 30 days would help the matter a bit, but that it was most important that we do something now in order to give the President a chance to think clearly and take the pressure off him. And I felt confident that if the President did have some of the pressure eased, he would find a solution to the present-day problems.

H.M. Jr.

February 12, 1938.

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Dept of  
Commerce

It will be recalled that when the inactive gold account was set up, we were experiencing a very heavy inflow, which not only increased the deposits of the banks, but was allowed to take effect in adding to the excess reserves of the banking system. By using authority given by Congress to the Reserve System, a large proportion of this excess was in effect sterilized, and the action setting up the inactive gold account served to prevent additional acquisitions after that date from again building up the excess to a disproportionate size relative to credit needs and business conditions as they then existed.

The inactive fund was, of course, a new sort of instrument which could be made flexible in its application as conditions warranted, and, in fact, it has afforded a convenient instrumentality for placing funds directly and quickly in the money market, as was the case last fall when we had a desterilization of \$500,000,000, which the Treasury undertook at the request of the Reserve Board, acting on the recommendation of the Federal Open Market Committee. This was to meet a specific situation.

Since the fund was originally set up there has been a considerable change in the general business, fiscal and monetary situation. In the light of the changed conditions, it would appear to be appropriate to adapt the operation of the fund to the changed situation since it has the advantage of flexibility

in operation, whereas changing reserve requirements, for example, does not have the same advantages.

You might ask why the same thing could not be accomplished by some other means. That might be possible if the sole consideration were only to create additional excess reserves. However, I do not think under present conditions we would be justified in carrying out open-market operations or in reducing reserve requirements for the purpose of creating more excess reserves, while the Treasury is borrowing in order to keep from creating excess reserves. Instead, it ~~is~~ <sup>is obviously</sup> more appropriate to take the present action, which has the effect of adding to bank reserves while relieving the Treasury of borrowing for the purpose of keeping gold acquisitions from adding to bank reserves.

The present action also has the advantage of continuing to maintain control over the reserve situation. It is an adaptation to a changed condition as was contemplated when this mechanism was created. In other words, this action tends in the direction of further easing of general monetary conditions ~~and~~ <sup>while at the same time</sup> makes it unnecessary for the Treasury to ~~use its credit at this time to sterilize and keep out of the banking reserves the gold that may be received from whatever source, up to \$100,000,000 quarterly.~~ <sup>further gold acquisitions</sup>

As to the question of what effect it might be expected to have, I would not want to venture into the realm of prophecy, but it seems to me that if it tends to have any monetary influence or psychological effect, it would <sup>not be</sup> ~~be generally anti-~~ deflationary, ~~if not inflationary~~. As you will note from the Treasury statement, gold that is withdrawn from the Treasury will not be deducted from the amount of incoming gold in computing the \$100,000,000 quarterly. The gold so withdrawn will provide an equivalent amount of cash and thus make the public debt less by this amount than would otherwise be the case.

As to the reason for a figure of \$100,000,000 quarterly, it, of course, takes account of the general movement of gold at this time, and in effect puts a top on the amount that is to be permitted to flow into the monetary base. So that from the standpoint of the Reserve System, we know the maximum amount that may be added to the reserves in any quarterly period as a result of the action. This would not be the case, for instance, if de-sterilization were to be entirely discontinued. In that event, of course, the amount that would flow into excess reserves would be unpredictable and depend largely upon how much foreigners sent to us, ~~so that the control would in effect be in their hands~~

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~~rather than where it is now, in our Government.~~

With regard to the timing of this particular action, that is always a matter of judgment, but it seems to me, in the light of the changed situation as compared to the time when the policy was instituted, that under present monetary, <sup>fiscal</sup> credit and business conditions, the action is appropriate.

As I view it, this adaptation of the operation of the fund relates to this whole general changed picture and is occasioned by general considerations which I have outlined, and not by any one consideration by itself. It would be a mistake, accordingly, to assume that it is prompted, for example, by purely monetary or fiscal considerations, or that it is regarded as anything in the nature of a cure-all. It is, as I have said, in line with the desire to adapt the operation of this account to changed conditions, taking into account various elements and considerations that exist in the picture at this time.

February 14, 1938.  
10:46 a.m.

Burgess: Well, I wanted to chat first a minute about the market.

H.M.Jr: Go ahead.

B: Now, it was talked <sup>over</sup> toward the end of the week.

H.M.Jr: Yes.

B: And our feeling here is that it's a good thing to keep it damped down, keep it from running ahead too fast.

H.M.Jr: Yes.

B: We want to avoid what we had last year.

H.M.Jr: Yes.

B: And I think it would be helpful Henry to be able to sell a few of your maturities, a few of your bonds, that you've given - sent an order on.

H.M.Jr: Well - is it strong today?

B: It's about the same as Friday's closing.

H.M.Jr: Yes.

B: But I think we'll get some chances. Now I propose to do it very carefully and only do it when we get a real investment demand, you know.

H.M.Jr: Yes. Well you know Governor Harrison was down here Friday.

B: Yes.

H.M.Jr: Well, until we can make a decision on what he was down here on, I - I want to keep out of the market.

B: That's all right. I just wanted to tell you how it looked -

H.M.Jr: And I'd like you to call me up each day, this week, until we do make a decision.

B: All right.

H.M.Jr: How's that?

- 2 -

B: That's - that's first rate, Henry.

H.M.Jr: Yes. Call me up each day until we do make a decision.

B: Yes. Now, Henry, I thought - you know I'm leaving on Thursday for Jacksonville for a while.

H.M.Jr: Yes.

B: I thought before I left I would send you a little memo.

H.M.Jr: Good.

B: About how Treasury financing looks.

H.M.Jr: Yes.

B: From my - just at this time. Just kind of a little canter. Would that be helpful?

H.M.Jr: It's very helpful.

B: All right, sir.

H.M.Jr: And call me up each day until we do make a decision.

B: Yes.

H.M.Jr: Please.

B: All right.

H.M.Jr: Thank you.

B: Very good, Henry.

H.M.Jr: Goodbye.

February 14, 1938.  
10:55 a.m.

H.M.Jr: Go ahead.

Operator: All right. Go ahead.

H.M.Jr: Hello.

Gordon  
Rentschler: Hello there, good morning.

H.M.Jr: Good morning to you.

R: I was thinking about this party, I think you're on the right track.

H.M.Jr: Thank you.

R: The only thing that's occurred to me since is that once started -

H.M.Jr: What's that?

R: I say the only thing that's occurred to me since is once started on this -

H.M.Jr: Yes.

R: Nobody ought to let you turn back.

H.M.Jr: Uh-huh.

R: Don't let those fellows influence you to turn back, and - on the theory that I believe that if we got all of this deesterilized gold out of the way -

H.M.Jr: Yes.

R: And the bills are issued before they're redeemed.

H.M.Jr: Yes.

R: We'd be infinitely better off than if we had them in our System right now.

H.M.Jr: I see.

R: And once we get started on that program, I think that's constructive to keep going to the end.

H.M.Jr: Uh-huh.

Now I suppose there'll be nothing done on this for a week or so,

H.M.Jr: Well Gordon I can't answer that.

R: No, don't answer me on that. That's fine.

H.M.Jr: I can't. ..

R: Now the next thing is. On the new money, I'm going to leave a - I'm going to leave probably Wednesday or Thursday.

H.M.Jr: Yes.

R: And this is too early to talk about your market financing, isn't it?

H.M.Jr: That's right.

R: But I'm going to ask Leo to be in touch with you and I will be in touch with him by telephone, and I'll call back to you, if you want me to.

H.M.Jr: Leo who?

R: Well, Leo - Leo

H.M.Jr: Oh, yes, yes.

R: You know him, that I've had down with me.

H.M.Jr: Oh, yes, I - I -

R: I- I've got him watching the market.

H.M.Jr: Good.

R: And he'll be pretty closely in touch with it, and then if there's any reason, to get in touch with each other, I'll give you a ring, or you - when you're ready.

H.M.Jr: Where will you be?

R: I'll be down at - in Cuba originally.

H.M.Jr: Oh, yes.

R: And then I'll be back up, I'm going to stop and see my brother at and then end up at

- 3 -

H.M.Jr: Good.

R: I'll probably be there - oh I'll be out of town, probably two weeks, or maybe a little bit longer.

H.M.Jr: O.K.

R: All depends on whether the settlement gets cleaned up <sup>Dutch</sup> and how long it will take afterwards.

H.M.Jr: I see.

R: Now there's nothing else that we ought to talk about, is there?

H.M.Jr: No.

R: Some time though - I know that you're not missing the thought very clearly that none of these things are going to do any good unless we get some of the other things straightened out.

H.M.Jr: We - We're in complete accord on that.

R: I know we are. I felt that all the time. I suppose that those things are moving, aren't they?

H.M.Jr: They are moving just as fast as they can.

R: If there's anything that I can do to be helpful on it, why don't hesitate to let me know.

H.M.Jr: When you come back I'll talk to you about, there's a couple -

R: In the meantime, there's something just for you, as you and I would talk.

H.M.Jr: Yes.

R: I think we're making a little progress with some of these fellows on the idea -

H.M.Jr: Hello.

Operator: Hello.

H.M.Jr: Hello, I'm cut off.

- 4 -

O: Oh, I'm sorry. Get them right back.

H.M.Jr: Hello.

R: Hello. They cut us off.

H.M.Jr: Yes.

R: I just wanted you to keep in the back of your consciousness that there was a chance to do some cooperation if the right things were done.

H.M.Jr: What. What do -

R: I think that's highly important at this time.

H.M.Jr: Well, what - what do you mean?

R: Well I think if these fellows in business had a feeling that they were going to be some real help from down there.

H.M.Jr: Yes.

R: You'd get a tremendous amount of cooperation from them, because they're just as much baffled about the way this thing broke down as the Administration evidently must be.

H.M.Jr: Well now, when you get back we'll have another talk.

R: Yes.

H.M.Jr: And mean -

R: All right. Fine. The things aren't - Get all of these things in mind.

H.M.Jr: Right.

R: We've got a great deal of time to wait, don't you know?

H.M.Jr: Yes, but that was - I thought - didn't you like the meeting Friday?

R: Did what?

H.M.Jr: Didn't you like the meeting Friday.

- 5 -

R: Oh very much. I thought that was extremely well done, and I want to congratulate you for the way you handled it.

H.M.Jr: Well, thank you.

R: Because I think you had very definite opposition there when you started.

H.M.Jr: Yes, I think so.

R: And I think you did it awfully well. Those fellows have got to find some way to save their faces, they sent down.

H.M.Jr: That's right.

R: You and I can say that to each other.

H.M.Jr: That's right.

R: But I think that was very adroitly handled and I'm sure you're going exactly in the right direction. I was delighted to see Walter Stewart and Walter Riefler take the position they did.

H.M.Jr: Yes.

R: But I like the fellow White there. Is he one of your men?

H.M.Jr: White?

R: Yes.

H.M.Jr: Yes.

R: That fellow talked pretty clearly.

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

R: If he and Haas, together with Riefler and Taylor all have their heads on their shoulders.

H.M.Jr: That's right.

R: So I - I think it was a good meeting.

H.M.Jr: All right.

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R: All right fellow. Good luck to you.

H.M.Jr: Thank you.

February 14, 1938.  
11:58 a.m.

H.M.Jr: Hello.

Butterworth: Good afternoon, sir.

H.M.Jr: Hello Butterworth.

B: Good afternoon, sir.

H.M.Jr: Good afternoon.

B: I have just talked with Phillips and Waley -

H.M.Jr: Just a minute. Hello.

~~B:~~ Hello.

H.M.Jr: Go ahead.

B: I have just talked with Phillips and Waley.

H.M.Jr: Yes.

B: Who, in giving me the Chancellor of the Exchequer's reply.

H.M.Jr: Yes.

B: Said that a meeting was held this morning.

H.M.Jr: That what?

B: That a meeting was held this morning.

H.M.Jr: Yes.

B: To discuss the whole problem.

H.M.Jr: Yes.

B: That the situations in the United States and Great Britain were in their opinion not comparable.

H.M.Jr: Yes.

B: That the only two deflationary forces which have operated in this country were the gold scare and Chamberlain's National Defense contribution out, both of which have been obliterated by subsequent events.

H.M.Jr: Yes.

B: The Chancellor, therefore, has stated that he could not think of any active step of a new and striking character which could usefully be taken in this country to act as a parallel to our proposal; and that any action he might take would of necessity be going further than merely removing anything in the nature of a brake on business progress such as real or supposed deflationary tendencies.

H.M.Jr: Yes.

B: In this connection, mention was made of the recent modification of the restriction on foreign lending.

H.M.Jr: Yes.

B: And the fact that the addition of gold to the Bank of England is not the normal or most convenient method of expanding the credit base here.

H.M.Jr: Yes.

B: Such expansion would in general be made against securities purchased by the Bank of England.

H.M.Jr: Yes.

B: And the credit base was in fact very high at the present time through such operations.

H.M.Jr: Yes.

B: However, Sir John Simon had stated that he is very ready to make public his sympathy with your aims.

H.M.Jr: Yes.

B: And he offers, if this is thought to be helpful, to arrange for a Parliamentary answer to that effect, and to make it clear that your action is fully in line with the general policy pursued under past and present conditions here.

H.M.Jr: Yes.

B: Of maintaining a properly expanded credit base.

H.M.Jr: Fine.

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B: And that this still remains the policy of the British Government.

H.M.Jr: Fine.

B: Now that is the answer.

H.M.Jr: Now just to make sure.

B: Yes.

H.M.Jr: I - you're reading from a piece of paper aren't you?

B: Yes, I am.

H.M.Jr: Well, supposing you read it off to me once more.

B: Yes, sir.

H.M.Jr: Just to make sure that I have it.

B: Now then I want to add just one thing more.

H.M.Jr: Please.

B: Now just - speaking off the record and privately.

H.M.Jr: Yes.

B: Waley and Phillips said that the trend of the discussion, at the meeting.

H.M.Jr: Yes.

B: Revealed that there was two queries in the minds of most of the participants. One was a general query.

H.M.Jr: Yes.

B: As to how far monetary factors are known to influence the restoration of confidence and improved business betterment.

H.M.Jr: Yes.

B: The other, a specific query, was why this method was adopted which in the last analysis effect on an admirable movement of gold into the United States rather than the reduction of the

- 4 -

recently raised reserve requirements.

H.M.Jr: Well you tell them that they're talking to the wrong man.

B: That's right. They were just talking off the record to me.

H.M.Jr: I know, but they - they're talking to the wrong fellow.

B: And -

H.M.Jr: You get what I mean?

B: What?

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

B: I do indeed.

H.M.Jr: Yes. They've got to ask Mr. Eccles that question.

B: I know. And there's, of course the Chancellor of the Exchequer wanted to thank you too for what the and so on.

H.M.Jr: Fine.

B: Now, I'll repeat that over slowly, if you'd like me to, sir.

H.M.Jr: I think so. Go ahead.

B: I have just talked with Phillips and Waley, who, in giving me the Chancellor of the Exchequer's reply, said that a meeting was held this morning to discuss the whole problem; that the situations in the United States and Great Britain were in their opinion not comparable. That the two deflationary forces which have operated in this country were the gold scare and Chamberlain's National Defense contribution credit, both of which have been obliterated by subsequent events.

The Chancellor, therefore, has stated that he could not think of any active step of a new or striking character which could usefully be taken in this country to act as a parallel to our proposal; and that any action he might take would of necessity

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be going further than merely removing anything in the nature of a brake on business progress such as real or supposed deflationary tendencies.

In this connection, mention was made of the recent modification of the restriction on foreign lending, and of the fact that the addition of gold to the Bank of England is not the normal or most convenient method of expanding the credit base here. Such expansion would in general be made against securities purchased by the Bank of England, and the credit base was in fact very high at the present time through such operations.

However, Sir John Simon stated that he was very ready to make public his sympathy with your aims, and he offers, if this is thought to be helpful, to arrange for a Parliamentary answer to that effect, and to make it clear that your action is fully in line with the general policy pursued under past and present conditions here, of maintaining a properly expanded credit base, and that this still remains the policy of the British Government.

H.M.Jr: Good. Is that the end?

B: Yes, that's the end of that. Do you want me to repeat about speaking off the record.

H.M.Jr: No, I think we have that. Now Butterworth.

B: Yes, sir.

H.M.Jr: If we decide to do anything again I will call you at about five o'clock, our time.

B: Yes, sir.

H.M.Jr: You'll be home then, won't you?

B: Yes, I will.

H.M.Jr: Well you be ready for a call about five o'clock; our time.

B: I will indeed.

H.M.Jr: And I think, under the circumstances, the answer, I would call it satisfactory.

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B: Yes, I would too.

H.M.Jr: And -

B: Shall I tell them to go ahead about the foreign entry question.

H.M.Jr: Well no, - don't do anything until you hear from me, because I don't know yet that we're going to do it, you see?

B: Yes.

H.M.Jr: I mean I won't know until I have lunch with the President.

B: Quite.

H.M.Jr: And would they have to know that - I mean if you told them that in the morning. Wouldn't that be time enough?

B: I - I'm not quite sure how much time they need to arrange about a question you put.

H.M.Jr: Well, I couldn't let you know until five o'clock, our time.

B: Quite.

H.M.Jr: So then you could call them the first thing in the morning, you see.

B: Yes, I could.

H.M.Jr: But I'm very much pleased the way you've handled this.

B: Thanks very much. Thank you so much. I appreciate that.

H.M.Jr: I'll call - you - I'll call you one way or the other at five o'clock.

B: Good. Thank you very much.

H.M.Jr: Right.

B: Good luck

THE GOLD MOVE

February 14, 1938.  
12:45 p.m.

Present: Mr. Taylor  
Mr. Oliphant  
Mr. Gaston  
Mrs Klotz  
Mr. Viner  
Mr. Haas  
Mr. White  
Mr. Bell  
Mr. Lochhead

H. A. Jr: we haven't had time, but this is the gist of the thing (reply from Butterworth).

Klotz: "I have just talked with Phillips and Waley, who, in giving me the Chancellor of the Exchequer's reply, said that a meeting was held this morning to discuss the whole problem; that the situations in the United States and Great Britain were in their opinion not comparable; that the only two deflationary forces which have operated in this country were the gold scare and Chamberlain's National Defense contribution cut, both of which have been obliterated by subsequent acts.

"The Chancellor, therefore, has stated that he could not think of any after step of a new or striking character which could usefully be taken in this country to act as a parallel to our proposal; and that any action he might take would of necessity be going further than merely removing anything in the nature of a brake on business progress such as real or supposed deflationary tendencies.

"In this connection, mention was made of the recent application of the restriction on foreign lending and of the fact that the addition of gold to the Bank of England is not the normal or most convenient method of expanding the credit base here. Such expansions would in general be made against securities purchased by the Bank of England, and the credit base was in fact very high at the present time through such operations.

"However, Sir John Simon stated that he was very ready to make public his sympathy with your aims, and he offers, if his support would be helpful, to arrange

for a Parliamentary answer to that effect, and to make it clear that your action is fully in line with the general policy pursued under past and present conditions here, of maintaining a properly expanded credit base, and that this still remains the policy of the British Government."

Lockhead: Just checking one word there, where they say "securities issued." It's "purchased by the Bank."

H.M.Jr: It's the gist there. The main thing is that last paragraph there.

well, I think it is about as much as we can expect.

Taylor: You are a good prophet.

H.M.Jr: But that question in Parliament and nice put on the back, and they feel good about it - I think that's as much as we can want.

The other part is delightful; the unofficial part is, they'd like to know why we used this device rather than lowering the excess reserves. Purely informally, they'd like to ask that question. All very nice.

Viner: May I make a suggestion as to a change in the procedure if you go ahead?

H.M.Jr: Sure.

Viner: As I understand it, what is planned now is to allow incoming gold, newly accrued gold, to go into the monetary basis without sterilization up to a hundred million a quarter. Is that right?

H.M.Jr: That's right.

Viner: I'd say, if you go ahead at all, that I'd reverse that and say that you will see to it that the monetary base shall increase by one hundred million for the next quarter, from newly accruing gold or from the sterilization fund.

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

Viner: Well, the difference is that in one, when gold is at the moment barely coming in or perhaps is going out ...

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Lochhead: Coming in very slowly.

Viner: What's that?

Lochhead: Coming in very slowly; at the rate of the past few weeks, it's negligible. \$20,000,000 a month.

Viner: 20 million a month.

White: That's including newly-mined.

Viner: The Federal Reserve apparently - I can refer to that memorandum?

H.M.Jr: Yes.

Viner: The Federal Reserve - apparently their explanation will be that it tells them just what they can operate on; it gives them for three months - it gives them an expectation so that they have a firm base, they know where they are. Well, I'd say they don't know where they are under this. They know a limit, but they don't know where they are. The other way, you know the minimum of your action, you also know the maximum of your action, and you know you're going to do at least a hundred million those three months.

Bell: You don't know the minimum of your action, do you?

Viner: What's that?

Bell: It's anything up to a hundred million. You know the maximum.

Viner: Under mine, you know both minimum and maximum.

H.M.Jr: What would you say the minimum should be?

Viner: I'm making them the same.

H.M.Jr: What you are saying is that you'll let accruing gold - that you will see to it that in the next three months the monetary base be permitted to increase by a hundred million newly acquired gold, or if that doesn't suffice, by transfers from the sterilized gold.

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- White: That was Stewart's goal. This present plan means a minimum of about 60 million and a maximum of a hundred million.
- Viner: An estimated minimum of 60 million.
- Gaston: Your (Viner) plan would be a flat hundred.
- Viner: The amount doesn't matter. I'd say both amounts are negligible. But at least that fits the logic of that Eccles memorandum.
- White: Well, their uncertainty lies only in one direction. They don't care how little gold you de-sterilize; they just want to put a top on that.
- Viner: Well, I didn't get that from the memorandum.
- White: Well, I got that from the discussion.
- A.S. Jr: You're making exactly the same suggestion Eccles made this morning to me: it should be at least a hundred million. He made that suggestion this morning and I turned it down. I'm trying - what I'm trying to do is to remove some of this artificial rigidity. What I am trying to do is to give this thing play. Now, what I'd like to do is to remove all restrictions, let the gold act as it comes in or goes out and have its effect. I can't do that because the Federal Reserve put their foot down. So in order to meet their objections, we said, "Well, not more than a hundred million."
- But if we do the other, we can simply say, "We'll just deposit a hundred million" and forget it. Why go through all this rignarole? Say, "Every three months we deposit a hundred million dollars worth of gold." Why dress it up?
- What I am trying to do is to meet what the European - some European economists say that "the United States doesn't give us a chance; this gold comes in, they sterilize it, they take it, they put it away." Now, I want to give this thing, go back to just as near - I've never said this before, but what I am approaching, although I don't say I would do it, is an open gold market. That is what I am really approaching: an open gold market. And give this thing a chance to move.

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Now, if I put - if I'm going to do what you suggest, what Eccles suggests, the easiest thing is just to announce I'm going to deposit every three months, 12 weeks - every week I'll deposit whatever it is, 8 or 9 million dollars worth of gold - say 10 million dollars a week; deposit 10 million dollars every week.

Viner: Well, of course, my argument there would be that in doing this step my way or in the way you suggest, just a hundred million regardless, leaves the whole philosophy of sterilization still intact, and makes an ad hoc departure from it of a given sum for some supposed purpose, because of temporary circumstances, whereas the other scheme is in between.

H.M.Jr: Jake, unfortunately, you weren't - I concentrated - you weren't here Friday, see? I concentrated harder Friday than on anything I have done in a long time, and I've worked on this thing now for several months. And this modification that you suggest, if you don't mind my saying, isn't important enough, and it just changes - I'll put it, just changes what I am trying to get at. I'm trying to do something here - I'm trying, if possible, to let the gold come in and go out as - what I'd like to do - just as - whatever the trade demands. Now, if I could do that, fine. I can't do it, because the Federal Reserve won't go along at this time. They want to know what is the worst. All right, so I'm compromising on what I want to do and saying we won't let more than a hundred million dollars in. Now, what you're saying is something entirely different. It's an entirely different philosophy.

Viner: That's right.

H.M.Jr: What?

Viner: That's right. It is an entirely different philosophy.

H.M.Jr: Jake, see what I mean?

Viner: Yes, I know. What I say is, you're giving up the whole philosophy of sterilization, but you're putting up an arbitrary hundred million dollar a quarter limit.

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White: I don't see that we are giving it up. I won't argue. Not giving it up. For the moment, you're using it one way rather than the other.

Haas: Working the policy both ways, Jake.

H.M.Jr: Let me just say, does anybody here - because I am down to about two minutes now - does anybody here think that I should change what I am proposing to do in terms of what Viner said? Please say so if anybody thinks so. - All right.

Now let me ask another question. In view of what the English said, aren't we ready to go ahead?

Taylor: (Nods yes)

H.M.Jr: Huh? All right. I'll go to the President.

Now, just one thing, so that you people know what I'm doing. I'm shooting from the hip here. We have \$700,000 worth of pounds in England. In order to keep sterling from - I'm selling sterling right now so that the thing doesn't get - artificial thing doesn't get down. We'll sell it down, keep it down to where it is, see? And also we'll put a cap on Government bonds, just so this thing doesn't blow up today.

All right, Wayne?

Taylor: (Nods yes)

H.M.Jr: What? I didn't have time to consult, but - all right.

Lochhead: I mentioned it to him.

H.M.Jr: Did you tell him?

Lochhead: Yes.

H.M.Jr: Well, when I come back - won't make any move until the President agrees, but when I come back I'll let you all know what he says.

Oliphant: What time you be back?

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H.M.Jr: Oh, 2:15.

White: We got a memo (on some other matter) .... (Hands to Secretary)

H.M.Jr: No final action. Do you like the suggestion? .

White: Well, there are several things to be said about it. As long as there is no final action, it's all right.

H.M.Jr: No, I want the President to see what it looks like.  
Are you disturbed, Jake?

Viner: No, no, I'm not disturbed. I don't think it is of any importance. I want to say so frankly; I don't think the move is of any consequence.

FINAL

February 14, 1938.

Butterworth:

I have just talked with Phillips and Waley, who, in giving me the Chancellor of the Exchequer's reply, said that a meeting was held this morning to discuss the whole problem; that the situations in the United States and Great Britain were in their opinion not comparable; that the only two deflationary forces which have operated in this country were the gold scare and Chamberlain's National Defense contribution cut, both of which have been obliterated by subsequent events.

The Chancellor, therefore, has stated that he could not think of any after step of a new and striking character which could usefully be taken in this country to act as a parallel to our proposal; and that any action he might take would of necessity be going further than merely removing anything in the nature of a brake on business progress such as real or supposed deflationary tendencies.

In this connection, mention was made of the recent modification of the restriction on foreign lending, and of the fact that the addition of gold to the Bank of England is not the normal or most convenient method of expanding the credit base here. Such expansion would in general be made against securities purchased by the Bank of England; and the credit base was in fact very high at the present time through such operations.

However, Sir John Simon stated that he was very ready to make public his sympathy with your aims, and he offers, if this is thought to be helpful, to arrange for a Parliamentary answer to that effect, and to make it clear that your action is fully in line with the general policy pursued under past and present conditions here, of maintaining a properly expanded credit base, and that this still remains the policy of the British Government.

RE GOLD MOVE

February 14, 1938.  
2:20 p.m.

Present: Mr. Taylor  
Mr. Oliphant  
Mrs Klutz  
Mr. Gaston  
Mr. Hess  
Mr. White  
Mr. Bell  
Mr. Viner

H.M.Jr: Well, the President of the United States greeted me by saying, "Are you ready to shoot this afternoon?"

I said, "Yes, sir."

He said, "All right, go ahead and shoot."

He said - it's very interesting, to show the timing of this - you know, he sees the leaders every Monday morning, and Speaker Bankhead said to him that the people in the House were getting very restless about the credit base, and what would he do about it? So he said, "Well, it's 10:30 in the morning, but I can tell you in strictest confidence that we're going to do something this afternoon."

And Speaker Bankhead said, "Fine. And I hope you're going to do something about sterilizing of gold, because also the House is getting restless about that - that there is no sense in continuation of gold sterilization."

"Well, we'll take care of that this afternoon, in strictest of confidence."

So he read the note from Mr. John Simon, which was agreeable.

(On phone) Tell Mr. Gaston, please, to come in.

Anyway, he went over the top or under the kitchen - I don't care.

Then I asked him - now, I'll try to remember all these things - about China, and he said, "I'll tell you

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exactly what I told the Chinese Ambassador. I said if he can raise a hundred million dollars anywhere in the world, that I, the President of the United States, would put nothing in his way. And then I smiled sweetly." "Now," he said, "that's all that I told him." So that takes care of that.

Oliphant: He's in good form today.

H.W.Jr: He then told me that he delivered a speech this morning on the price situation to the leaders, and everybody seemed to get it except Jack Garner. And he said, "I never know whether he doesn't want to get it or whether he doesn't get it." And he said, "I gave them this long talk about April 2" - combination of what the President said on April 2, plus the Federal Reserve - what it had done, so forth and so on.

So I said, "Well now, Mr. President, this is an awful important question. Agriculture's interested, Labor's interested." "And," I said, "frankly, we can't be ready tomorrow." I said, "I wish you'd give us some time. But it's terribly important, and if we can we'll be ready for you by Friday for your Friday morning press conference; but I wish you'd wait, so you don't find you make a statement and there is some agricultural bulletin in the press which is the opposite from what you said. And after all, what you want to talk about is prices in relation to unemployment."

He said, "That's right."

So he's going to see us two o'clock Thursday. And I wish, Mr. Taylor, that you'd get Mr. Wallace over at 10:30 tomorrow, plus anybody he wants to bring, plus Mr. Lubin. At 10:30; devote the morning to the thing. Then Thursday at two o'clock we're going to do the Hungarian debt, and I think you (Klotz) better get hold of Win Riefler, tell him to be down here Wednesday, because he spent at least a week on that with the people over in Geneva, you see.

Klotz: Wednesday morning?

H.W.Jr: Yes. And I'll call up the State Department later on

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and find out who the .... What the President wants - I'm sorry Bell isn't here, because he's doing most of that for me - he wants a joint recommendation from both Departments. He liked it, but he wants to see - I've already started it - the whole business; it's being called for, tabled for me. But the only thing - I'll see Bell - he wants to apply this Hungarian formula to every other country.

Then I said, "What do you want to do about Finland?"

"We'll have to give them a refund."

Wouldn't that be a wonderful gesture? That would be grand. I'd like to give them a refund.

Klots: That's two o'clock where?

H.M.Jr: Two o'clock the White House.

Taylor: 10:30 tomorrow for Wallace.

H.M.Jr: And whoever he wants to bring.

Taylor: And Lubin.

H.M.Jr: Yes.

Taylor: Prices.

H.M.Jr: Yes, sir, we'll work full steam on that until we can have something for the President two o'clock Thursday.

Haas: We had a meeting this morning.

Taylor: I missed the other one.

H.M.Jr: Thursday, two o'clock, State Department - Wednesday, two o'clock. Hungarian debt.

Klotz: Wednesday. You said Thursday.

H.M.Jr: Well, it's the other way around. Wednesday, two o'clock, Hungarian debt; Thursday, two o'clock, prices.

(Bell comes in)

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H.M.Jr: The President wanted that table that I asked you (Bell) for, plus - if you could put at the bottom - the only thing he wanted added: apply the Hungarian formula to, say, Great Britain - pre-Armistice, post-Armistice - each one.

Bell: Separately?

H.M.Jr: Separately. He went at it - awful pleased - just exactly the same way I did. And if we had that table for Wednesday afternoon ...

Bell: Fine.

H.M.Jr: --- I didn't have the right stuff when I went over there. I had to do it all from memory.

Herbert, I thought you could have this thing put on the mimeograph at three o'clock.

Gaston: I'm having a stencil cut. Told her to hold the stencil until about 2:30.

H.M.Jr: And in order to give me the time, tell them - three o'clock markets close - tell them we'll have the press conference at 4:30.

Gaston: At 4:30 instead of four.

H.M.Jr: You people come at four and we'll kind of chew the rag from four to 4:15. And Mr. Eccles and Elliot Thurston will be here at 4:15 and go over the thing once more.

Gaston: Yes.

H.M.Jr: They're giving me 15 minutes. The reason I've got to put it off - have Walter Chrysler in from three to four; give him a full hour.

Gaston: Shall I call them, let Elliot Thurston ....

H.M.Jr: Yes.

You (Klotz) got anything?

Klotz: (Nods no)

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H.M.Jr: I got to call up the State Department and find out. I better talk directly to Mr. Hull, don't you think so, and find out how he wants to handle this.

I'm very happy.

Viner: Fine.

H.M.Jr: The President is happy, which is very important.

Is this just a good word for me to use in discussing this thing - that I was going to call this "mildly reflationary"? Anybody object to that in describing this?

"What do you think this will do, Mr. Morgenthau?"

"I think it is mildly reflationary."

Well, none of them have comments.

Klotz: Expressions is what worries me.

H.M.Jr: Do you like the expression?

Bell: Perfectly blank.

Klotz: If blank, it wouldn't be half bad.

H.M.Jr: Well, anyway, between four and 4:15, please tell me whether anybody thinks of anything better than "mildly reflationary."

White: "Step in the right direction."

Viner: "Incipiently reflationary."

H.M.Jr: All right, you're ... Will you all go in; and seriously, each fellow think about - if he would, maybe bring in just a couple sentences that you think I might use, will you? At four o'clock be back again.

February 14, 1938.  
2:50 p.m.

H.M.Jr: Hello.

Operator:

H.M.Jr: Hello.

Secy.  
Hull: All right, Henry?

H.M.Jr: How are you?

H: All right, what's going on?

H.M.Jr: Well, first, we're going to go ahead on that gold business this afternoon.

H: Yes.

H.M.Jr: I had a satisfactory message from the English.

H: Oh, I see. Well that's interesting.

H.M.Jr: And they're going to back us with a question and answer to Parliament tomorrow.

H: Yes.

H.M.Jr: And when I see Herbert Feis, I'll give him a copy of what I heard.

H: Well that's very interesting, I'm sure.

H.M.Jr: And I talked to the President about Hungary.

H: Yes.

H.M.Jr: And I gave it to him very sketchily, and he's interested.

H: Oh, he is.

H.M.Jr: He is, and he said that he'd like to see us at two o'clock Wednesday afternoon.

H: Yes.

H.M.Jr: Now, between now and Tuesday, I'd like to work with whoever you designate.

H: Yes.

- 2 -

H.M. Jr: See?

H: Yes. Well Feis - Feis can have anybody he wants to help him here.

H.M. Jr: Well, will you tell Feis that he'll be getting a call from me?

H: Yes, sir. Well -

H.M. Jr: And then -

H: If I miss him in any way, before you call him, then you tell him I said you to call him.

H.M. Jr: Well, and you most likely go yourself on Wednesday?

H: Well, I don't - if I keep up with it here in every way, it doesn't make so much difference.

H.M. Jr: Well, personally, I'd feel a little bit more comfortable if you did.

H: Well, anyhow we will go along between now and then and see your developments.

H.M. Jr: And I - I'll work with Feis. Is that right?

H: Yes. Sure.

H.M. Jr: I think it's very interesting, and of course the most interesting is applying to England.

H: Yes.

H.M. Jr: And England would get a good break out it.

H: Exactly.

H.M. Jr: France and Italy wouldn't.

H: Yes.

H.M. Jr: But they're not apt to pay us anyway.

H: No, not apt to.

H.M. Jr: And this would give England a chance.

- 3 -

H: Well, I've been expecting something to be possible with her , at least if she sees this trade agreement's going over, I think she'll be much more in the humor to work out something.

H.M.Jr: All right. Well I wanted to let you know.

F: Thank you, Henry, so much.

H.M.Jr: Right.

February 14, 1938

Dictated February 15, 1938

I called Jimmie last night on the telephone and protested against the Government going into the housing business through the use of WPA labor. He said he doubted whether they were going to do it. After reading Foley's memorandum about the meeting that he attended, Jimmie on Monday or Tuesday seemed to be doing everything possible to bring it about. Jimmie's talk with me did not jibe with the way he talked at the meeting in his own office.

February 14, 1938.  
5:08 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Butterworth: Hello.

H.M.Jr: Hello, Butterworth?

B: Yes, sir.

H.M.Jr: How are you?

B: Very well thank you, and you?

H.M.Jr: Well, we've just released the statement and they'll send you - you'll have a copy on it the first thing in the morning.

B: Good.

H.M.Jr: We gave it out for immediate release.

B: Good. Thank you.

H.M.Jr: So, you can inform your friends first thing in the morning, that, if they'll have a little discussion of it in Parliament, why it would be all to the good.

B: Good, I'll tell them.

H.M.Jr: See?

B: Good. Fine, sir.

H.M.Jr: And I have nothing to add to that.

B: Good.

H.M.Jr: We just had a very good press conference, Mr. Eccles and I. As far as I can tell, it's all right.

B: Oh, good. That's fine.

H.M.Jr: You'll read it five hours before I do.

B: All right, sir.

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H.M.Jr: But the more they can say abroad to back us up the better.

B: Quite.

H.M.Jr: And if - if you can have your way clear seeing some of the American correspondents in London, that might be helpful.

B: Right.

H.M.Jr: See?

B: Yes, sir.

H.M.Jr: Now fortunately they didn't ask us at all whether or not we talked this over with England you see? Hello.

B: Yes, I understand.

H.M.Jr: I wasn't asked that question, so I didn't have to say anything. They didn't ask about the tripartite agreement.

B: Yes.

H.M.Jr: So that the whole thing - the whole thing hinged on the gold, which is all right.

B: Good.

H.M.Jr: And -

B: Parliament will probably have to start off -

H.M.Jr: But as I say, if you could see some of the American correspondents, possibly, and get them to maybe - on the - you know, it might be helpful.

B: Yes. Right.

H.M.Jr: All right.

B: Thank you very much.

H.M.Jr: If you have anything tomorrow on the reaction why - I may give you a call tomorrow.

B: Good.

H.M.Jr: Good luck.

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B: Good.

H.M.Jr: Goodbye.

Feb 14 1958.

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This morning I refrained from commenting on the British aspect. I feel I should call your attention to aspects of joint action (not notification) which were not mentioned this morning.

1. Joint action by England and the United States, even if it could be achieved would, I believe, operate to dissipate the effectiveness of the proposed step. It would make the step appear as relating to international monetary stability rather than as concerned with promotion of domestic recovery.

2. The British might not accede inasmuch as it would constitute a substantial alteration of their policy of confidential operations. They have been sterilizing and de-sterilizing gold constantly without either consulting us, informing us, or even announcing it to their own public.

3. They might either regard the step as an innocuous one and

(a) Give a noncommittal reply, or

(b) Accept, not on its merits, but (as you thought possible) as a means of paving the way for a return request of some kind.

4. To consult the British on this point is spreading international cooperation to matters which the British have always considered to be purely domestic affairs for themselves and which from our point of view are hardly the proper subject matter for international discussions. It is developing a degree of one-sided intimacy that gives one pause.

*L. White*

REPORT OF SECRETARY MORGENTHAU'S  
PRESS CONFERENCE, FEBRUARY 14, 1938.

Also present Chairman Eccles, Mr. Elliott Thurston,  
Mr. Taylor, Mr. Cliphant.

W.C.R.: I'll be glad to answer all the questions that I can  
or refer them to Chairman Eccles, and Chairman Eccles  
would like to have something to say and be glad to  
answer questions that you may wish to direct to him.

.. Mr. Chairman, to make sure that I read this correctly,  
you will include in the sterilized gold fund only an  
amount above \$100,000,000--any acquisitions above  
\$100,000,000?

E.C.J.: Do you want me to answer?

ECCLES: You go ahead.

W.C.R.: I will give you an explanation of that statement as we  
see it and then if that isn't clear --. That this  
statement says is this: That beginning January 1st, 1938,  
that any gold that the Treasury acquires up to \$100,000,000  
will be deposited with the Federal Reserve System. And  
that means that inasmuch as we have acquired approximately  
\$30,000,000 of gold since the 1st. of January we will  
deposit immediately \$30,000,000 with the System. The  
policy which we have been following in the past, i.e.,  
that any gold which we sell will come out of the  
sterilization fund -- the only change in that is that  
all gold that we sell, including earmarked gold, will

- 2 -

come out of the sterilization fund. Now that, I think, is the whole story. Would you say so?

FRANKS: Yes.

W.C.B.: That is, of course, on a quarterly basis.

Q. Mr. Secretary, when you are talking about depositing, in effect, it is release from sterilization.

A. No. If some government buys gold from us, the gold will come out of the sterilization fund as it has in the past. In other words, the sterilization fund, if it is one million, will be reduced by one million dollars -- any amount that we dispose of. That is the policy which we have been pursuing now for some time.

Q. What I am talking about is this \$30,000,000 you have acquired -- will that be released from sterilization, in effect?

A. Yes.

Q. And there's seventy million more this quarter, if you acquire that much?

A. Yes.

Q. And anything above that goes into the inactive fund?

A. Anything above that goes into the inactive fund.

Q. Why is this being done?

A. Well, we think it's a move in the right direction.

Q. Can you explain the \$100,000,000 figure?

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- Q. Well, the \$100,000,000 figure we feel is adequate, when you consider the movement of gold which has been taking place during the last few months.
- A. What do you mean by adequate, sir?
- Q. Well, I mean it ought to take care of the purchase of any gold we make during a period of three months -- adequately.
- A. In other words, you don't expect more than \$100,000,000 in three months?
- Q. Well, based on the experience of the last few months --
- A. I was about to ask, sir, if you wouldn't elaborate a little bit on the purpose of this move. It undoubtedly has a very concrete purpose and it would be helpful if you would give us some indication of what that is with regard to business conditions.
- Q. Mr. Eccles will read from a prepared statement he has and he will go into that in considerable detail. Naturally, we wouldn't be making this move if we didn't think it would be helpful.
- Q. Mr. Secretary, would it be accurate to say under this new plan the only gold that would be sterilized would be abnormally large movements into this country?
- A. In excess of \$100,000,000 -- it would take an abnormal movement to be in excess of \$100,000,000.
- Q. Has Mr. Eccles any extra copies of his prepared statement?

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- ECCLMS: Well, I merely have a memorandum here in which I have jotted down what occurred to me to be an explanation of this action -- that was written somewhat in anticipation of questions that would naturally be raised and instead of submitting myself to questioning, I think that I would like to just give you here some of the thoughts that I have with reference to this situation, without quotation at all, merely for background in your interpreting the statement that the Treasury has put out here. This is my interpretation of that and if you want to use that for background in writing up your story on that release I am willing to help you to this extent, but this is not for quotation.
- Q. Well, I am sorry, I just wanted to ask you to explain what you mean by background--whether you mean putting it in quotation marks --.
- A. I mean no reference to it whatever. Anything I say here you might write up -- I don't want to be quoted on it and I don't want to be attached to it by implication necessarily. I don't want my name attached to it. The reason, of course, is statements that come from the Board -- it should be given out as a Board release. I am merely giving you here the background on this and this is not a Board press release.
- Q. The point is, Mr. Eccles, that in carrying it in this story we have a Treasury announcement here and anything

we might carry as background from you might be credited to the Treasury.

A. That's all right. You are putting your own interpretation on it. I am sitting here with the Secretary and anything he might have said might be attributed to me too.

Q. Couldn't we attribute it to "Administration banking officials".

A. Banking and monetary, yes. (Eccles commences reading)

"It will be recalled that when the inactive gold account was set up we were experiencing a very heavy inflow."

Q. Pardon me, Mr. Eccles, would you mind reading just a little slower?

A. "Which not only increased the deposits of the banks but was allowed to take effect in adding to the excess reserves of the banking system. By using authority given by Congress to the Reserve System, a large portion of this excess was, in effect, sterilized, and the action setting up the inactive gold account served to prevent additional acquisitions after that date from again building up the excess to a disproportionate size relative to credit needs and business conditions as they then existed."

Now that, you will recall, goes back to the beginning of the setting up of the fund which, as a matter of background, is necessary, I think.

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"The inactive fund was, of course, a new sort of instrument which could be made flexible in its application as conditions warranted, and, in fact, it has afforded a convenient instrumentality for placing funds directly and quickly in the money market, as was the case last Fall when we had a desterilisation of \$300,000,000, which the Treasury undertook at the request of the Reserve Board, acting on the recommendations of the Federal Open Market Committee. This was to meet a specific situation. Since the fund was originally set up, there has been a considerable change in the general business, fiscal and monetary situation. In the light of the changed conditions, it would appear to be appropriate to adapt the operation of the fund to the changed situation, since it has the advantage of flexibility in operation, whereas, changing reserve requirements, for example, does not have the same advantages.

"You might ask why this same thing could not be accomplished by some other means. That might be possible if the sole consideration were only to create additional excess reserves. However, I do not think, under present conditions, we would be justified in carrying out open market operations or in reducing reserve requirements for

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the purpose of creating more excess reserves. Instead, it is obviously more appropriate to take the present action which has the effect of adding to bank reserves, while relieving the Treasury of borrowing for the purpose of keeping gold acquisitions from adding to bank reserves.

"As to the question of what effect it might be expected to have, I would not want to venture into the realm of prophecy, but it seems to me that if it tends to have any monetary influence or psychological effect, it would not be deflationary. As you will note from the Treasury statement, gold that is withdrawn from the Treasury will not be deducted from the amount of incoming gold in computing the \$100,000,000 quarterly. The gold so withdrawn will provide an equivalent amount of cash and thus make the public debt less by this amount than would otherwise be the case."

Q. Don't you mean, sir, that it will prevent an increase by that amount?

A. "It will make the public debt less than otherwise would be the case, either by preventing an increase or by reducing the debt, whatever the situation is that may develop."

"As to the reason for a figure of \$100,000,000 quarterly, it, of course, takes account of the general movement of

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gold at this time and, in effect, puts a top on the amount that is to be permitted to flow into the monetary base, so that from the standpoint of the Reserve System we know the maximum amount that may be added to the reserves in any quarterly period as a result of the action. This would not be the case, for instance, if desterilization were to be entirely discontinued. In that event, of course, the amount that would flow into excess reserves would be unpredictable and depend largely upon how much foreigners sent to us.

"With regard to the timing of this particular action, that is always a matter of judgment, but it seems to me, in the light of the changed situation, as compared to the time when the policy was instituted, that under present monetary, business and fiscal conditions, this action is appropriate.

"As I view it, this adaptation of the operation of the fund relates to this whole general changed picture and is occasioned by general considerations which I have outlined and not by any one consideration by itself. It would be a mistake, accordingly, to assume that it is prompted, for example, by purely monetary or fiscal considerations or that it is regarded as anything in the nature of a major or cure-all move. It is, as I have said, in line with the desire to adapt the

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operation of this fund to changed conditions, taking into account various elements and considerations that exist in the picture at this time."

Q. Mr. Chairman, just how will this hundred million dollars, if you get a hundred million dollars in gold every quarter, help business?

ANSWER: I didn't say it would help business.

Q. That is obviously the undertone of this whole thing.

A. Well, you can put whatever interpretation you want on it.

Q. Why the need for it then? You simply call it a situation.

A. It does two things specifically, as I stated here. It does add to the excess reserves and to that extent it is in the direction of certainly a condition of monetary ease. It makes it unnecessary for the Treasury to borrow money for the purpose of sterilizing incoming gold.

Q. The banks are already full of excess reserves. In other words, you are just bludgeoning other money out of the banks -- making them find a place where they can earn some money because they are loaded with excess reserves.

A. Well, the banks have about a billion four hundred million, total excess reserves -- they have had three and one-half billion and they had three and one-half billion when the reserve requirement was only one-half what it is now.

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- Q. Well, that just shows that they don't need any more.
- A. I don't think that an increase in the reserves in and of themselves is going to do other than assure a continuation of easy money and to the extent that psychologically that is favorable, why it is that much to the good.
- Q. Well, can you tell us who is going to be influenced? Business can't get the money now and the banks already have it. I am just asking for a story -- I don't want to heckle, but I just don't want to get -- I have to write it.
- A. I couldn't tell you who is going to be influenced.
- Q. It's your policy, not mine.
- A. That is not a policy that the Board has adopted -- this is a policy that the Treasury has adopted and the Board has agreed to it. I don't want to give the impression that the Board has initiated this policy because it would be unfair to the Board.
- R.M.JR.: That's like saying it would unfair to the Treasury.
- ECLES: It would be unfair not only --
- R.M.JR.: I claim the child.
- Q. The last one wasn't yours, was it?  
Have you some place along the line determined that excess reserves are too low and should be increased?
- ECLES: No.

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- Q. What is the situation -- the Board is either willing to see excess reserves increased.
- A. It is willing -- it has no objection. The question of increasing reserves at this time by this amount will make very little difference -- whether the reserves are one billion four, a billion six, or eight, or two billion is not a matter in itself of very much importance at this time.
- Q. You say that the Board is willing that the reserves increase?
- A. The Board has no objection.
- Q. Was anybody asked for it?
- A. Asked for what?
- Q. That more money go into the banks.
- A. No.
- Q. Then why the action?
- A. Why the action?
- Q. Certainly, they've got more money now than they know what to do with. They do get a profit out of his (Morgenthau's) chiselling rate. I'll wait afterwards and you can spank me (Litz to the Secretary).
- WOLFE: Well, during the situation that existed, gold was sterilized, as a result of the Government borrowing money to do it at a time during an inflationary period. There would seem far less justification to borrow money to sterilize gold during a deflationary period.

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- Q. Well, then, this is an inflationary move?
- A. It isn't deflationary.
- Q. You answered in the negative and I wonder if you would express it in the positive.
- A. I wouldn't express it in the positive because I don't know that it will be inflationary. The only way it could be inflationary was if it tended to cause the use of credit. I wouldn't want to venture any such opinion.
- Q. Mr. Chairman, you said the purpose of cutting down excess reserves was to remove an invitation to inflation of credit.
- A. When did I say that?
- Q. One night when we were down at your office on a similar occasion. Maybe a year ago.
- A. Well, of course, we increased reserve requirements.
- Q. Yes, because of the tremendous amounts of excess reserves existing at the time was an invitation to credit inflation and you wanted to stop that and this is a reverse action.
- A. Yes, that's right. The time of sterilization was a year ago December when there was a huge amount of gold coming in the country and when there was a very rapid credit expansion under way and a very rapid price advance. The situation is the reverse today. Whereas the Treasury no doubt felt justified at that time to sterilize gold,

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at the present time there is a good deal less reason and justification for sterilization than there was at that time because of the changed conditions.

- Q. I would like to ask this question, sort of jointly: You have talked about monetary ease and how this facilitates that thing. Now one very obvious characteristic of monetary ease is interest rates and it has been quite obvious from the figures that both the Treasury and Federal Reserve Banks have been operating their bond accounts in such a way as to discourage higher prices and lower yields in the bond market. Now how does this, which tends to increase funds for private operation in the bond market, square then with this repressive action?

A. Well, I don't know that it would have that effect.

- Q. Aren't excess reserves primarily in a situation like this, reflected in a bond market activity if they are reflected anywhere?

- A. Not necessarily. They may be reflected in very high-grade bonds and very gilt-edged short securities. They may not be reflected that way except in the money market; when you take the country as a whole, excess reserves in some areas may have an entirely different effect than in other areas. For instance, if there should be a demand for FHA insured mortgage or Commodity

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Credit debentures that are being sold, there is more than merely the question of Government bonds.

Q. Well, can you square up for me this business of, so to speak, of keeping your hand on the Government bond market and at the same time putting more funds out available for the purchase of Government bonds. How do the things work together? It looks to me like they work at opposite directions.

A. Well, you have already, of course, got a very large amount of funds outside of the banks. The banks are not necessarily buyer of bonds. As a matter of fact, the total bond situation -- the banks during the past six months, as a whole, have not increased their holdings of Government bonds. The strength of the bond market is due to purchases by some savings banks, insurance companies and investors due to the absence of opportunity to invest in other fields so that putting this in the banks does not necessarily -- .

Q. Well, it still seems to me that it increases the invitation to banks to replace the Governments they bought a year ago -- like any other investor who assumed, and accurately so, it goes into the bond market.

A. Well, to the extent that it tends to induce the banks to invest in any field, that is a sound place to invest -- to that extent it is that important to the Government. The

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action, I know, of the Reserve System, and I suppose the Treasury for that matter, was to more or less tend to stabilize the market, than to tend to fix the interest rate, that the gyrations both down and up are bad and if there is a huge demand and apparently a supply, there is no reason the Reserve System holding its long-term portfolio and possibly the Treasury -- it would be a bad time for the Treasury to go into the market when others are in and it might be an advantage to transfer from long- to short-term just as they have from short to long.

Q. Will you come forward now with an Open Market operation to keep the bonds from going up?

A. Oh, the Reserve System is constantly -- we won't necessarily change any policy because of this.

Q. Will you likely continue these operations from bonds to bills?

A. I wouldn't want to say what the Open Market Committee might do. I am just telling you what they have done; from this minute on I am making no commitment.

Q. The last couple of days the foreign exchanges have been up and down; can you tell us if there has been any engagement of gold for foreign countries through tonight?

H.V.JB.: The answer is no.

Q. Mr. Chairman, do you expect these gold imports to continue?

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COLES: I don't know. There is, of course, domestically mined gold and this is coming in from Canada and Mexico which is somewhat likely to continue. It is somewhat different from foreign capital that was coming over here up until last summer.

Q. Mr. Secretary, could you say how much is thirty million will be released?

H.V.JR.: The normal way -- just the way we deposit any other money. It will be done in a day or so.

Q. Mr. Chairman, is this just an isolated decision or is it connected with a general administrative program for recovery such as the Housing program?

COLES: I can't speak for other than this action here.

Q. Mr. Chairman, would that \$100,000,000 figure be flexible? Could you change that or do you intend to change that situation?

A. Of course, the whole instrument is flexible, just like any monetary powers have got to be. What you mean by that is that is it likely to be \$200,000,000 or \$50,000,000?

Q. Yes.

A. Well, I think the statement speaks for itself. It says until further notice.

H.V.JR.: Thank you, gentlemen.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Monday, February 14, 1938.

Press Service  
No. 12-51

On December 22, 1936, the Secretary of the Treasury stated that, after conferring with the Board of Governors of the Federal Reserve System, he proposed to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department whenever it was deemed advisable and in the public interest to do so.

In pursuance of that policy, the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, today announces that gold acquired by the mints and assay offices after January 1, 1938, will be included in the Inactive Gold Account only to the extent that such acquisitions in any one quarter exceed \$100,000,000. No change is being made in the procedure whereby any gold released by the mints and assay offices is taken from the Inactive Gold Account.

--oOo--

*Eccles read  
this one*

February 12, 1958.

**MEMORANDUM:**

**TO - The Secretary of the Treasury**  
**FROM - Chairman Eccles**

Attached is a rough draft of what would be my interpretation of the proposed action, and the way in which I would try to answer some of the questions that are likely to be asked by the press.

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**Attachment.**

ET:b

February 12, 1938.

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It will be recalled that when the inactive gold account was set up, we were experiencing a very heavy inflow, which not only increased the deposits of the banks, but was allowed to take effect in adding to the excess reserves of the banking system. By using authority given by Congress to the Reserve System, a large proportion of this excess was in effect sterilized, and the action setting up the inactive gold account served to prevent additional acquisitions after that date from again building up the excess to a disproportionate size relative to credit needs and business conditions as they then existed.

The inactive fund was, of course, a new sort of instrument which could be made flexible in its application as conditions warranted, and, in fact, it has afforded a convenient instrumentality for placing funds directly and quickly in the money market, as was the case last fall when we had a desteralization of \$300,000,000, which the Treasury undertook at the request of the Reserve Board, acting on the recommendation of the Federal Open Market Committee. This was to meet a specific situation.

Since the fund was originally set up there has been a considerable change in the general business, fiscal and monetary situation. In the light of the changed conditions, it would appear to be appropriate to adapt the operation of the fund to the changed situation since it has the advantage of flexibility

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in operation, whereas changing reserve requirements, for example, does not have the same advantages.

You might ask why the same thing could not be accomplished by some other means. That might be possible if the sole consideration were only to create additional excess reserves. However, I do not think under present conditions we would be justified in carrying out open-market operations or in reducing reserve requirements for the purpose of creating more excess reserves. Instead, it is obviously more appropriate to take the present action, which has the effect of adding to bank reserves while relieving the Treasury of borrowing for the purpose of keeping gold acquisitions from adding to bank reserves.

As to the question of what effect it might be expected to have, I would not want to venture into the realm of prophecy, but it seems to me that if it tends to have any monetary influence or psychological effect, it would not be deflationary. As you will note from the Treasury statement, gold that is withdrawn from the Treasury will not be deducted from the amount of incoming gold in computing the \$100,000,000 quarterly. The gold so withdrawn will provide an equivalent amount of cash and thus make the public debt less by this amount than would otherwise be

- 3 -

the case.

As to the reason for a figure of \$100,000,000 quarterly, it, of course, takes account of the general movement of gold at this time, and in effect puts a top on the amount that is to be permitted to flow into the monetary base. So that from the standpoint of the Reserve System, we know the maximum amount that may be added to the reserves in any quarterly period as a result of the action. This would not be the case, for instance, if sterilization were to be entirely discontinued. In that event, of course, the amount that would flow into excess reserves would be unpredictable and depend largely upon how much foreigners sent to us.

With regard to the timing of this particular action, that is always a matter of judgment, but it seems to me, in the light of the changed situation as compared to the time when the policy was instituted, that under present monetary, fiscal and business conditions, the action is appropriate.

As I view it, this adaptation of the operation of the fund relates to this whole general changed picture and is occasioned by general considerations which I have outlined, and not by any one consideration by itself. It would be a mistake, accordingly, to assume that it is prompted, for example, by purely monetary or fiscal considerations, or that it is regarded as anything in the nature of a major or cure-all move. It is, as

- 4 -

I have said, in line with the desire to adapt the operation of this fund to changed conditions, taking into account various elements and considerations that exist in the picture at this time.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Monday, February 14, 1938.

Press Service  
No. 12-51

On December 22, 1936, the Secretary of the Treasury stated that, after conferring with the Board of Governors of the Federal Reserve System, he proposed to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department whenever it was deemed advisable and in the public interest to do so.

In pursuance of that policy, the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, today announces that gold acquired by the mints and assay offices after January 1, 1936, will be included in the Inactive Gold Account only to the extent that such acquisitions in any one quarter exceed \$100,000,000. No change is being made in the procedure whereby any gold released by the mints and assay offices is taken from the Inactive Gold Account.

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## M E M O R A N D U M

February 14, 1938.

Re: Hungarian debt.

Mr. Bell came to my house yesterday at 12 and for three quarters of an hour we worked on the Hungarian debt.

February 14, 1938

11:30 a.m.

Meeting of Secretary with Colonel Harrington.

HM, Jr: I wondered if you could give me, boiled down so I could think about it, the stuff floating around about you fellows wanting to go into the housing business.

Col. H: I think I can give you what I know about it. Of course, we have talked for a year and a half, Harry and all of us over there, as to whether there was some possibility of bringing relief labor into the housing situation. There is a housing problem in the country and we have to employ these people who are out of jobs. Now, obviously, it is something on which no move could be made unless the President wanted it done.

About two weeks ago, Jimmie asked me to draw up a memorandum as to the way in which WPA could move into housing - simply a memorandum for the President's consideration. And I did that and sent the memorandum to the White House after talking it over with Mr. Jesse Jones, the plan being -- and understand, I was not promoting it, I was simply presenting possibilities ....

HM, Jr: I understand.

Col. H: .... that if communities or housing authorities sponsored a project for the construction of low-cost housing, that we could furnish the labor, which is, roughly, half the cost, and they could finance the cost of materials and acquisition of the site, where necessary, by loans from the R. F. C. or by private loans, if they preferred.

In other words, the labor would be a subsidy -- the wages of the laborer would be subsidized. And that we could build units at an average cost of approximately \$2500 for a four-room unit, which I know that I can do.

Now, I can't do it entirely with relief labor -- that is, people who are certified in need of relief, because there are many places where we have not got that sort of people on the relief rolls -- carpenters, bricklayers, painters -- but

-2-

we can do it with the unemployed and people who are in need of a job and they could be certified to us by the U. S. Employment Service.

HM, Jr: Is Captain Lord one of your men?

Col. H: No. He is working with Wallace, but he is Corps of Engineers man and I would say to you, if this thing were put on WPA, I was expecting to ask that Lord be allowed to come over with me, because he has had some tremendously valuable experience ....

HM, Jr: No question.

Col. H: .... and he is a darn able fellow.

HM, Jr: You see, there are so many of these people sitting up nights .....

Col. H: Mr. Secretary, the whole thing in Washington about this whole housing situation is so damned confused that it is very essential, in my judgment, to clarify it. Jimmie is having a conference at 4:30 this afternoon. I am to go over. I don't know who else. I think it is very essential ...

HM, Jr: The way you outline it, I think the way it is now, it would just confuse the thing more.

Col. H: I said in that memorandum inclosing it that this involved a very serious decision as to policy and what the public reaction would be would be something that required weighted consideration before going into it, because I think private construction -- if the Government actually went into housing at this juncture -- the private building industry would be inclined to throw up their hands.

HM, Jr: If you did, I think it would kill Stewart MacDonald's work. At this stage, I think we ought to do everything to help him.

Col. H: I hope I made my position clear and that you understand that we sent this thing as a possibility from the President.

HM, Jr: I just wanted to get it from you clear as I knew you would give it to me clear. And the other thing was whether, frankly, whether you were stumped because you did not

-3-

have enough projects to take care of the additional money.

Col. H: No.

HM,Jr: That's all I wanted to know. You are all right as you are without going into the housing game?

Col. H: That's right.

HM,Jr: That's what I wanted to know. O. K.

Col. H: As a matter of fact, what Jimmie said, he said the President would like to have this explored with the possibility that he may want to use it as a dramatic gesture at some time in the future.

HM,Jr: Well, he has not asked me yet, but if he does I certainly want to have a long, long talk with Stewart MacDonald before we do this.

Well, I have the two things I want.

Now, the third thing -- what is the status of the New Hackensack airport?

Col. H: We are going to start work on that not later than the 15th of March. We would rather not start work now.

HM,Jr: What are you going to do?

Col. H: Pave two runways.

HM,Jr: Oh! Good! Going to cut down some of those high trees?

Col. H: We will if we can. If we can arrange to do it, I will.

HM,Jr: You are going to pave two runways?

Col. H: Yes.

HM,Jr: How long?

Col. H: I have in mind 2400 feet and 3,000 feet. As soon as I get a plan on it, I thought I would ask you if I could come over and show it to you.

-4-

HM, Jr: That's decided on?

Col. H: Yes, assuming the President will approve the project.

HM, Jr: He will. You saw the letter Jimmie wrote on it.

Col. H: And what I want to do is start as soon as the working season is good and I think we will have it ready by the middle of June. Do you think that will be time enough?

HM, Jr: Oh, yes! That's all right. Because the other day I was up there and they reported the field in fine condition and Burke landed and, being a good pilot, he took off to make sure that everything was all right, but he wouldn't take me in the plane because his wheels were sinking four inches, and when I got there he said, 'I am sorry, Mr. Secretary, but I am not going to take you up.' The he said, 'Would you mind taking one of my men, lightening the plane that much and,' he said, 'if you wish, I will be more than pleased to meet you at Newark.' But he wouldn't take me up. I told that to the President.

Col. H: I finally had to go to Col. Johnson myself, because the people we normally deal with over there all had 48 different reasons why it should not be done -- emergency landing field and they had not paved any of them anywhere else and if they paved this one they would have to pave elsewhere, so I saw him and told him what his subordinates were telling me, but, after all, the President says he wants this done; I don't think either you or I should be telling him why it should not be done, and he said 'absolutely; that was his opinion,' and he called those people in and told them to forget all these beautiful arguments ...

HM, Jr: Fine!

Col. H: It's moving.

HM, Jr: The President goes up Friday night. After all, you can't forget human life. One army plane carrying his mail will be there a week. One crack up -- \$60,000. And I don't think any plane the Army sent up would be less than that. There is ice in the river, so they can't send up an Amphib, so they won't be able to use it for one week. Jimmie, if he has to go up to see his father won't be able to. One

-5-

solid week, a plane won't be able to land. It is just silly when the President is there. But the fact that -- I don't know what's the matter, but when I get something that the White House wants and it's reasonable, I try and do it.

Col. H: So do I, Mr. Secretary.

HM, Jr: As I say, for one solid week, neither the Army nor the Navy, whose ever job it is -- and just one crack-up would more than pay for those runways.

Col. H: Well, we will have the runways by the 15th of June.

HM, Jr: And the main thing in the back of my head is the move on housing is not because he does not have enough projects.

Col. H: It is not.

oOo-oOo

February 14, 1938

This is what Haas prepared for the President to use, but HM, Jr said he did not think well of the speech and he knew the President would not use it.

We have been observing the course of business and of prices very closely. We are impressed by the fact that the trend of sensitive prices and of business activity which turned down sharply last fall has tended to level off since December. The time seems propitious to place our monetary and credit structure on a more expansive basis. The action taken yesterday with respect to the gold sterilization program is a move in that direction.

I do not wish to exaggerate the importance of this step nor of any other monetary measure which may be taken. We all understand that monetary and credit measures are in themselves not sufficient to bring about our ultimate objectives, yet there are times when they may be of first rank importance not only in their relation to business activity but in their influence on price trends.

When I say price trends I do not wish to be misunderstood. Some comments I have made on the price structure have been confused with some earlier comments I made with regard to price trends. When I speak of price trends I have in mind the general level of competitive prices. I do not refer to all of the prices that go to make up the price structure. I am specifically not referring to the prices of a number of commodities which to a considerable degree are determined by price fixing policies of certain groups, and which during an upturn in business rise too quickly and too far, and during the downturn fall too slowly, if at all. These privately controlled prices are insensitive to monetary and credit developments, and actually constitute an obstacle to recovery.

It is the flexible portion of the price structure which we expect will respond in due time to expansive measures undertaken, and by responding assist recovery.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE: February 14, 1938

TO Secretary Morgenthau

FROM M. A. Harris

The following transactions were executed in the New York market today:

Civil Service Retirement and Disability Funds

\$3,000,000 Treasury bonds were sold today for the above account, leaving a balance of \$15,695,050 to be sold. Details follow:

\$400,000	3 1/4%	Treasury bonds	1943/45	at 107.21
100,000	"	"	"	at 107.22
500,000	3 1/4%	"	1944/46	at 107.19
500,000	2 7/8%	"	1955/60	at 102.10
<u>1,500,000</u>	"	"	"	at 102.11
\$3,000,000				

System Account

The Federal Reserve System account sold today \$4,890,000 various Treasury bonds and replaced them with purchases of a like par amount of various Treasury notes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: February 14, 1938

TO Secretary Morgenthau  
FROM W. A. Harris

A short weekly review of the  
Government security market

Following small fractional declines on Monday of the past week prices of Treasury bonds turned upward and closed the week 2 to 5/32nds higher. Considerable buying interest was evident as several large savings banks were reported to be seeking bonds, as well as banks in New York and other parts of the country. However, the large commercial banks in New York continued to confine most of their purchases to Treasury notes. Offerings were scarce and purchases of large blocks could only be made at rising prices, with the result that turnover was relatively light. In the average, Treasury bonds gained about 1/8th of a point and are now about 1/4 of a point from their highs of the year, reached on January 18th and 19th.

In the Treasury note market interest was principally in the "rights" and the longer maturities, although all issues advanced. The March 1938 maturity, or "rights", closed the week at 101.7 bid, 101.9 offered, up 4/32nds, which is a full point above a "no yield" basis. Other maturities advanced 2 to 5/32nds which places the notes only a shade off from their highs of the year.

Domestic corporation bonds made sizeable recoveries during the past week. Railroad issues had the largest gains, with available averages of railroad bonds registering gains of about 1 3/4 points, industrials about 1/2 point and public utilities about 1/8 point.

Dealers' Portfolios

Total holding of government securities by dealers again decreased, with the drop in Treasury bonds accounting for the greater part of the decrease. Details are given in the table below:

(in millions of dollars)

	Holding Feb. 5	Holding Feb. 11	Change
Treasury bonds . . . . .	25.9	10.5	- 15.4
Treasury notes (maturing within 1 year) . . .	41.6	40.4	- 1.2
" " (maturing within 1-5 yrs.) . . .	31.8	30.8	- 1.0
Treasury bills . . . . .	1.8	0.8	- 1.0
H.O.L.C. bonds . . . . .	5.1	2.3	- 2.8
F.F.M.C. bonds . . . . .	3.6	2.4	- 1.2
	109.8	87.2	- 22.6

Treasury Accounts

No sales were made last week for Investment Accounts and the only purchase was \$1,000,000 of Treasury bonds for the account of the Government Life Insurance Fund.

Funds available for investment (Feb. 12, 1938)

Postal Savings System . . . . .	\$ 6,158,000
Federal Deposit Insurance Corp. . . . .	22,658,000
	<u>\$ 28,816,000</u>

On February 8, 1938 investments in  $\frac{3}{8}$  special Treasury notes were made for the account of the Postal Savings System and the Federal Deposit Insurance Corporation, each in the amount of \$15,000,000.

Federal Reserve System

During the past week (calendar) the System sold \$6.5 million Treasury notes (3% due 3/15/38) and \$13 million Treasury bonds and replaced these sales by purchases of \$5 million Treasury bonds, \$4.5 million Treasury notes and \$10 million Treasury bills. As a result of these transactions, the total holding of each type of security shows the following change:

Treasury bills . . . . .	↓ 10 million
Treasury notes . . . . .	= 2 million
Treasury bonds . . . . .	= 8 million

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Treasury Department  
U. S. PUBLIC HEALTH SERVICE

MEMORANDUM

MEMORANDUM FOR THE RECORD

Date Feb. 14, 1938

From the Surgeon General:

To:

With Secretary Mergenthal, I conferred with the President at 1:45 P.M. today in reference to S. 3290, by Senator La Follette. At the outset the President appeared to believe the measure only provided funds for the Public Health Service for its educational and other work against the venereal diseases, because he stated: "I think you can do all of the educational work you need for about a half million dollars a year."

I explained that most of the funds authorized would be used for grants to states in a manner comparable with the present functioning of Title VI of the Social Security Act; that the appropriations were authorized on an increasing basis in order that the necessary machinery could be mobilized and personnel trained; that for any short time program it was impossible to secure competent persons if the Federal Government expected to terminate its support at the end of two or three years; that the amount of \$25,000,000 would represent about one-half of the annual cost of doing the job.

The President expressed opposition to committing future Congresses to such considerable amounts, pointed out that even though the \$25,000,000 was only an authorization, Congress would be apt to insist upon appropriation of the full amount even though smaller amounts were recommended by the Treasury Department.

I called attention to the fact that if appropriations were authorized only for three years it would be necessary to secure enactment of another law at the end of that time if continuing funds were to be available.

The President stated that he would approve authorizations for appropriations for the first three years of \$3,000,000, \$5,000,000, and \$7,000,000 respectively. He does not approve legislation which will authorize specific amounts of appropriations thereafter. He suggested that the legislation state the intent of Congress to continue to assist the states in the control of the venereal diseases, the appropriations at the end of the three year period to be determined by the state of the Treasury and the needs of the situation as presented from year to year. In other words, the President does not suppose a continuing authorization for appropriations after the first three years, is willing to have the Bill specify the amounts to be appropriated during the first three years, but does not approve authorization for definite amounts thereafter.

(Signed) Thomas Farver

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 14, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information.

In regard to the Genesee matter, we are to hear from the lawyers Wednesday. In the meantime, we have suggested to Frank, and he has agreed, that Mr. Maltbie be given an opportunity to look over the proposed plan, thereby shortening the time it will need to be before him.



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Treasury Department  
U. S. PUBLIC HEALTH SERVICE

MEMORANDUM

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(Signed) Thomas Parran

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 14, 1938

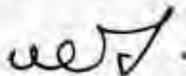
TO The Secretary

FROM Mr. Taylor

(Memorandum of Day's Activities)

The only matter of interest, outside of the meetings which I attended in your office, concerns the printing of silver certificates. This situation is involved with the action of the Appropriation Committees on the Bureau of Engraving Budget, but in view of the fact that Congress and the President have directed that the silver certificates be issued, Dan Bell, Hall, Broughton and I changed the schedules so that we will immediately switch from U. S. Notes to silver certificates of \$1.00 and \$10.00 denominations, and authorize the printing of 100 million additional <sup>one</sup> \$10.00 silver certificates, as we feel that this is the quickest way of getting these certificates into circulation.

It may be that in order to accomplish the program without adding to the cost, that we will have to switch from Federal Reserve Notes to \$10.00 silver certificates before the total of 74 million odd of unissued silver certificates is taken care of. In any case, this is the best that we can do with the Appropriation situation as it is.



## MEMORANDUM OF THE DAY'S ACTIVITIES

February 14, 1938

To: The Secretary

From: Mr. Magill

1. The tax bill

The draftsmen spent the day explaining to the Democrats on the Ways and Means Committee the amendments to the present law which are contained in the proposed tax bill. Nothing significant happened this morning; I did not attend this afternoon. Chairman Doughton expressed the hope that the tax bill could be put through the House by the end of the month.

2. Capital market

You may be interested in having someone analyze further the attached memorandum which was sent to me by Mr. William O. Douglas. The memorandum seeks to show that our system of tax exempt bonds has almost completely destroyed the market for second-grade fixed income corporate securities; and second, that while the supply of credit is cheap and plentiful, the supply of capital is costly and scarce.

You mentioned the other day that you would like to give some public emphasis to the Treasury's desire to eliminate tax exemptions for the future. Would you like to discuss some morning what would be the most effective way to proceed?

3. E. T. A. appointments

As I think I have told you previously, the term of the Chairman of the Board of Tax Appeals, Mr. Arundell, will expire next June. The terms of three other members will also expire at that time, but since they are all recent appointees by the President, I assume that they will be reappointed more or less automatically. Mr. Arundell has been on the Board since September 1, 1925.

Mr. Oliphant and I have already discussed informally the desirability of reappointing Mr. Arundell. Whether he is to be reappointed or not, I think it would be desirable to let him know reasonably soon in order that he may make his plans accordingly. Likewise from our own point of view it would be better to discuss alternative appointments now rather than several months later when the pressure will be more severe. I should, therefore, like to spend five minutes with you on this subject at your convenience.

RM

February 14, 1938.

At 12 noon today Lockheed drew the Secretary's attention to the fact that foreign currencies and sterling in particular, were strong against the U.S. dollar, due to rumors as to possible action to be taken by the U.S. Treasury with respect to gold. Sterling had advanced from 5.01-3/4 to 5.02-1/2 and there seemed to be fairly good demand for it. The Secretary decided that it would be best for the Stabilization Fund to meet this demand for sterling and bring the price down to nearer 5.02 than the prevailing price of 5.02-1/2. By following this action there would be less likelihood of a break in sterling later in the day should our action on gold not come up to the market's expectation. The Secretary also gave instructions to keep the U.S. Government bond market from going above the level prevailing by authorizing the Federal Reserve Bank to sell up to \$5,000,000 of the bonds in the Civil Service Retirement Fund, which it had been decided upon to dispose of.

Accordingly, a total of £495,000 sterling was sold against gold held in London during the afternoon, bringing the price down from 5.02-1/2 to 5.02-1/3. The sales of bonds during the day amounted to \$3,000,000.

Dictated February 15, 1938

The attached was handed to me by the Chinese Ambassador when he came to the house last night to attend the dinner we gave.

TELEGRAM FROM HONGKONG

FEBRUARY 12 3:10P.M.

FEBRUARY 12

PLEASE INFORM MORGENTHAU CHINA DEEPLY APPRECIATES  
HIS ARRANGING RECENT SILVER PURCHASE FROM CHINA  
WHICH ARE ESSENTIAL FOR SUPPORTING CHINA'S CURRENCY  
MAINTENANCE OF WHICH IS ABSOLUTELY VITAL AND  
REQUEST THAT THE PRESENT ARRANGEMENT BE CONTINUED  
AFTER EXPIRATION THIS MONTH.

H. H. KUNG

February 12, 1938.

February 15, 1958.  
9:08 a.m.

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H.M.Jr: Hello.  
Herbert  
Feis: Good morning, Henry.  
H.M.Jr: Where are you? At home?  
F: Yes.  
H.M.Jr: (Laughs) I hope I got you up.  
F: No. (Laughs)  
H.M.Jr: Herbert. Two things. The Hungarian is coming in at ten. He said he must see me; I don't know what it's about.  
F: It's about that stuff we sent over on the draft.  
H.M.Jr: Well, now, do you think it's all right for me to let him know we're interested?  
F: Oh, I'm all for it.  
H.M.Jr: All right. All right. Now, I - uh - I spoke to the President about it Monday.  
F: Yes.  
H.M.Jr: And I told Mr. Hull I had.  
F: Yes.  
H.M.Jr: Now I'd like to go at it seriously this afternoon.  
F: Good.  
H.M.Jr: Will you be available at three?  
F: I will.  
H.M.Jr: And Mr. Hull said it's up to you to bring over anybody that you want.  
F: By you he meant me?  
H.M.Jr: He meant you -  
F: Yes - yes. Well, I'll bring, if you don't mind, Liveasy.  
H.M.Jr: Well, that's up to you.  
F: He really has this thing fully in his mind.

- 2 -

H.M. Jr: Well, Bell's been on it for three days and he's got it in about the shape that the President wanted me to put it in.

F: Fine.

H.M. Jr: I mean the tabular shape, you see?

F: Fine.

H.M. Jr: So - and then you know, the other thing is, we're to meet at two o'clock at the White House Wednesday to make a - what the President said, a joint report to him.

F: So - I didn't know that - but that report yesterday, everything went - about six things were moving along.

H.M. Jr: Just keep that in mind, and I've got to go full steam on it because I'm trying to clean it up before he goes away Friday.

F: All right.

H.M. Jr: I mean I want to clean it up this week.

F: Fine.

H.M. Jr: So, if you could work on it this afternoon, then we could see him tomorrow.

F: Well, we've -

H.M. Jr: What?

F: We've worked pretty steadily on it, getting it ready for you.

H.M. Jr: Well, it's simply the point that we've got - I think we'll have it by three. Is - well, what the President really wants is a whole tabular form which we're having set up in Bell's office on all the debts - see - and then applying this to it.

F: All right.

H.M. Jr: And that'll be ready - and there really isn't much more. He's interested.

F: Well, I'm glad to hear he is. Did -

H.M. Jr: But - uh - I said something to Mr. Full, would he

- 3 -

go over tomorrow afternoon and he seemed to shy away from it.

F: Well, I thought you said there was to be a joint presentation Wednesday at two.

H.M.Jr: Pardon me?

F: Didn't you say there would be a joint presentation Wednesday at two?

H.M.Jr: With who?

F: A joint presentation.

H.M.Jr: Yes. And I said to Mr. Hull, wouldn't he come tomorrow, too. Hello.

F: Oh, by joint presentation I thought you mean Mr. Hull and yourself.

H.M.Jr: I did.

F: Yes.

H.M.Jr: But he seemed to shy away from it.

F: Yes.

H.M.Jr: We'll talk about it.

F: All right. Three o'clock, and I'll bring Livesey.

H.M.Jr: Right.

F: Tell me - May I - how does the - how does the response seem to be to the other thing?

H.M.Jr: Gold?

F: Yes.

H.M.Jr: Very good.

F: Good.

H.M.Jr: It's - the early reaction to that -

F: How was it taken in London?

- 4 -

H.M.Jr: Well, fine - and they're going to have a question and answer of Parliament on it and give it a good send-off.

F: That's today?

H.M.Jr: Today.

F: Good.

H.M.Jr: It's got off to an excellent start.

F:

H.M.Jr: Yes.

F: I shall be there at three.

H.M.Jr: Right.

February 15, 1938.  
9:30 a.m.

H.M.Jr: Hello.

Operator: Mr. Cochran.

H.M.Jr: Who?

Operator: Mr. Cochran.

H.M.Jr: Oh - oh, yes.

Operator: All right?

H.M.Jr: Yes. Go ahead.

Operator: Go ahead.

H.M.Jr: Hello.

H. Merle  
Cochran: Hello, Mr. Secretary.

H.M.Jr: How are you?

C: All right, sir. Just got back from Basle this morning.

H.M.Jr: Yes. Well, Cochran, what sort of a play did the French papers give this gold move we made?

C: It was in this morning's paper rather accurately in the Economique.

H.M.Jr: Yes.

C: It didn't get out in time for the other financial papers, you see.

H.M.Jr: I see.

C: It will be out this evening.

H.M.Jr: Uh-huh.

C: So the Economique is the only financial paper that carries it so far.

H.M.Jr: Well, now you understand it fully yourself or do you want to ask me some questions?

C: I think I understand it. The only thing - I got your message this morning, too, giving the wording.

H.M.Jr: Yes.

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- Q: The only thing - the Herald Tribune here of the says in one place compromising a little too much.
- H.M.Jr: Yes.
- Q: And they say also it was learned that gold will be sold from the Sterilization Fund.
- H.M.Jr: No, that's incorrect.
- Q: Well the only point is, as I understand it, you were taking out the withdraw from that. Say, a bank over here wanted to buy gold.
- H.M.Jr: Well, there's nothing that's changed whatever if anybody wants to take gold out. We handle that exactly the same.
- Q: Yes.
- H.M.Jr: Any gold which we sell will come out of the Sterilization Fund.
- Q: Yes; yes.
- H.M.Jr: And it's simply the new acquisition of gold instead of going in to the Sterilization Fund will go directly into the Federal Reserve System up to \$100 billion during any three months.
- Q: Yes; yes.
- H.M.Jr: Have you got that?
- Q: Yes; yes. I understood it that way from your cablegram.
- H.M.Jr: Now -
- Q: And from the Economique story. But the played it up a little differently.
- H.M.Jr: Now - if - I wish that you could see, if possible, the Minister of Finance, see?
- Q: Yes.
- H.M.Jr: And if he could make a statement, sort of backing this up, I think it would be helpful.
- Q: Yes.

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H.M.Jr: And especially if he could make it to American newspapermen.

Operator:

H.M.Jr: Hello. Hello.

C: Hello.

H.M.Jr: Did you get it?

C: Yes.

H.M.Jr: Now the point is, after all this ought to be helpful to the French because it permits the gold that flows in and out to have whatever natural influence it might have on the world commodity prices. Hello.

C: Yes.

H.M.Jr: And it ought to be helpful to the French and we hope it'll be helpful to the French.

C: Uh-huh.

H.M.Jr: Now if the Minister could make some statement, why it would help us also.

C: I see.

H.M.Jr: Now I wish you'd tell the Ambassador of this particular conversation, you see?

C: All right.

H.M.Jr: And if either he or you could get hold of some of the American correspondents over there -

C: Yes.

H.M.Jr: So that we could get some stories coming back that this move that we're making is well received among financial circles in Paris.

C: Yes; yes.

H.M.Jr: Did you get it?

C: Surely.

H.M.Jr: You might call up some of our friends in Holland, and Belgium, and Switzerland, and try to get them to do the same thing.

C: All right.

H.M.Jr: See? I might -

C: Rather unfortunately, I didn't get this last night because you didn't give it out.

H.M.Jr: I only gave it out at five o'clock all the time. But there's still time, because after all this isn't a matter for one day.

C: But I mean some of them have not reached their homes yet, you see?

H.M.Jr: Well -

C: Tripp will be there in the morning and I might get him late this evening.

H.M.Jr: Well, do the best you can.

C: All right. Fine.

H.M.Jr: And you see I'd like to have some stories coming back through the American correspondents that this is well received in Paris.

C: Surely. Surely.

H.M.Jr: Now, I might tell you that the British Government are pleased to see us do this.

C: The British are pleased?

H.M.Jr: Yes. They're going to make some kind of a statement. They're going to make some kind of a statement.

C: Say, Henry. Are they going to make some kind of a statement?

H.M.Jr: They're going to make some kind of a statement. So see what you can do, will you?

C: I'll call you back right away and try to get a flash on gold and maybe something before we go in.

H.M.Jr: Right. But please tell the Ambassador about this, will you?

C: All right.

H.M.Jr: And what I'm asking you to do; I'd like him to know about it -

C: All right.

H.M.Jr: Because he might have some helpful suggestion to make.  
C: All right, sir.  
H.M.Jr: Thank you.  
C: All right. I got off a cablegram this morning. It'll be coming in on it all day.  
H.M.Jr: All right.  
C: Fine.  
H.M.Jr: Thank you.  
C: All right, sir.  
H.M.Jr: Goodbye.  
C: Goodbye.

February 15, 1938.  
9:47 a.m.

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H.M.Jr: Hello.

Operator: Go ahead. Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello, Henry.

H.M.Jr: Can I sell you a little gold this morning, Jesse?

J: Say, yes. I'd like to have a couple of dollars worth.

H.M.Jr: Couple dollars worth.

J: Yes.

H.M.Jr: All right. How do you like it?

J: Well, just suppose you wrap it up and send it over to me.

H.M.Jr: Just wrap it up. All right.

J: All righty.

H.M.Jr: Okay, Jesse. Jesse?

J: Yes?

H.M.Jr: Now, Jesse. Wayne tells me that you're ready to talk about marketing of your - some mortgages?

J: Yes. I think we'd better get started.

H.M.Jr: Well let's - I'll do that. You're coming over at ten thirty tomorrow?

J: Yes.

H.M.Jr: Well, if you don't mind, I'm going to confine it to whatever has to be done this week.

J: All right.

H.M.Jr: And I'm going to put over till next week the bank holding business -

J: All right.

H.M.Jr: Because frankly I just can't take it anymore.

J: All right.

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H.M.Jr: Is that all right with you?

J: Perfectly all right.

H.M.Jr: And about the mortgage things, Taylor, Bell, and I'll talk to you at ten thirty tomorrow.

J: All right. Then we'll talk about that tomorrow.

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

J: Yes. Now - yes, that's perfectly all right.

H.M.Jr: All right. But you want \$1.98 worth of gold?

J: \$2.00 worth! (Laughs)

H.M.Jr: \$2.00 worth? All right, we'll make it \$2.00 worth.

J: Thank you very much. See you in the morning.

H.M.Jr: Right.

J: Right.

February 15, 1938.  
9:57 a.m.

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H.M.Jr: Hello.

Operator: Senator Barkley.

H.M.Jr: Hello.  
Sen. Alben  
Barkley: Henry?

H.M.Jr: Hello, Alben.

B: All right, how are you?

H.M.Jr: I'm fine. Alben, if you see the newspapermen today -  
if you happen to think what we did last night on  
gold is good - if you'd give it your blessing, I  
think it would help.

B: All right.

H.M.Jr: Fine.

B: Yes, I'll do that.

H.M.Jr: Will you do that?

B: If you think my blessing's worth anything.

H.M.Jr: I think it's worth a lot.

B: All right.

H.M.Jr: That's number one.

B: I was thinking yesterday.

H.M.Jr: Right. The other thing is the longer you hold us up  
on this the more power the opposition is  
gathering.

B: Well, I tell you. I'm going to call McReynolds today  
and fix a time when he can bring that over.

H.M.Jr: I wish you would.

B: I was away -

H.M.Jr: Because the Illinois boys are getting a lot of momentum.

B: Yes. All right.

H.M.Jr: And so is New England. They've got some utilities up  
there. Now if you'll simply say "sign" I'll sign  
these things.

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B: I want to see the things.

H.M.Jr: Well, you see McReynolds. He's got an exhibit. He's got a beautiful suit-case - looks like a perfect bootlegger.

B: Well, that's fine. I'll get in touch with him today and see when I'll have a little time. I've got to go over it with some people.

H.M.Jr: Fine. And if you do see the President, and you can give this gold thing your blessing, why it would be fine.

B: All right.

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

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February 15, 1938.  
10:25 a.m.

H.M. Jr:  
Speaker  
Bankhead:

Morgenthau talking.

Hello. How are you, Mr. Secretary?

H.M. Jr:

I'm fine. How are you?

B:

I'm all right. I was a little delayed this morning. I'm a farmer and usually get up earlier than this but I had to go to the barber shop. (Laughs)  
How are you?

H.M. Jr:

I'm feeling well this morning.

B:

That's good.

H.M. Jr:

The reason I'm calling you is this: I know you see the press every day, and if you could see your way clear in giving this gold move we made a little pat on the back, why I'd appreciate it.

B:

Well, I tell you, we'll be glad to do it, Mr. Secretary.

H.M. Jr:

Yes.

B:

I wish I could give you two pats. Of course, I don't think you've gone quite far enough, but maybe you'll get to it a little later.

H.M. Jr:

Well, one pat at a time -

B:

(Laughs) Why, yes, I'm delighted when - when the President told it yesterday morning of course - we said nothing until the statement came out, that you had that in contemplation, and I think that it's going to have a good effect.

H.M. Jr:

Right.

B:

I do, Mr. Secretary. I certainly do. I told the President yesterday there's a tremendous sentiment up here on the Hill and no thanks to Congress. Not for an inflationary move of any sort that'll be wild and reckless but there are a great many conservative thinkers in the House who feel that a step of that sort now is most desirable.

H.M. Jr:

Right.

B:

And I'm certainly very happy you did it and I congratulate you and I'll be glad to commend the movement if anybody asks me about it. And I'll say something about it in my press conference.

H.M.Jr: Thank you very much.

B: All right.

February 15, 1938.  
11:25 a.m.

H.H.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.H.Jr: Hello Randolph.

Randolph  
Burgess: Hello Henry. Well, let me say first that I think that, in the circumstances, what you did was just right.

H.H.Jr: Swell.

B: I think - think it makes sense.

H.H.Jr: Yes.

B: From a long-term point of view.

H.H.Jr: Uh-huh.

B: And I'm delighted you didn't have to go any further.

H.H.Jr: I see.

H: Now, as far as its reception here, it's a little too early to say. The people I talked with think it's going to put the Government bond market up over a period and the preliminary reaction is of that sort. The prices, today, are up as you see, two or three, four thirty seconds. Now we're keeping a drag on that. We've got some offers out, and we can do a good deal with our own account.

H.H.Jr: Well I'm amazed. Harris tells me what they're bidding for today is two and seven eighths.

B: Yes, there's some bids for two and seven eighths, also fifty six nines.

H.H.Jr: Yes.

B: It's some of the longer stuff. Now I think this boom will last a while.

H.H.Jr: Yes.

B: I think the tendency will be for banks to feel that their reserves are likely to be increased rather than decreased.

H.H.Jr: Yes.

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- B: So they're likely to be interested gradually and increasing their portfolios, so I think what we're facing is - is a long-term tendency upward rather than just first - day or two.
- H.H.Jr: Well, perfectly frankly, for the next couple of days, if we could have just a little gentle rise on the Government bonds it would be most pleasing to me.
- B: Yes.
- H.H.Jr: So I wish you wouldn't put on the brakes too hard.
- B: Well I'm very glad to get that, I think that's all right.
- S.H.Jr: And I'm going - I'm not going to sell any more for a day or so.
- B: All right.
- H.H.Jr: But I can have just a little gentle rise.
- B: Yes.
- H.H.Jr: I mean that would - so that they don't think it's too inflationary, you see?
- B: Yes. That's all right.
- H.H.Jr: Now, after all, if people are going to buy two and seven eighths, and at the same time we were fortunate enough to get a gentle rise in commodities I'd say it'd be perfect.
- B: Yes.
- H.H.Jr: See? It may be too much to hope for, but -
- B: Well, no, I don't know as it is, I -
- H.H.Jr: But frankly, if we could get just a little gentle rise in the Government's, for the next couple of days, I think it would be fine.
- B: Yes. Yes.
- H.H.Jr: Don't you?

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- B: Well, I think - yes, I think that's right.
- H.M.Jr: I mean in other words I wouldn't clamp down too hard.
- B: Yes. Yes. Well we - we have been doing - working along that line, I mean we haven't actually sold anything.
- H.M.Jr: Fine.
- B: We did offer something at the offering price.
- H.M.Jr: Yes.
- B: Rather than at the bid price, you know, and I think that's just right. I think there will be the tendency to rise, that is, it's going to rise even if we put a drag on. I don't think it ought to go up too fast.
- H.M.Jr: Well, perfectly frankly, you are giving me a new angle. I hadn't thought of it, the fact that they'll interpret it with excess reserves and want to invest in Governments. It would increase excess reserves. That's your-
- B: I think it will make a difference in the psychology. They'll say, well with - with a tendency for them to increase a little.
- H.M.Jr: Yes.
- B: They could be a little freer about employing their money.
- H.M.Jr: Well, I'd be glad.
- B: Over - I think that'd work over a period. Now, some of the others will say, well we're going in for inflation, we'd better look out.
- H.M.Jr: Well -
- B: I think that the actual effect, over a period, will be a little more tendency for the banks to use their money.
- H.M.Jr: Well, isn't that what we want?
- B: That's what we want. Yes.

H.M.Jr: And if Governments get so they're high and un-attractive, maybe they'll lend it to some business man.

B: They might, yes.

H.M.Jr: They might get foolish enough to do that.

B: Of course the danger is, that these things lead to a burst of enthusiasm and then to a flop.

H.M.Jr: Yes, well we don't want that. That's -

B: Maybe we can keep a little drag on it.

H.M.Jr: And I'm delighted to see that the first hour of the stock market, it's only up a half a point.

B: Oh, I think it's behaving very nicely, so far. Very good reaction.

H.M.Jr: Well, we're together, and you - and you like what we did.

B: I - I - I like it, now, in view of all the circumstances.

H.M.Jr: Fine.

B: I think you had to do something.

H.M.Jr: Yes.

B: There's one debate, whether it's better to do that, or do nothing, but I don't believe you were in that position.

H.M.Jr: No.

B: I think you almost had to move in some direction, and assuming that a move was necessary, I think this is just as sound as you could do it.

H.M.Jr: Fine. Now if you could get that over to the New York press stuff, it'd help.

B: Well, I've been talking to some of these native fellows, you know, and it -

H.M.Jr: But -

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B: It circles around.

H.M.Jr: I mean directly with - whoever sees the press.

B: Well, that's hard to do. That's a little hard to do, there's a group of them and - and the minute you start something like that they think it's an official authority.

H.M.Jr: Well, all right Randolph. Now take care of yourself.

B: Do it if I can.

H.M.Jr: All right. Goodbye.

B: All right Henry. Goodbye.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 15, 1938, 9 a/m.

NO.: 238

FROM COCHRAN.

This morning I returned from Basel, where on Sunday and Monday the BIS directors held their meetings.

The committee which had been created to study BIS reorganization - which question had come up with the appointment of successor to Quesnay - met on Saturday night. This committee was composed of Niemeyer, Schacht, Fournier and Azzolini. In recent meetings of the BIS both Fournier and Schacht had seemed to be favorably disposed to eventually changing the BIS organization to have the President assisted by a group of "managers". However, any such steps as might reduce their BIS representatives from "general manager" and "assistant general manager" have been disapproved by the respective Foreign Offices and Ministries of Finance of Schacht and Fournier. These two had also apparently been instructed to oppose any diminution in the salaries of their representatives, and to object generally on any moves which might lower the prestige of these countries.

Therefore the BIS reforms which Chairman Niemeyer and President Beyen had hoped to prepare have thus met with such bitter and unyielding resistance that personal antagonisms have developed; about the institution there is an unhappily tense

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tense atmosphere. Some of the cooler members, including Trip and Rooth, have suggested that they drop the whole reorganization question for the present. However, on Monday noon a new British draft of a proposal for reorganization was circulated. This new draft is likely to provide discussions at the meeting in March.

At the meeting of governors of central banks on Sunday, questions arose as to what should be done by the BIS with regard to the report of Mr. Van Zeeland, and as to the inquiry from the League of Nations for the opinion of the BIS upon implementing the recent report of the League's Raw Materials Committee. This report of the Raw Materials Committee mentioned certain financing plans which the BIS was to direct.

Schacht strongly put forth the opinion that no comments or decisions upon the report of Mr. Van Zeeland should be made by the BIS directors until the governments themselves have made known their sentiments and positions concerning the report. This idea was approved.

Before the next meeting is held the BIS management will provide the governors with a memorandum in which is analyzed the possibility for the BIS to function under the recommendations made in the report of the Raw Materials Committee of the League.

The management of the BIS will continue study of the Van Zeeland report lest it be subsequently asked for

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observations on the report.

The British representative, Niemeyer, is remaining in Basel an extra day in order to help Beyen smooth out difficulties in the Bank's internal <sup>7</sup> Both Niemeyer and Beyen spoke with me about the proposed visit of Beyen to the United States; they decided that it would not be propitious for him to come in March, so there is no chance of his making the trip before autumn of this year.

Norman, the Bank of England Governor, is cruising in the West Indies at the present time. Both Cobbold (his alternate) and Niemeyer mentioned to me the recommendations of Mr. Van Zeeland with regard to revision and extension of the tripartite monetary arrangements. Niemeyer said that he was weighing the advantages which might follow extending the notification period to 30 days, from the present 24 hours. However he was not sure that this would be of any help. The idea was expressed by Cobbold that every time the limit of 30 days would be approached, speculative movement would arise. Cobbold and Niemeyer agreed that France was enough of a drag on the group belonging to the tripartite without the addition of any new countries which might not be able to hold their own; Cobbold said that he could see no real advantage in adding countries which already are keeping their currencies steady as against the dollar or the pound.

The

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The Netherlands Bank President, Trip, whose gold stocks are constantly increasing, would like to see the addition of more countries, should qualified ones come forward, in order that the world's gold production might have more takers. The 24-hour feature of the arrangements had always been opposed by Trip, and only recently he spoke against this feature - reference: my telegram of February 9, 6 p.m., No. 215. Trip admits to me that in the present circumstances there is little hope of Great Britain agreeing to any more rigid policy. Nevertheless, he said he would like to see some change in the phraseology of paragraph two of the declaration of September 25, 1936. He would change the wording "take into full account the requirements of internal prosperity" to something which would permit changes in international monetary relations only in exceptional circumstances, and after the other parties to the agreement had been consulted.

Recently, Trip said, there had been a little questioning of the equalization fund of his Bank, and he had explained to his Minister of Finance, who in turn explained to Parliament that the fund had only the choice of taking gold and holding the florin steady, or refusing to intervene - in the meantime permitting the currency to appreciate, perhaps back to the level where it was before the

Dutch

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Dutch left the gold standard in 1936. The latter policy would consequently affect the country's internal economy. Taking and holding so much gold was a risk, he admitted, but he saw no alternative to such a policy. His country wants to continue doing its part in stabilizing currencies, he insisted, and also in preserving the value of gold. However, he said small countries such as the Netherlands must look to the United States and Great Britain to take the real lead in this action.

Recommendations have been made by Trip to his Government that the Netherlands should import more foreign goods and/or lend more capital abroad, in view of the inflow of gold into the country. The Dutch trade balance for 1937 he said was less favorable than that for the year before. He sees few immediate opportunities for foreign lending.

Trip expressed the opinion that the Mendelssohn group will not increase the banking credit to the French beyond one hundred twenty million florins. He said that there might be an early opportunity for the Belgian Government to obtain funds on the Dutch market in order to pay back certain loans contracted in France. However, he said that the plan might be affected adversely by a scare of war into which Belgium might be drawn. It is expected that there will be more conversion operations on the Amsterdam market by Danish municipalities. Protests are being lodged by Dutch insurance companies, savings banks, etc., against

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the low rates to which loans are being converted, particularly the Dutch Government securities. There is such a thing as carrying a cheap money policy too far, in Trip's opinion.

I had a talk with President Bachmann of the Swiss National Bank. He said that his people had again been selling dollars, being nervous over the outlook in the United States. Bachmann told me that from this source and from France there was an influx of funds against which his gentleman's agreement was not effective. President Bachmann mentioned the increase in his gold reserve, and said that this increase would have been even larger if he had not been able through his Swiss banks to get rid of important quantities of gold coins for hoarding in the Balkans and in France. This capital influx distressed him. He said that lately no foreign loans had been placed by his country. In the present circumstances in France he did not believe another loan to France was possible. The Japanese he said had recently put out a feeler to some of his banks for a loan for industrial development in Manchukuo. However, his bankers had not sufficient interest in such a proposition even to submit it to the National Bank for consideration and possible approval of a loan.

President Bachmann told me that he and other officials

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in the Finance Department of the National Bank are still studying various propositions which might be of use against foreign funds. This week, for instance, decision will be reached on a Swiss railways conversion loan for 400,000,000 Swiss francs. This would be issued at par and probably pay a fixed interest rate of 3% for ten years and an annuity for 25 years. They are also considering the proposition of limiting conversion privileges to Swiss holders of the 3 1/2 percent bonds which are outstanding, or of giving priority to Swiss holders until they are all taken care of and then permitting foreign holders to come in for what remains. It has even been conceived that the new bonds be "registered", having the books contain only Swiss names. Mainly the idea is to keep foreigners from continuing to invest in Swiss securities or from increasing such investments. Bachmann was told by some of my friends that he would hurt his market irreparably by such a scheme, and that circumvention thereof would be an easy thing to do. Consideration is also to be given to an idea for issuing certificates to new foreign depositors of funds in Switzerland, which certificates would entitle them to be ~~repayed~~ repaid not in any fixed number of Swiss francs, but in a certain weight of gold; these gold certificates would thus be nominated in gold only, and not in francs. It is conceived that the system would not be retroactive but

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but that it would apply to all future deposits from abroad. Thus it would be up to the depositor as to whether he desired to accept these terms or take his funds elsewhere. The authorities would set aside the gold to cover the certificates in the Treasury; this gold would not be counted as National Bank reserve after having been set aside. The suggestion was made to Bachmann that instead of preventing further influx of funds to Switzerland he might make his market more attractive by offering facilities for gold hoarding. Both the dollar and the price of gold continue to worry Bachmann, but manifestly he cannot very well hedge against risks of both currency and gold. An effort was made by Trip and Rooth to try to discourage Bachmann from taking the above steps or any others of that kind.

I questioned Bachmann with regard to the privilege which I understood he had granted to the BIS for carrying a special Swiss franc account at his Bank, which could be wholly converted into gold at once, or partially converted. Bachmann said that this privilege had been granted to the BIS for an account up to thirty million Swiss francs of its own BIS resources, just so it would have the facility of making an immediate transfer into gold if it was necessary. The BIS to date has not deposited the full thirty million francs, and has not sought to convert any part thereof into gold.

END SECTIONS ONE TO SEVEN INCLUSIVE.

EA:LWW

BULLITT.

PARAPHRASE OF SECTIONS EIGHT TO ELEVEN,  
INCLUSIVE, OF NO. 238 OF FEBRUARY 15, 1938  
FROM PARIS

I had a talk with Governor Rooth of the Swedish Riksbank. He said that business was improving slightly in his country after a winter recession and that order books were much better filled than they had been recently. Rooth told me that very shortly a dollar loan of the City of Bergen and perhaps also a dollar loan of the Danish Mortgage Bank would be converted on the Swedish market. The improved condition of the exchange position of Denmark was mentioned, and Rooth said that the Swedish Riksbank would be glad and able to give the Danish Central Bank an ample credit, running up to two years if required, whenever exchange control might be entirely cast off by Denmark. Rooth observed that the Norwegian fleet was occupied, and that there had been improvement in the exchange position of Norway; he expressed concern, however, lest a shortsighted policy of trade restrictions might be followed by Norway, which would check any real progress in that country.

As for the Van Zeeland report, Rooth does not see how it can be very helpful to the international political situation. He believes that from a technical standpoint, it is faulty. As for the Swedish crown, he still feels it may prove to be necessary to revalue it upwards, therefore he is not willing to give an unconditional undertaking not to change the crown's international value.

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I had a talk with Galopin, the Belgian industrial director. He said that in Belgium there was a decline in business not because of competition from the depreciated French franc, but in line with general deterioration of trade throughout the world. The Governor of the National Bank of Belgium, Janssen, admitted that the business situation was not so good; however, he found satisfaction in that labor troubles have been avoided. Also, political problems, the Flemish question in particular, are being handled smoothly by the government now in power.

On Monday morning I had a talk with Schacht. He said that the foreign exchange position of Germany was a little better than it was a year ago, and that practically all of the materials his country needed were coming into Germany. The internal financial situation, he said, was such that no difficulty in financing its needs was had by the Government. In his opinion, Germany was making some progress, and he urged that everyone have patience. The recent events, he said, would mean no change at all in the economic and monetary policies of his country. The Reichsbank had had no new men added to its staff. One official, Brinckmann, had been lost to the Ministry of Economics; otherwise he hoped to continue with his usual personnel in the Reichsbank. The Reichsbank was termed "the one remaining conservative spot in Germany" by Schacht.

I was

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I was told by Schacht that Great Britain and France should express their opinions on the Van Zeeland report, which was undertaken at their request, before expecting that statements on the report will be made by other countries. Schacht impressed me - and some of my friends also - as finding some hope in the report as a basis for a possible approach between the Germans and the British and French. The BIS economist Jacobsson was of the opinion that the best feature of Van Zeeland's report was that it brought difficult problems into the realm of discussion without offense to anyone.

In my talk with Schacht, he referred to an alleged statement by Senator Pittman intimating that our country would not be a party to any international group discussions in which political and economic questions were combined. This statement had made Schacht unhappy, as had Hoover's visit to Belgium, which revived memories of the World War.

Schacht, in speaking of the meeting between Hitler and Schuschnigg, said he positively did not know what had taken place at that time.

I had a talk with Hulse, the Reichsbank director who accompanied Schacht. He spoke of recent events in Germany, giving his version of the changes in the military and in the diplomatic corps.

With regard to the situation in France, Basel observers

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servers were of the opinion that last week short covering and exterior political events had temporarily helped, but that there still remain to be solved the basic problems, in particular that of increasing production. A good impression has been made by Marchandean, but as yet no one sees just what he can do constructively, unless labor is peaceful and works more seriously than it has before, and unless Marchandean can create an atmosphere of confidence. As for exchange control, no one thought that for France it would be either effective or helpful. I was told by Cobbold that if the French asked for credit London would still treat such a request unfavorably. Therefore as yet no application for credit has been made.

BIS officials expressed disappointment that so far the United States has failed to give evidence of better cooperation between government, capital and labor. However they believe that there is still hope that by summer there will be improvement in economic affairs. The visiting directors had left Basel before news of yesterday's announcement regarding gold sterilization reached Basel.

March 14 has been set as the date for the next meeting of the BIS.

END OF MESSAGE.

BULLITT.

## GROUP MEETING

February 15, 1938.  
9:30 a.m.

Present: Mr. Magill  
Mr. Taylor  
Mr. Oliphant  
Mrs. Klots  
Mr. Gaston  
Mr. Bell  
Mr. Lochhead  
Mr. Upham  
Mr. Gibbons  
Mr. McReynolds  
Mr. Baas  
Mr. Viner

H.A.Jr: Now, those whom I haven't seen. Mr. McReynolds?

McR: You haven't cleared this Public Health bill with the President, have you?

H.A.Jr: Dr. Parran had an opportunity to see the President yesterday, and they talked to each other for about 15 or 20 minutes. I asked Dr. Parran to write a memorandum of what happened. Perfectly frankly, I was thinking about gold. I wasn't thinking an awful lot about it. The two of them got down to trading, and the President did give him a - more or less of a form. And when it comes over, Mrs. Klots, if you'd give a copy of it to Mac and Bell. The President really didn't promise him much of anything. And when those two got trading, why, I thought I'd stay on the side lines, and when Parran came up on the Hill - Mrs. Morgenthau saw him - he was terribly disappointed. But Parran has never presented it to the President before, and as I remember it - well, wait until it comes over. As I say, he more or less suggested a three-year program and nothing beyond that. But there will be a memorandum and as soon as it comes ....

But I stayed very much on the side lines because - well, I didn't want to do anything to hurt Parran's chance, and this was his chance.

And I got the greatest kick - the President kept saying, "As I said to Josie Roche." I mean I never heard her called that before - "As I said to Josie Roche." I thought the next time it would be "As I said to Joe Roche." "Joe" would be the next thing - "As I said to Joe." So it's "Josie." So does that

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answer that? I'm going around to people I haven't seen.

Gibbons: Did you get a report from Mac on the Kelly incident? I saw the Governor ...

H.M.Jr: No, I did not.

Gibbons: ... and he said that he appreciated the position you were in. And this fellow had contributed \$50,000 to the campaign and he's a very wealthy man. But he said that nevertheless he got the picture and that when Kelly comes back from Florida - he'd started for Florida - and he's going to resign. He'll give out some reason.

H.M.Jr: Resign from what?

Gibbons: As Collector of Internal Revenue. I told him nothing would happen in the meantime. I told Guy Helvering, so ...

H.M.Jr: To whom did he give \$50,000? To the campaign fund of New Jersey?

Gibbons: To the Governor's campaign. Governor said that he has a home for crippled children that he's interested in, down on the Jersey coast somewhere. They had a deficit of \$40,000 last year and he came through with a \$15,000 check.

H.M.Jr: Where does he get that money from?

Gibbons: Why, he was in some war activity and sold out. Very wealthy man.

Viner: From Internal Revenue.

Klotz: What did he(Viner) say?

Gibbons: According to the Governor.

H.M.Jr: Well, I'd say that your mission was successful. But I think the fellow's in the wrong place. I'd make him Treasurer of the National Democratic Committee. I think he'd do much better there.

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Gibbons: Well, he was ....

H.M.Jr: Well, anyway, it sounds as though ... Now, Steve - and I thank you very much for going down - in regard to this Collector of Customs at Norfolk, if you don't mind, I don't quite agree with the way you want it handled, see?

Gibbons: I see.

H.M.Jr: And this fellow - this Congressman says this fellow is just as anti-Roosevelt as anybody can be. And I would suggest that before I do any signing, you go over and see McIntyre. I'd walk over there.

Gibbons: Mac called me and said he was sending ....

H.M.Jr: Hamilton's been in.

Gibbons: I think the President will hold the thing up, but of course we can't do anything from this end.

H.M.Jr: Well, I don't want to sign it because Hamilton seems like an awful decent fellow, pro-Roosevelt. And, to give you a little sidelight, Carter Glass sent for Farley and he said, "What about these half dozen appointments over in the Department of Justice?" He said, "Am I going to get them or am I not?"

Farley said, "Well, you've got to talk to Homer Cummings. Frankly, I don't know. I'm not going to kid you, Mr. Glass. But you'll have to see Homer Cummings."

Now, as I say, Hamilton impresses me like an awful decent fellow. But I think might just as well - is he going to play with the pro-Roosevelt people in Virginia or is he going to play with Carter Glass? But let them decide it.

Gibbons: O.K.

McR: Got two Congressmen in Virginia that are pro-Roosevelt, I think; that's all.

Gibbons: I think Joe Keenan in Justice - Norman Hamilton - Congressman Hamilton that told me they're holding up

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the appointments down there.

H.A.Jr: Frankly, I didn't want to get in on it.

Gibbons: I was just warning you what happened.

H.A.Jr: Right.

The other thing - Haas, I thought your shop would be very pleased - here comes a memorandum from the President. I sent him your memorandum - business review of January 24. "Let me have something like this brought up-to-date the end of this month." He doesn't want it weekly, but he evidently does want it monthly. I thought that was very nice and would encourage the boys.

Haas: It will, very much.

Gibbons: One thing more before you get through with me.

H.A.Jr: Go ahead. I want to give you people ....

Gibbons: Tommy Corcoran called me up the other day, intimated he was talking for the President, wanted me to get on the Jackson dinner up in New York. And I called Jim Farley and Jim said, "It's all right with me, but I'll be in Florida, thank you. There are only two candidates that I have had for Governor, you and Vince Dailey, and I haven't made up my mind yet which has the most sex appeal."

H.A.Jr: You and Vince Dailey.

Gibbons: That's what he said. I said, "Poor old dribble-puss Vince." That was the end of the conversation. I'm not going to do anything.

Gaston: Jim is on that dinner committee, Steve.

Gibbons: Yes, and I'm on the Bennett dinner committee. They put my name on that, so ....

H.A.Jr: Well, you know your way around town.

Gibbons: This fellow - God, he makes me sore. He's not talking

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for anybody, but he calls me up, wants - "I want you to get busy on this fellow."

H.W.Jr: All right. All right?

Gibbons: O.K.

H.W.Jr: Now, just so that those of you who know whom - who I'm depending upon today, at 10:30 I'd like Haas, and will you bring in White and Daggit. And Mr. Taylor, will you attend?

Taylor: Yes, sir.

H.W.Jr: 10:30.

Let's see, that takes care of everybody, doesn't it?

George, I looked through that thing yesterday and you're way behind and you haven't got the new companies in there, and you have nothing in there for January. Take a look at that.

Haas: I didn't look at it myself when it came in. When it came in, I was in those other meetings.

H.W.Jr: I was just dumfounded.

And at three o'clock we go on Hungary. And I'd like Mr. Bell here at three. Herbert Feis will be here. Mr. Taylor.

George, what's-his-name said he had a memorandum, at three o'clock.

Haas: Who's that?

H.W.Jr: On that. Your office has a memorandum.

Haas: Oh yes.

H.W.Jr: And will you sit in on that, Oliphant, at three o'clock.

Now, the main thing I want from you (Bell) is a tabulation, and will you have it ready?

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Bell: It is ready, but I changed it a little; has to be rewritten this morning.

H.M.Jr: Will it be ready at three?

Bell: Yes, sir.

H.M.Jr: That's the main thing.

Hass: You want someone in from my shop on that?

H.M.Jr: Yes, I want you and whoever is working on it.

Hass: Uh-huh.

H.M.Jr: Now, let's do this thing now when we get the chance.  
(On phone) Mr. Jesse Jones, please.  
Is Mr. Eccles coming for lunch today?

Taylor: I haven't ....

H.M.Jr: Cy, will you find out, let Mrs. Klotz know? Please.

Taylor: Oh, Jesse talked to me last night and would like also, in addition to the bank stuff tomorrow - would like to take up this question of marketing national mortgage association debentures.

H.M.Jr: Well, I was going to call off that meeting tomorrow. I can't talk on banks. But if he wants that other thing, I'll talk about it.

Taylor: He thinks the other one is rather pressing.

H.M.Jr: Which?

Taylor: National mortgage association.

H.M.Jr: Well, I'll take - tell him I'll do that, but not take more than half an hour; then I want to go back on commodities again.

Taylor: And remember we talked about getting Randolph Burgess down at the time you're going to talk about that?

H.M.Jr: Is he ready for that? What?

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Taylor: Burgess is going away.

H.M.Jr: Is he ready to talk on that?

Taylor: Only national mortgage association stuff.

H.M.Jr: Well, I'm not ready and he's not ready, so we'll buy whatever he's got. What? I'll buy whatever he's got.

What I'm going to do is - I'm going to snut off everything but this thing on commodities and Hungary this week. That's all I can handle. That's all I can handle. I can't handle any more. This bank holding thing will have to go to next week. But if he thinks he's in a hurry, why, we'll do that tomorrow and give him half an hour, which is plenty of time. But if I can assimilate this price commodity thing and Hungary before the President leaves, I think I've done my duty this week.

You (Viner) are sitting in at 10:30, of course.

Viner: (Nods yes)

H.M.Jr: And at three.

(On phone) Hello. (Has conversation with Jones)

Now, who wants to snoot at me? Third basket?

Magill: Very amusing on the Hill that they have had every combination of people in the Committee now except half of the Democrats and half of the Republicans. One day the Democrats of the Sub-committee meet and next day the Democrats of the full Committee meet, and I think they'll have one day the Republicans meet with one Democrat, then two Democrats, so forth - that way get complete accord.

Will: Haven't yet got a winning combination?

Magill: Apparently not. Mr. Vinson pulls a new white rabbit out of the hat every second day. The newspaper accounts say they're fighting the undistributed profits. Well, they're not.

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H.M.Jr: What are they fighting about?

Magill: What the home town boys want.

Gibbons: Changes from day to day.

Magill: Yes. It's all like this. Davey Lewis is full of sweetness and light on the bill as a whole, but Mr. Weinbrenner, once Secretary of State of Maryland, is all in favor of letting personal holding companies - I mean personal finance companies out of the personal holding company provision; therefore, we must fight and die over that for a few days. Then Mr. Vinson picks one out of the air about contemplation of death. And then some cotton firm writes Mr. Doughton the following day, and so forth. All this goes to show that the bill is being pushed with all possible speed.

H.M.Jr: All right. So you're all right?

Magill: No, I'm not all right, but .....

Gibbons: You sound all right.

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

(On phone) Hello. (Conversation with Senator Barkley)

He's going to see you (McReynolds) today. You saw the note from the President on this, didn't you? Well, it came in late last night, simply raising the question that Illinois raises a question with him on old barrels and new barrels. The longer those boys wait - we'll have a real - it will become a national issue. They'll line up on it. They'll line up on it - pre-Chicago and after-Chicago. I mean it gets down .....

Now, what else have we got around town?

Oliphant: Mr. Upper was confirmed yesterday.

H.M.Jr: So I saw.

Oliphant: I have expressed, on behalf of the people that worked with him, and myself, our appreciation .....

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H.M.Jr: Do you mind standing?

Oliphant: Well, I'm sitting now. And I want to talk to you about the problem that raises about reassigning the work.

McR: Don't think Clarence is going to get off as cheap as that, do you?

Oliphant: Well, they're running right after him to get through here, go right to work.

Magill: He won't take his oath before June, will he?

H.M.Jr: Well, all right.

Oliphant: I want about 15 minutes with you.

H.M.Jr: Well, perfectly frankly, I've got this commodity thing and this Hungary thing. I'm going to clean that up, and everything else will have to go by the way. I consider this most important. And the first man on my list is Admiral Waesche.

Now, you (Bell) are all ready to deposit your gold?

Bell: About. In the middle of the day.

H.M.Jr: Now, am I correct that if this balance doesn't go down, it just doesn't flow - I mean my balance - it stays put.

Bell: No, your balance will increase a little there.

H.M.Jr: No, but I mean it hasn't gone down anyway.

Bell: No, your unemployment trust has taken care of it. Your debt is going up, though, you notice.

H.M.Jr: Incidentally, I thought that memorandum from Reagh was lousy. I mean it didn't serve my purpose at all. I want another one.

Gaston: No, it was too technical, involved.

H.M.Jr: Just give me four pages - my God, I could - in the

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first place, it didn't answer the question, did I go on the Hill and what did I say?

- Reas: It was there, but that was involved too.
- H.M.Jr: I mean it's - I haven't got time these days, George, to read a 4-page memorandum on a simple question.
- Reas: I got that just before you were leaving the office.
- Gaston: I didn't speak to George; I spoke to Reagh. Just laid it on George's desk during the day.
- Reas: I had to shoot it through.
- H.M.Jr: Just remember, I'm a poor farm boy struggling along, and you send me an actuarial report .....
- Reas: we'll put it in layman's language.
- H.M.Jr: It is much worse than the other thing. The other thing came out of Oliphant's office.
- Oliphant: Saying a lot, George. That flattens you out.
- H.M.Jr: Now, where are we? Everybody happy? I don't mind telling you I am very happy this morning. I feel swell. I think, as I said last night, it is a move in the right direction. And if anybody is interested in knowing what happened at the press conference, I suggest you talk to either Mr. Gaston, Taylor, or Upnam, because it was a very amazing press conference.
- Taylor: The boys wrote fine stories - the ones that I saw.
- H.M.Jr: You know what they did? Just took Marriner's stuff and crucked it out the window.
- Taylor: Thought they picked that one sentence in that one story that I recognized.
- H.M.Jr: well, I did read the one thing, which amused me, that I, fiscal official, say that the Federal Reserve Board thinks .....
- H.M.Jr: That's just what I didn't want. I won't go into it, but if anybody's interested or would be amused I think they should get it.

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McR: Well, Arch talked to me - I hadn't talked to Mr. Gaston - Arch came out and said ....

Klotz: I'm surprised, Arch.

H.S.Jr: I'm awful glad, for those present, that I did nothing, that I just sat here, whipped my chair and tapped my foot and said nothing. But I don't think it was up to me in any way to prompt him or change what he did or anything. That was his story; he's Chairman of the Federal Reserve Board; it's up to him to conduct himself as he sees fit. Do you check on that, Cy?

Upham: Oh, yes. I don't see how you could interrupt him.

H.S.Jr: Well, I feel very well.

Bell: Did you want this gold immediately deposited in the Federal Reserve Bank?

H.S.Jr: Yes, sir!

Bell: Or just as and when we need deposit it?

H.S.Jr: Today.

Bell: Today deposit it?

H.S.Jr: Yes, sir. Said it would be done today.

Bell: You told them it would be deposited in the Federal Reserve.

H.S.Jr: Yes, today. And then in about a day or two I'm going to ask you how much just this - oh, as soon as this blows over, I want every silver certificate I can lay my hand on, and deposit that in the Federal Reserve. How many silver certificates we got, boys?

Haas: 70 million.

H.S.Jr: On hand?

Haas: I think so.

Bell: No, we got about 30 million dollars of silver certificates. Got about 70 million in free silver.

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H.M.Jr: How much we got printed?

Bell: Between 30 and 40 million.

H.M.Jr: All right. Well, we'll do this.

Bell: We're starting a program of trying to print a hundred million tens.

H.M.Jr: I know. But the 30 million dollars - I want to deposit that.

Taylor: The only way, as I wrote you last night - why, apparently the only way that you can speed up so as to pick up that extra 70 is to switch to tens.

H.M.Jr: That's fine. But if we've got 30 million dollars, I just want to take it and deposit it. So I'm putting you on notice.

Bell: We have to do that through the Board, you know.

H.M.Jr: That's all right. They'll like it. But maybe we can take that up at lunch time today.

Bell: I think you really ought to discuss it with the Chairman.

H.M.Jr: All right. Got to have something to discuss at lunch. I again say I'm feeling very well, thank you.

Gaston: You can discuss press conferences.

February 15, 1938

10 a. m.

Present:

Mr. John Pelényi, Minister from Hungary  
Mr. Havas, Financial Advisor  
Mr. Taylor

Mr. P: How do you do, Mr. Secretary.

HM, Jr: Very glad to see you.

Mr. P: I want you to meet Mr. Havas, Financial Adviser of the Legation.

Mr. Secretary, I have to apologize for intruding on you. I know how terribly busy you are and I know how this matter that we have -- how difficult it is for you and for the Government. The only reason why I did ask for this favor is because I have to go pretty soon to Cuba and inasmuch as I don't know how long it is going to take me there, I don't want to leave until I know what the situation is. Now I hope you don't take it as any undue pressing or anything like that.

HM, Jr: No. You see, we only got -- this came over from the State Department Friday, your aide memoire, so that what I am trying to do, I don't know whether I will be successful, but I am going to try to bring it to a head this week, because the President leaves Friday night, to be gone for a week, and I hope to have a definite answer for you this week.

Mr. P: This week.

HM, Jr: This week. That would mean an answer as to whether it is acceptable or not and then, of course, the next thing, if it is acceptable then it would be a question of taking it up with Congress.

Mr. P: Naturally.

HM, Jr: Or, if it isn't, cabling back informing your Government where it is not acceptable. But I think I will have something for you, some sort of an answer for

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you before Friday noon, possibly Thursday. I have made it the first order of business.

Mr. P: Very grateful, Mr. Secretary.

HM, Jr: So certainly before the President leaves Friday night we will have some kind of a message for you.

Mr. P: Well, that answers my query. I asked Mr. Havas to come along with me in case there are any questions.

HM, Jr: No, we are not ready.

Mr. P: I see.

HM, Jr: But, as I say, I can't add anything to what I have said.

Mr. P: Yes.

HM, Jr: I am pushing just as hard as I can and we will have something definite for you Friday noon at the latest.

Mr. P: Awfully grateful, Mr. Secretary. Please remember me very kindly to Mrs. Morgenthau.

HM, Jr: Thank you.

\* \* \*

After the Hungarians left, HM, Jr said to Mr. Taylor, "I talked with Feis before I told them this. Are they going to ring that little fellow ( Havas ) in?" Mr. Taylor replied, "Yes." The Secretary then commented, "It's too bad." Taylor said, "He's the guy who has really brought it all about, apparently."

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## RE PRICE POLICY STATEMENT

February 15, 1938.  
10:30 a.m.

Present: Mr. Taylor  
Mr. Haas  
Mr. White  
Mr. Daggitt  
Mr. Viner  
Mr. Wallace  
Mr. Ezekiel  
Mr. Lubin

~~W.L.~~ Jr.: Wallace said he'd be late, didn't he?

Taylor: Said he'd be about five minutes late.

G.L. Jr.: Is he bringing anybody with him?

Taylor: Yes.

H.S. Jr.: Well, let's get started anyway. What?

Lubin, what we're trying to do here is this. As a result of this move we made on gold, the President is desirous of restating his position as to prices; particularly he wants to take up what he said last April 2 - that statement, you know, where he said prices were too high, and he feels he was misquoted. And I haven't got that here. Have we?

Haas: Here it is.

H.S. Jr.: April 2.

Gaston: Yes, that's the New York Times report.

G.M. Jr.: And then again, Mr. Lubin, reviewing what he said here more recently in regard to monopoly prices.

That sounds like Wallace. Isn't it? We'll wait a minute.

White: These are all the reports.

H.S. Jr.: Oh, fine.

Haas: Just that one day - from April 2.

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(Wallace comes in)

H.M.Jr: Hello.

Wallace: Hello, Henry.

H.M.Jr: Sit down. Did you bring anybody with you?

Wallace: Yes.

(Ezekiel comes in)

H.M.Jr: What I asked - what we're trying to do is this. We have made our move on gold and the President is anxious to restate his position on prices, going back to what he said on April 2, on which he feels he was entirely misquoted, and to restate his position with regard to monopoly prices, you see. And I asked him whether he wouldn't please give us a chance to work up something for him and wait until his Friday press conference before he does it, and he said he'd be more than glad to wait. Because - I don't know how you feel, but I don't know anything more important than, if he's going to restate it, that we all have a chance to work at it and give him the best we've got. And as I said, there's no use, for instance, our working on it when it might or might not look good to the farmer and it mightn't look right to Dr. Lubin. So we're all here and he said he would see us at two o'clock Thursday.

See, Henry?

Wallace: All of us.

H.M.Jr: I take it you and me and Lubin and whoever we want to bring with us. But what I had hoped to do - by working the four staffs, we could get something, and we could get together as many times more as necessary, and then have the staffs work and then have something for him to restate his position. And of course, this thing of prices - I mean in relation to unemployment, and this whole question of what are monopoly prices, and the relation to agriculture. Now, I think it's a magnificent opportunity for us.

Wallace: Oh yes.

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- H.A.Jr: And in connection with what we have done here on gold - I mean if the President will make this statement, I think he can make it or break it, so to speak. And I think there's been so much misunderstanding and there is in his own - as a matter of fact, he restated his whole position to the leaders yesterday morning, Bankhead and the rest of them, when they were down, and I was surprised to find now keenly he feels on this subject and now disturbed he is at the number of times he's been misunderstood.
- Now, that - that's the problem, and as I say ....
- Wallace: He hasn't dictated anything himself?
- H.A.Jr: Not a thing. And he promised to keep off it until he saw us Thursday at two o'clock.
- Wallace: Do you have any outline yourself as to what would be wise?
- H.A.Jr: Well, our boys got a little head start. Haas, do you want to talk on this? You gave me something yesterday.
- Haas: Well, all we did was write a very brief statement trying to bring the President's - all of his statements into a consistent whole. And as we saw it, as we went over the statements, the misunderstanding has largely been a confusion among the press between his statements with regard to trend in one instance and his statements with regard to price structure in the other instance. The main confusion is that at one time he is talking about elevating prices and another time, in connection with rigid prices and monopoly prices, he was saying, "They're too high," and to a layman the statements seem inconsistent. Apparently there is no inconsistency; in one case he was talking about this price structure, the composition that goes to make up the total commodity price situation; in other cases, talking about elevating prices, he is talking about general level of all competitive prices.
- Wallace: Yes. There is a magnificent opportunity, isn't there, to get out a full statement. Will the press give him the play on a full statement?

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- H.A.Jr: On yes. He wants to devote a whole press conference to it, Henry. He wants to devote an entire press conference to this.
- Haas: Then there is a question of relationship of prices to - agricultural prices, industrial prices, things the farmer buys, things they sell. I mean that inter-relationship is part of the price structure. The relationship which Lubin is interested in is level of prices to the cost of living.
- H.A.Jr: And then the level of prices to employment.
- Haas: To employment.
- H.A.Jr: Now, where is this chart which we keep referring to? Where is that one, George? Have you got it?
- Haas: Would you (Daggit) get it.
- (Daggit goes out)
- H.M.Jr: The rigid prices and employment. Let's get some of these things that we know he's looked at, you see. Huh?
- Viner: You better not look at that one any more.
- H.A.Jr: Well, no, but if he asks for that - "All right, where is that chart which I saw?" - I mean let's get every thing on the table that he has looked at.
- Viner: You better suppress that chart.
- Wallace: What's wrong with it, Viner?
- Viner: I was suspicious of it. You start breaking up an index number that's a routine thing, that's going on for years and has a general purpose rather than a special purpose, and you try to use it for a special purpose and you're likely to find on investigation it doesn't meet that special purpose. Now, I don't know it in detail, but I began peaking around at the items in the rigid price group and some of them looked rather queer to me, and I began inquiring from trade people who either charge the prices or pay them

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in Chicago, and began to find some funny things about them.

Wallace: Just nominal prices, not real prices?

Viner: They're nominal prices, or, for instance, the agricultural implements ....

Wallace: Change in quality?

Viner: ... change in quality. And yesterday I talked to Mr. Lubin's - Mr. Hinrichs, isn't it - and after some conversation it turned out that the information that the International Harvester people had given me was about accurate - they've cleared it with Labor too - and as they told me, the figures in that chart are 30 percent out.

Now, also on tools, quite a few of the items there are hand tools that remained absolutely rigid, and when I inquired around in Chicago I found out that probably the explanation was that every big manufacturer of tools has some special brand, some pet tool, of which he sells small quantities; it is a prestige item, and that he maintains under all circumstances at the same price, but he doesn't sell any of them to speak of. In other words, it is not a good sample; and some of these hand tools fell very drastically during the depression in price; the ones that an ordinary carpenter or farmer would buy have fallen very sharply, but if they wanted this key or prestige product of this particular concern, with this particular label, that price never changed.

Wallace: Lubin has the same problem with regard to his building wages; has a nominal wage.

Viner: I mean I think in all cases you can't expect what I call a routine index to take care of such problems for a particular purpose. The changes in the index to adjust to that, I am sure, can be made only very slowly and imperfectly under the best of handling of it. I am not criticizing the index at all, and for general purposes, where it's 300 and some items, I don't think the things I am saying affect the quality of that index seriously. But for a particular purpose, where you are breaking it up into groups, I feel that

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there are parts in the structure where, if the Administration is going to talk about them, it ought to make up special groups, examining each group right from the roots, seeing to it that it means what it says. Otherwise, the others will pick out the flaws in it, ignore the rest of it, and show that the Government is using - they'll say biased data; I'd say bad data - to make a point. (Duggit returns with chart)

- White: There has been a study which has been made just on that point which we learned - Means has had two men working for six months taking each one of the price items that goes to make up that curve, examining whether they are actual, nominal, trade practices, etc., and, though the findings aren't available to us yet, they are available; if the Secretary wishes, we can get them.
- Viner: It may very well be that the results of a study for this purpose might be even more striking than that chart.
- White: I think his conclusion was that they didn't substantially vary the conclusion, but that they did make larger changes in the individual items. Those changes are already apparently made, and with the Secretary's permission ....
- Wallace: I would think, Viner, that after making a very detailed study of the sort you described, that in all probability - suppose you cut down the 190 least sensitive prices, we'll say, to 50, which would be equally representative - that probably you wouldn't cause this to dip at this low point further than there, would you?
- Viner: Well, it might even be more striking. I am not saying that the conclusions would be altered; I am simply saying that you are vulnerable because the results you get are somewhat accidental.
- Lubin: To give you a concrete illustration of what the problem is, one of the most important items in our economy is coal. Now, our purpose of our index is to find out what it costs at wholesale, to get a series of things, taking the economic system as

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a whole. Now, coal prices at the mine are one thing, but that doesn't represent what coal costs the manufacturer or the person who is using it. Consequently, our wholesale prices of coal are delivered prices of coal, not mined prices. Now in that delivered price is a wholly inflexible item which is in many instances several times the cost of the coal at the mine - railroad freight rates. So you get what appears to be a very inflexible price for coal, whereas in reality at the mine it may go up or down 20, 30, 40 percent in the course of a year; but due to the fact that the cost at the mine is so insignificant as compared to the cost of transportation, in very many instances that flat freight rate makes the prices more or less stable.

- Viner: That applies also to the flexible prices here. Some of these flexible prices are really probably very inflexible. Meats are in the flexible prices. Now, the raw material is a very important part of the price of packers' sales, and the raw material price is flexible, but it may very well be that the mark-up is not flexible, and the packer's price is the mark-up and not the price of the carcass.
- Wallace: The packer's price is flexible, but it is the retail price that is inflexible.
- Weeks: You mean the packer's margin is inflexible
- White: He was going to pick a half dozen of the most outstanding items and present some preliminary report on it, and the arrangement was yesterday that Hinrichs and his staff were to go over the stuff that - items that made up this insensitive index and to break them up into those on which there is little doubt, those on which there is no doubt about that, and those which we want to look into. That preliminary study, taken together with what Means may have already done, may provide adequate material to start off with.
- Viner: One more point I want to throw out, and that is, if we're going to discuss the price structure we ought to

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discuss the price structure and not a special selection from it. And the most rigid part of the price structure - in fact, it is not only the most rigid that is undesirable; it is the flexible, but a perverse flexibility - is that part of the price structure over which the Government has some control. And that is particularly in regulated prices of public utilities, freight rates which go up when they should go down, and in the wage rates of labor, hourly rates which have gone up much more than these rigid prices have gone up in this period; and they are an essential part of the price structure. And I say in a complete picture and in a decision as to what to do about it, they are important elements. I am saying nothing about tax rates. And also interest rates, and particularly interest rates charged to customers and not the New York money market rates, which are of least importance.

Wallace: What is the net impression that you want left on the public's mind by the statement of the President?

H.W. Jr.: I'd like to let the net impression on the public's mind - What the hell - or, rather, in what direction is the Administration headed, what is our policy? I mean that's - I mean I don't want - I don't think it's - what I'd like to leave on the public is that we know which way we're going and that we have a policy, and that the whole Administration is headed in the same direction, and that the statements which are made by various people should be consistent, see?

Wallace: I'm wondering ....

H.W. Jr.: I mean I don't know, I'm not trying - I'm very careful not to say what that should be. But I do think it should be an Administration policy, so that we, instead of - if the President says something - I don't know, I think we have intelligence enough to get something for him - that's the way we're headed, and so the people won't sit back and one fellow say, "Well, the Administration wants lower prices, the Administration wants higher prices, and what do they mean when they say higher prices, what do they mean when they say lower prices?" so the net result on the public will be, "Well, this is where they're going, and we'll start buying again." That's what I'm

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hopeful of. But I am personally - if you ask me what is the Administration policy - I mean the Robert Jackson speech, all of that stuff - I mean it all just doesn't make sense, and the people come down and they cuss this out and that out, and the answer is there are too many statements that have to do with prices and nobody knows what the answer is, Henry. I can say this in my own room.

Wallace: Well, what I am wondering is, suppose we get together ....

H.M.Jr: I mean we're calling a spade a spade here.

Wallace: I am wondering to what extent, when you get together this material, some of which will no doubt have to do with flexible and inflexible prices, to what extent that will cause the President to do some moralizing as to the inflexible prices and come out with another statement about a reform of some kind.

H.M.Jr: Well ...

Wallace: And it just seems to me that if it has that effect, that a statement of that sort at this time will certainly, under cross examination from the newspapers - I think it would be unfortunate to come out with a statement of that sort at this time; that is, to indicate that we're ....

H.M.Jr: well, I think - I mean he's definitely asked us to do it, to see whether Labor, Agriculture, the Treasury can - whether we can agree on a price formula.

Wallace: Yes.

H.M.Jr: Now, if we can agree on a price formula amongst the three organizations, present it to him, and then we'll have a chance - after all, I think it is most reasonable that he is waiting, instead of having it for today's press conference - waiting until Friday. I think if we can agree on a price formula, as to what we think, it should be - and have ample time to talk to him about it, then it is - personally, I mean, would be most enlightening to me to know what the Administration's price formula is. And then, second, when we put it up to him, to get

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his reaction, because there isn't a day - Viner comes down here ever so often and he keeps asking me, "What is the Administration policy?"

Ezekiel: well, what would be your idea of ....

H.M.Jr: Hun? I mean if you ....

Wallace: It's a terrific job, I'll say that; I mean putting it the way you put it gets you absolutely into every activity of the Government - almost that; almost every activity.

H.M.Jr: Well, isn't it about time it was correlated?

Wallace: On, I agree on that.

H.M.Jr: What?

Wallace: Absolutely.

H.M.Jr: Don't you feel that you're groping in the dark?

Wallace: I think it's grand.

H.M.Jr: I mean not as far as your own work is concerned, but as your work - where it touches other departments.

Wallace: I always feel that half of our agricultural policies rest in the cities, and price and labor policies in the cities.

Taylor: When is the President going to sign the agricultural bill?

Wallace: Passing on it now.

Taylor: Doesn't that give you the springboard that you want? That is certainly going to have an effect on agricultural prices, and it seems to me ...

Wallace: I don't think it's going to have any immediate effect on agricultural prices.

Taylor: Well, I just make the suggestion that you can tie it

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to that and give him a chance to restate his price philosophy possibly more logically than ....

- Wallace: I think you could use the agricultural bill as a springboard in this sense. It is - I am almost tempted to call it an agricultural balance bill; I mean there is a concept of balance there, and after all that is the concept you want running through this price statement - a concept of balance.
- Hess: You got two things. You got the gold that you just announced too.
- Wallace: What are the various forces that the Government has in its control that can be used on behalf of balance.
- White: Well, to harmonize those two possible ideas which are implied - three ideas which are implied in the recent gold action, in the farm bill, and in his recent statements with regard to prices; it is an attempt possibly to find where that state of equilibrium is, pulling some prices up which are too low, keeping some prices from rising, or possibly depressing some privately controlled prices, and seeking that balance among farm prices which is your objective, and seeking some harmonious statement which will involve all three and which will introduce consistency in his various statements and in a position which he might well take, which can well harmonize those three.
- Wallace: Yes, I think that's fine. I think this present accidental combination of actions which would be the springboard would make it possible also to make a statement that he realizes that prices aren't altogether a matter of monetary manipulation; that while monetary forces enter in, yet also physical forces having to do with relative supplies and so on enter in - rate of business activity.
- Hess: Have to work in his wage philosophy too.
- Wallace: Work in his wage philosophy.
- Armiel: In that connection, will the statement be broad enough to not merely harmonize these recent statements, but to set forth a broad statement of policy which subsequent action for the next several months would all

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presumably fit into; enunciate a program and as - so that any later action taken, relief payments or otherwise, would fit into the objectives already stated?

H.A.Jr: Well, I think that entirely rests on just how able we are to get something ready for him. I mean I think he's in the frame of mind where he'd be more than pleased if we come in with a policy statement which we believe is right, and then have a chance to argue it out with him. I think it entirely rests with us. I find him in the frame of mind that he is more than pleased to take a finished piece of work. He hasn't got time to think these things through at this particular time, but he is reaching for a finished product. I mean that's his state of mind. If somebody would go in and say, "Now Mr. President, Mr. Wallace, Labor, and Treasury have worked on this thing a week; we are in accord, we think this is good, we want to show it to you" - I mean that if it is good I think the chances are excellent that he will take it.

Now, it's just like the Secretary of Agriculture goes before the Interstate Commerce Commission and argues against an increase in freight rates, and for all he knows the President next day ....

Wallace: Jesse Jones ....

Wheeler: ... wants it.

Wallace: ... wants the increase.

H.A.Jr: And the next day the President might or might not have said he's for it; and all of those things, added to this absolute freezing of buying - buying has just frozen up.

Wallace: Get into that railroad situation and you're up against a tough one, I'll say that.

H.A.Jr: I just use that as an argument.

Wallace: I mean it's very apropos to this statement, but I don't know - suppose we turn it over to these - Henry, to these men to prepare the basis of this statement. What are they going to say about railroad rates?

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They're stopped. I think they're stopped.

Haas: Ask Jake, he's got an answer. Jake has an answer.

White: Let them at least realize that that action, in so far as it is inescapable, runs counter to the other portion of the price policy and should be undertaken only if there are very profound reasons or reasons that simply cannot be overcome. But at least we ought to know where there is a divergence from the general policy.

Viner: I'd say the way to deal with the railway problem is to say that increases in freight rates are appropriate now, granted the condition of the railways, only if the wisest minds in Washington find no other possible alternative; and I don't believe they have even seriously looked for one. Now, I'm not saying I'd ask the President to say that.

Wallace: I'm not so sure.

Viner: That's all I can say. I have seen no signs that they have seriously looked for any alternative.

H. S. Jr: Let's take wage rates, for instance - I mean why couldn't that be listed under that, and a number of other things. That increase in wage rates would go against this. And list the things which, if they are done, would be contrary to a policy which we are trying to lay down, see?

White: Again drawing the distinction between those wage rates which were equivalent to the particular price; there are some wage rates which - that would particularly apply to this; there are many other wage rates in which one would want to, following the same principle,...

Isakiel: They could be listed.

White: That's right.

Isakiel: We could say certain actions, if taken, would be in harmony with this policy - to put them above the line; and those which would be contrary to this policy would come below the line.

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- White: Same thing with interest rates charged to small business men.
- H.W.Jr: If you had a chart, with these things above and these below ....
- Wallace: I think the theme all the time should be balance and coordination.
- Viner: Between prices and costs as well as between prices and prices. Or include costs as prices. That part of the picture shouldn't be left out.
- H.W.Jr: Right. That's why that chart there has never satisfied me as the final answer to the whole problem.
- Wash: That is just an incidental problem. There has been much recently in people's minds about a tentative goal of 1926 level. I don't think the President himself has ever mentioned that, but it is attributed to him.
- Wallace: I think he did say something.
- Hubin: He did say something.
- Gaston: He never did say 1926. The debt load was the important thing - the private debt load; a price structure that pretty closely corresponded to that which obtained at the time the bulk of the debt load was incurred.
- White: The objective should be re-defined in more general terms, terms in more accord with our economic analyses, not leaving the impression that we are striving for any specific figure.
- Wallace: It is so important - we find it in Agriculture the same way - so important to try to get in the mind of people this concept of balance and coordination as a substitute for what we say - parity price, or 1926 price level, because when you set that rigid thing, in endeavoring to obtain it you create unbalance and instability, lack of coordination.
- Taylor: I can't get it out of my head that in connection with this agricultural bill you have given him a chance to write a message rather than having a statement which he gives out at a press conference. That would be customary for him to do that in any

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case, wouldn't it?

Gaston: No, no, he just signs it; that's all there is to it.

Taylor: Well, occasionally ....

Wallace: He ordinarily - he spoke about putting out three or four hundred words at the time he signed it. Instead of doing that, he might put out this longer statement.

H.M.Jr: I don't - thinking about it, I don't think this should be hooked up just to Agriculture.

Taylor: Brings everything else in it, but that's just what you ....

Wallace: Well, he could put out that three or four hundred word statement and then put out this longer statement.

H.M.Jr: The main thing is, are we smart enough to get something? Then as to the timing of it, I think he can decide. I mean we're a long way yet to getting something.

Ezekiel: Probably won't get it by Thursday afternoon.

H.M.Jr: You don't think so?

Viner: It's a difficult task, not ....

Wallace: I'd say it would be worth while to delay it for a week. Maybe not. Maybe not. Here you've got this action, this signing of the bill Wednesday; there's so much to be gained by coming out with it Thursday.

H.M.Jr: Well, as far as I'm concerned, I can meet tomorrow morning, I can meet Thursday morning, and these men can work afternoons and evenings, if they will.

White: Mr. Wallace, is it such a lengthy task after all? If we can't attempt to make a detailed analysis, a several months' job, we can, by confining ourselves to the general picture and some additional facts which fortunately happen to be available - I think that a statement embodying these ideas in the large, with some graphic, specific illustrations which will drive

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home the points, might well be forthcoming by Thursday morning.

Wallace:

If they go at it - if these men will go at it from the point of view that it is important to create in the public mind certain ideas, that we have this background which enables us to create this helpful impression in the public mind, if they go at it from that point of view, as though they were newspapermen .... This is a publicity job, not in the bad sense of publicity but from the standpoint of an opportunity to do something very constructive and educational. But it is a newspaper job - essentially what it is. Now, can you use your talents as economists in this newspaper publicity field to bring about a helpful result? If you go at it from that point of view and don't get into a lot of discussion on economic theory, avoid controversial points where you probably have differences of opinion among yourselves, but continually head toward that objective, I believe it can be done by Thursday.

H.M.Jr:

Get me the British policy statement that they gave me yesterday. Will you (White) get it from Miss Chauncey.

Now, the British Cabinet met yesterday. I put this up to them. I'd like to read it to you, see? They do these things that way. And they gave me yesterday - and they're going to have a question and answer in Parliament today, backing up what we have done on this gold, see? And it comes out - I mean it is a general thing enough, but, Henry, if we don't do it - and that's what I want to impress on these men, that if it was a fairly general statement that would signify something, I think it would be helpful to clear some of the confusion which exists in the mind of the people now. Anything would be better than what it is now.

Hoos:

It gives people a pattern to go ahead on. I think that's the point you've been driving home.

H.M.Jr:

Well, it's like the job that I worked with him in getting my November 10 speech ready, where we outlined the fiscal policy for the rest of the year, and as far as the fiscal end the President absolutely adhered to

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it. But I worked it out with him. Now, if we can work out something on the price thing so it would be good, say, for the rest of this year, we'd all know what direction we're going and it would be most helpful. I have never undertaken anything in which I am more anxious to come to a happy ending than this thing.

- Ezekiel: A slight difficulty you're getting into is that such a statement of desirable objectives, certain things that should happen to prices, means that you're implying that you are going to take action to make that result come true, so that any real statement ....
- Wallace: If you let balance be the key of it, it won't be quite so bad.
- H.W.Jr: Well, even balance - the relation of your raw materials ....
- Wallace: But balance always implies a little bit of gradualism in it, and not the jerkish stuff.
- H.W.Jr: You see, now the President - he's got 1934 prices in mind, see?
- Wallace: Uh-huh.
- H.W.Jr: And I just want - I don't think, Ezekiel, he has to do something which would imply positive action; if he just would imply a trend ....
- Ezekiel: Well, even that trend is not going to produce itself, but implies that something may or will be done to make that trend occur - unless you are just forecasting what will happen.
- H.W.Jr: But if we knew what the trend was, then some of us could stop doing things which would impede that trend.
- Taylor: question of price philosophy.
- Wallace: You (Ezekiel) don't want us to be on a 24-hour basis any longer, do you?
- Gaston: I think the statement wants to be quite general, not

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too particular as to economics, or too particular as to the measures in contemplation. Statement of objective.

Waskiel: All I am saying - when you state your objective, that implies you're going to make that objective come true.

Maes: That is one of the advantages of it. For instance, you've got conflicting measures which affect prices, different departments doing different things, one overshadowing the other - the effect of a policy in one department or an action in one department. And, with this, I think the people get the idea that ~~something~~ certain actions are to be done, and they'll be correlated as actions.

H.W.Jr: I'll read this - naturally, confidential.

"I have just talked with Phillips and Waley, who, in giving me the Chancellor of the Exchequer's reply, said that a meeting was held this morning to discuss the whole problem; that the situations in the United States and Great Britain were in their opinion not comparable; that the only two deflationary forces which have operated in this country were the gold scare and Chamberlain's National Defense contribution cut, both of which have been obliterated by subsequent events.

"The Chancellor, therefore, has stated that he could not think of any after step of a new and striking character which could usefully be taken in this country to act as a parallel to our proposal; and that any action he might take would of necessity be going further than merely removing anything in the nature of a brake on business progress such as real or supposed deflationary tendencies.

"In this connection, mention was made of the recent modification of the restriction on foreign lending, and of the fact that the addition of gold to the Bank of England is not the normal or most convenient method of expanding the credit base here. Such expansion would in general be made against securities purchased by the Bank of England; and the credit base was in fact very high at the present time through such operations.

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"However, Sir John Simon stated that he was very ready to make public his sympathy with your aims, and he offers, if this is thought to be helpful, to arrange for a Parliamentary answer to that effect, and to make it clear that your action is fully in line with the general policy pursued under past and present conditions here, of maintaining a properly expanded credit base, and that this still remains the policy of the British Government."

Now, there is a clean-cut answer to a question, and they don't hesitate on it.

Wallace: Well, there hasn't been any question about our policy on that matter.

H.A.Jr: No, but I mean just showing that you can get an answer from them; I'd hate sometimes to have them ask me a question like that.

Well, how would you do - how do you think?

Wallace: I think it would be fine.

H.A.Jr: Well, what about this man of National - this other organization?

Wass: Gardner Means.

Walter: Of National Resources.

H.A.Jr: Well, how could he be ....

Wallace: Do you think Means would be any good on this? I mean I don't quite see just where he ....

Leskiel: He is on this particular thing, bringing this chart up on particular groups.

Wallace: But do you need this for this purpose? Don't see that you need it at all. You're dealing with a statement of policy.

Wass: Lubin has the prime responsibility on that.

H.A.Jr: Why not - since Mr. Wallace has said he doesn't want any more people, you can send for him and get what you want from him. And I can meet again at eleven

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o'clock tomorrow. Can you?

Wallace: No doubt.

H.M.Jr: And that gives them 24 hours to knock something out.

White: Could you give us a little more time, say, make it in the afternoon?

H.M.Jr: Three o'clock tomorrow afternoon.

White: That would be better.

H.M.Jr: How about Mr. Wallace?

Ezekiel: 3:30 press conference tomorrow.

Wallace: I think I better call that off anyway.

H.M.Jr: Would you give them until three o'clock tomorrow afternoon?

Wallace: Yes.

H.M.Jr: What?

Wallace: Yes, I think it would be better to give them until three o'clock tomorrow afternoon.

H.M.Jr: Are you (Lubin) free so that you can ...

Lubin: Yes.

Viner: I have to leave tomorrow afternoon.

H.M.Jr: What time?

Viner: Three o'clock.

H.M.Jr: Three o'clock.

Viner: I have to give a lecture at the University of Toronto on Thursday.

Wallace: Could make it two o'clock tomorrow.

H.M.Jr: Well, supposing we meet at two then. What?

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Viner: All right.

Taylor: You've got that other thing too tomorrow.

H.W.Jr: Oh yes, we meet with the President. We can't do it. I'll have to meet at eleven tomorrow. I can't - we're meeting.

Well now, will you men fix it up where you want to meet? And I don't think we need to expand this thing, do you?

Wallace: No, I don't think so at all. As a matter of fact, I think these people, when they get together, will want to turn over to somebody the job of making a first draft as soon as possible - something to shoot at.

H.W.Jr: Do you people want to call on anybody from Federal Reserve?

Wallace: All prices come right into that field all the time.

Ezekiel: I think you should.

Haas: Think you should.

H.W.Jr: All right. Why don't you (Haas) send for them? What?

Haas: (Nods yes)

H.W.Jr: Will you arrange that, Wayne?

Taylor: (Nods yes)

Ezekiel: Suppose we get together at one o'clock for lunch, and then after ...

White: Several little things we can ....

Haas: I'll have a draft by then.

Ezekiel: I have a meeting of the Education Committee; have to approve a final report. Have to go over there.

White: I think we can start. Those that can't come can come a little late; but we'll need every minute.

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H.M.Jr: We'll ask Currie to come over.  
Lubin: You want to start right away?  
Hans: Yes.  
H.M.Jr: Will you (Taylor) send for Currie?  
Taylor: (Nods yes)  
H.M.Jr: Who else do you want?  
Lubin: I'd like to bring Hinrichs if I may, because he's been working on this thing.  
Wallace: Since yours (Ezekiel) is the Education, you may want to have somebody else instead of ...  
Ezekiel: This is the final approval of your report. Spend an hour on it, I'll be back, spend the rest of the day here.  
H.M.Jr: You (Viner) would like to have Riefler come down? What?  
Viner: (Nods yes)  
H.M.Jr: He's moving his house.  
Viner: This is more important.  
H.M.Jr: Well, I'll call him.  
Taylor: The idea is that it should be simple, not too technical a statement, isn't it?  
H.M.Jr: Right. And if I may make one more point, the President loves a chart, so ...  
Ezekiel: We've got lots of them.  
H.M.Jr: I mean he's chart-minded. Just remember that.  
Wallace: We will.

Conference with the President on  
February 15, 1938 on proposal of  
the Hungarian Government to settle  
its indebtedness to the United  
States.

There were present, besides the President, Secretary Hull, Secretary Morgenthau, Assistant Secretary Taylor, and Mr. Bell.

The Secretary of the Treasury told the President that he and Secretary Hull had been over the proposal of the Hungarian Government and their recommendation was embodied in a joint letter which he handed to the President.

The President read the copy of the Aide Memoire attached to the letter and asked several questions as he went along regarding the debt and when and how it was settled. I submitted to him a statement, copy attached, showing the indebtedness as it was funded and how the new proposal would affect the debt. After he had finished, he said that his only question was that, in approving this letter, would it mean that we would accept the terms as outlined in this proposal without any further negotiations? The Secretary of the Treasury said that what he had in mind was that we would accept this proposal.

Secretary Hull thought that even if he approved this letter, we could change the proposal some. We might ask for a lesser number of years or a larger annual amount. The President said then that he thought that we should "add in principle" in the two places indicated. He added these words as indicated in the letter and then approved it. He said that one particular reason why he wanted to perhaps negotiate

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a little further was that he thought the amounts as stated were fine and that we should accept them as indicated, but we ought to make some provision for applying a penalty in case there is a default under any agreement.

I told him that practically all of our debt agreements contained provisions that in case of default the obligations either bore interest at the rate specified in the obligation or at some higher rate specified in the agreement.

He said that was not exactly what he was thinking of because after default <sup>and</sup> several years accumulation of accrued and unpaid interest, a subsequent administration might just remit this interest and go back to the original settlement. He wanted to find some principle which would apply a penalty by increasing the principal of the debt rather than accumulate interest on the books. In other words, if there is a principal amount due, say on June 15, and that amount is not paid on the due date, it then becomes a payment of 105% on some subsequent date which in turn if not paid is again increased through the imposition of a penalty. We told him that we <sup>would</sup> see what could be done in this connection.

Then the question was raised as to how we should proceed in this matter and Secretary Hull suggested that the President see some of the leaders in Congress.

The Secretary of the Treasury then stated that he had no intention of proceeding with negotiations until he found out how certain leaders in Congress felt about it and that he intended to propose to the President that he be permitted to contact Congressman Doughton,

Chairman of the Ways and Means Committee, and Senator Harrison, Chairman of the Senate Finance Committee, explaining this matter to them and getting their attitude. He suggested these two because he understood the proposed settlement would go before those two Committees for approval.

The President, after thinking about the matter, said that he believed that the best way to handle it would be for Secretary Hull and Secretary Morgenthau to meet him at the White House, Thursday, February 17, at 10 o'clock. He would have the Vice President, Senator Harrison and Congressman Doughton there for a discussion of the matter. The Secretary of the Treasury said that was agreeable to him and he would much prefer to have it that way. He only made the original suggestion in order to relieve the President of the burden of seeing these gentlemen.

*swB*

Memorandum re Hungarian Debt Proposal of  
February 7, 1938

In presenting the Hungarian debt proposal, the Aide-Memoire contains the statement that -

"The Hungarian-American debt settlement was worked out on the same basis as the British-American debt funding settlement, containing none of the concessions which were later granted from those terms to other countries!

The Aide-Memoire also points out that the annual payments made between 1924 and 1931 were largely applied to the payment of interest in contrast to the settlements reached with other Danubian countries and that in the funding agreements with those countries the payments between 1924 and 1931 were all on account of the principal amount of indebtedness.

The Hungarian Government is apparently under a misapprehension in stating that the other Danubian countries were granted terms more favorable than those granted to it under the original debt fund agreements. The only Danubian countries which were granted terms more favorable than those granted to Hungary, were Austria and Yugoslavia. There is attached hereto a table showing pertinent data with respect to the funding of the indebtedness of the Danubian countries (Hungary, Czechoslovakia, Rumania, Yugoslavia and Austria) to the United States.

It will be noted from this statement that in the case of Czechoslovakia and Rumania, those countries were given terms similar to those granted Hungary as to the term of repayment and interest rates charged on the principal indebtedness. While the payments made on these two countries during 1925 to 1931 were applied entirely to

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payment of principal, this was due to the fact that the interest during the first 18 and 14 years under the respective debt settlements was deferred with interest at 3% and 3½%. Such deferred amounts were represented by bonds, which bonds operated to increase the principal amount of the indebtedness. For example, the amount of the Czechoslovakian indebtedness as funded was \$115,000,000, whereas the principal amount of bonds to be delivered under the agreement was \$185,071,023.07; and in the case of Rumania the indebtedness as funded was \$44,594,451.54, whereas the principal amount of bonds delivered under the funding agreement was \$66,560,560.43.

In the case of Yugoslavia, that country was granted more favorable terms than Hungary only in that no interest was charged on the funded indebtedness for the first 12 years and the increase for the next 23 years ranges progressively from 1/8%, 1/2%, 1% to 2%; and for the last 27 years the interest rate is fixed at 3½%.

Each of the agreements, except that with Austria, includes in the funded indebtedness interest on the original obligations to the date of funding, on the basis of 4½% to December 15, 1922 or 1923, and at the rate of 3% from such dates to date of funding.

The offer which the Hungarian Government has under consideration for submission to the American Government provides in effect for the settlement of its original indebtedness along the lines of the Austrian funding agreement, namely, that the principal of the original indebtedness will be repaid without interest.

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The Austrian agreement provides for the repayment of the principal indebtedness (plus an additional sum equal to about 2% of the original indebtedness) over a period of 40 years without payment of interest except that certain amounts not paid under the original schedule which were postponed to a later date, bear interest at 5%.

The Hungarian proposal contemplates application of all amounts previously paid (\$473,294.49) under the funding agreement of April 25, 1924 to the payment of the principal of the original indebtedness and for the liquidation of the remaining balance (\$1,207,541.13) in 30 equal annual installments of approximately \$40,000 each. Under this proposal the original indebtedness would be liquidated without payment of interest over a period of approximately 45 years from the original date of funding, December 15, 1923, since nearly 15 years have elapsed from the time the debt was originally funded.

Hungary	Funding Agreement <u>1/</u>			New proposal		
	Principal	Interest	Total	Principal	Interest	Total
Original principal of debt	\$1,685,835.61	-	\$1,685,835.61	\$1,685,835.61	-	\$1,685,835.61
Interest prior to funding 4 1/2% to Dec. 15, 1923 ...	-	\$253,917.43	253,917.43	-	-	-
Interest payable under funding agreement .....	-	2,815,431.42	2,815,431.42	-	-	-
Amount receivable in 52 years under funding agreement .....	1,685,835.61	3,069,348.85	4,755,184.46	-	-	-
in 44 years under new proposal .....	-	-	-	1,685,835.61	-	1,685,835.61
Less: Payments made to Dec. 15, 1937 .....	73,995.50	404,298.98	478,294.48	478,294.48	-	478,294.48
Balance receivable in 48 years under funding agreement .....	1,611,840.11	2,665,049.87	4,276,889.98	-	-	-
in 30 years under new proposal .....	-	-	-	1,207,541.13	-	1,207,541.13

1/ Not adjusted for changes due to moratorium agreement or interest accrued on amounts due and unpaid since December 15, 1932.

DEBT FUNDING AGREEMENTS

1. Countries given terms more favorable than Hungary:

- Austria
- Belgium
- France
- Greece
- Italy
- Yugoslavia

2. Countries given same terms as Hungary:

- Estonia
- Finland
- Great Britain
- Latvia
- Lithuania
- Poland

3. Countries given same terms as Hungary, and further allowed to fund interest in early years in interest-bearing bonds:

- Czechoslovakia
- Rumania

## Points for consideration:

- (a) Hungary was indebted to other countries on obligations of a similar character as those originally held by the United States. In 1924 the obligations held by other countries amounted to approximately \$1,150,000. Publications of the British Treasury show that the debt to Great Britain (\$644,000) has been liquidated. This raises the question whether all such obligations held by other countries have been liquidated, and if so, whether interest was paid thereon. The United States should receive treatment at least as favorable as that accorded other creditor nations by Hungary.
- (b) Should Hungarian proposal be accepted as test case for submission to Congress.
- (c) Or should United States counter with offer to adjust Hungarian debt on basis of settlement provided in Italian agreement (the most favorable agreement to the debtor nation, other than Austrian agreement), or on some other basis.
- (d) If any Hungarian offer is made and transmitted to Congress, this will probably be taken by other countries as indication of basis on which their debts may be settled, resulting in similar proposals by other governments.
- (a) In event any new arrangement is made with Hungarian Government, would Finnish Government have grounds on which to request readjustment of its indebtedness on similar terms.

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Countries in addition to Austria and Yugoslavia, which were granted debt terms more favorable than those granted to Hungary

	Belgium (Pre-Armistice)	Belgium (Post Armistice)	France	Greece (Pre-Armistice)	Greece 4% loan of 1929	Italy
Date of funding agreement .....	Aug. 18, 1925	Aug. 18, 1925	Apr. 29, 1926	May 10, 1929	May 10, 1929	Nov. 14, 1925
Date as of which indebtedness was funded .....	June 15, 1925	June 15, 1925	June 15, 1925	Jan. 1, 1928	May 10, 1929	June 15, 1925
Original indebtedness:						
Cash advances for war purposes .....	171,780,000.00	177,434,467.89	2,997,477,800.00	15,000,000.00	---	1,648,034,050.90
Purchase of surplus war supplies .....	---	29,872,732.54	407,341,145.01	---	---	---
Purchase of relief supplies .....	---	---	---	---	12,167,000.00	---
Purchase of flour .....	---	---	---	---	---	---
Total .....	171,780,000.00	207,307,200.43	3,404,818,945.01	15,000,000.00	12,167,000.00	1,648,034,050.90
Indebtedness as funded:						
Original principal .....	171,780,000.00	205,249,570.06	3,340,516,043.72	15,000,000.00	12,167,000.00	1,647,869,197.96
Interest to date of funding .....	---	40,767,664.60	584,370,643.17	3,127,922.67	---	394,330,288.38
Total .....	171,780,000.00	246,017,234.66	4,025,386,686.89	18,127,922.67	12,167,000.00	2,042,199,486.34
Principal of refunding bonds received .....	171,780,000.00	246,000,000.00	4,025,000,000.00	20,330,000.00	12,167,000.00	2,042,000,000.00
Payments received prior to funding:						
Principal .....	---	2,057,630.37	54,689,586.18	5,922.67	---	364,319.28
Interest .....	---	18,543,642.87	221,386,302.88	1,159,153.34	---	57,598,852.62
Total .....	---	20,601,273.24	286,075,891.00	1,165,076.01	---	57,963,171.90
Payments received under funding agreement:						
Principal .....	10,000,000.00	7,100,000.00	161,350,000.00	150,000.00	201,000.00	37,100,000.00
Interest .....	---	14,490,000.00	39,650,000.00	---	1,635,308.00	5,756,709.26
Total .....	10,000,000.00	21,590,000.00	200,000,000.00	150,000.00	2,466,308.00	42,856,709.26
Amounts due and unpaid December 15, 1937:						
Principal .....	14,500,000.00	7,400,000.00	215,711,486.23	1,760,000.00	2,750,000.00	55,600,000.00
Interest .....	---	35,040,000.00	211,875,757.50	43,987.50	1,710,672.00	10,454,354.94
Moratorium annuities .....	---	4,360,084.92	27,421,917.48	131,694.50	485,711.37	8,065,402.92
Total .....	14,500,000.00	46,800,084.92	455,009,163.21	1,935,682.00	4,966,383.97	84,119,757.16
Terms of funding agreement:						
Years to pay .....	52	52	52	62	30	62
Interest rate - 1st ten years .....	none	3/4% to 5/8%	(5 yrs. - none 5 yrs. - 1%)	none	4%	(5 yrs. - none 5 yrs. - 1/8%)
Interest rate - after 1st ten years .....	none	5/8%	(5 yrs. - 1%, 10 yrs. 3% 8 yrs. - 3 1/4%, 7 yrs. 3% (22 yrs. - 3 1/2%)	none	4%	(5 yrs. - 1/8%, 10 yrs. 3% 10 yrs. - 1/4%, 10 yrs. 3/4% 10 yrs. - 1%, 7 yrs. 3%
Interest charged on postponed amounts .....	none	5/8%	4 1/2%	4 1/2%	not postponable	4 1/2%

## DANUBIAN COUNTRIES

	Hungary	Czechoslovakia	Rumania	Yugoslavia	Austria
Date of funding agreement .....	Apr. 25, 1924	Oct. 13, 1925	Dec. 4, 1925	May 3, 1926	May 8, 1930
Date as of which indebtedness was funded ..	Dec. 15, 1923	June 15, 1924	June 15, 1925	June 15, 1925	Jan. 1, 1928
Original indebtedness:					
Cash advances for war purposes .....	-	61,974,041.10	25,000,000.00	26,780,465.56	-
Purchase of surplus war supplies .....	-	20,604,302.49	12,911,152.92	24,978,020.99	-
Purchase of relief supplies .....	-	6,428,089.19	-	-	-
Purchase of flour.....	1,685,835.61	2,873,238.25	-	-	24,055,708.92
Total .....	1,685,835.61	91,879,671.03	37,911,152.92	51,758,486.55	24,055,708.92
Indebtedness as funded:					
Original principal .....	1,685,835.61	91,879,671.03	36,116,972.44	51,037,686.39	24,055,708.92
Interest to date of funding .....	253,917.43	23,120,328.97	8,477,479.10	11,819,226.00	559,176.08
Total .....	1,939,753.04	115,000,000.00	44,594,451.54	62,857,112.39	24,614,885.00
Principal of refunding bonds received .....	1,939,000.00	185,071,023.07	66,560,560.43	62,850,000.00	24,614,885.00
Payments received prior to funding:					
Principal .....	-	-	1,798,632.02	727,712.55	-
Interest .....	753.04	304,178.09	263,313.74	636,059.14	-
Total.....	753.04	304,178.09	2,061,945.76	1,363,771.69	-
Payments received under funding agreement:					
Principal .....	73,995.50	19,829,914.17	2,700,000.00	1,225,000.00	862,668.00
Interest .....	403,545.94	-	29,061.46	-	-
Total .....	477,541.44	19,829,914.17	2,729,061.46	1,225,000.00	862,668.00
	478,294.48	20,134,092.25	4,791,007.22	2,588,771.69	862,668.00
Amounts due and unpaid December 15, 1937:					
Principal .....	78,830.00	14,670,085.83	7,000,000.00	1,875,000.00	1,380,279.00
Interest .....	340,985.53	-	-	38,515.53	-
Moratorium annuities .....	38,030.22	1,645,315.02	438,750.72	-	104,301.69
Total .....	457,845.75	16,315,400.85	7,438,750.72	1,913,515.53	1,484,580.69
Terms of funding agreement:					
Years to pay .....	62	62	62	62	40
Interest rate - 1st ten years .....	3%	3%	3%	None - 12 yrs	None
Interest rate - after 1st ten years ....	3½%	3½%	3½%	{ 1/8 - 1/2 - 1 & 2 - 23 yrs 3½% 27 yrs 4½%	None
Interest charged on postponed amounts ..	3% & 3½%	3% & 3½%	3% & 3½%		5%

The Hungarian Debt Proposal

I. What do the Hungarians propose?

(a) All the payments made under the debt settlement of 1924 (approximately \$478,000) should be deducted from the original principal (\$1,685,000).

(b) That the remaining sum (\$1,207,000) be paid off without any interest in thirty annuities of about \$40,000 each.

II. Why is Hungary making this proposal now?

(a) It may be part of the Hungarian government's efforts to re-establish its credit so that it will be able to raise loans in the future.

or

(b) It may be because one of the great powers -- probably Great Britain -- asked Hungary to make this offer to see what the United States reaction would be. In this case the Hungarian debt offer would be merely a tentative preliminary step in the plans of these countries.

There are grounds for believing that England may have requested Hungary to broach the debt question with the United States now, because

(1) England would stand to gain more than any of our leading debtors from the application of the principles involved in the Hungarian debt proposal. England's outstanding debt would become smaller than France's because owing to the fact that the terms of her debt settlement were more onerous she has already paid us over \$2,000,000,000.

(2) England is the country which has most to gain politically from a debt settlement.

III. What are the issues involved?

(a) The amount involved can be excluded.

The income of \$40,000 a year which a settlement with Hungary would yield is too negligible a factor in relation to the more important matters at stake to be of significance. The merits of

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the Hungarian debt offer must, therefore, be considered exclusively in its relation to the entire inter-governmental debt situation and to the political aspects of this situation.

Acceptance of the offer would:

(1) Renew interest in debt settlements and be in fact an invitation for Britain, France and Italy to come forward with offers similar to that made by Hungary.

(2) Establish two new principles of inter-governmental debt settlement.

(a') Interest payments on inter-governmental debts to be abolished.

(b') Negotiations to be based upon the circumstances of the origin of the debt, ignoring previous debt settlements, and revaluing the previous payments on the debt.

(7) Shall the case of Hungary be used as a basis for establishing the general debt settlement?

Arguments for:

(1) Such a debt settlement would be so interpreted in any case. In future debt negotiations our debtors would be extremely reluctant to grant us better terms than we gave Hungary. That is, even if, in arriving at a settlement with Hungary, we specifically deny that it is to constitute a precedent, our debtors would both interpret it and use it as such. Therefore, there might be very little to lose on our part by approaching it as a basis for establishing a general debt settlement.

(2) It is extremely unlikely that we would be able to get more favorable terms from other powers even if we refused such terms to Hungary.

(3) Now may be an opportune moment for reopening the whole debt question, and the Hungarian debt settlement would be a convenient expedient for so doing without our apparently taking the initiative.

Arguments against:

(1) If the present situation is not such as to make a general debt settlement expedient it would be better to consider the case of Hungary purely on its merits.

(3)

(b) Shall the case of Hungary be used as a basis for establishing the general debt settlement?

Arguments for:

(1) Such a debt settlement would be so interpreted in any case. In future debt negotiations our debtors would be extremely reluctant to grant us better terms than we gave Hungary. That is, even if, in arriving at a settlement with Hungary, we specifically deny that it is to constitute a precedent, our debtors would both interpret it and use it as such. Therefore, there might be very little to lose on our part by approaching it as a basis for establishing a general debt settlement.

(2) It is extremely unlikely that we would be able to get more favorable terms from other powers even if we refused such terms to Hungary.

(3) Now may be an opportune moment for reopening the whole debt question, and the Hungarian debt settlement would be a convenient expedient for so doing without our apparently taking the initiative.

Arguments against:

(1) If the present situation is not such as to make a general debt settlement expedient it would be better to consider the case of Hungary purely on its merits.

(2) We might be able to get better terms later from the important debtors so that it would not be desirable to reopen the general debt question now.

(c) Shall the United States accept the principle of abolishing all interest payments on inter-governmental debts, this principle to be applied retroactively?

(1) Advantages of accepting the principle:

(a') The possibility of obtaining more from the leading debtors than would be yielded by the application of this principle is a remote contingency. Realism demands recognition of the fact that a large part of our outstanding debt must be written off as worthless. If we expect to get anything at all we must not make our initial position too distant from what our debtors could conceivably agree to. The principle of merely liquidating the original debt without any interest can be made to appear a magnanimous concession on our part. We would be renouncing what we are legitimately entitled to claim.

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the terms of the original debt settlement would be paying us \$183,125,000 for 1938 and the rate of payment for the whole period before the debt would be liquidated, i.e., up to 1984, would be at about \$180,000,000 per year. (2) \$75,000,000 is less than England could pay if negotiations were conducted on the basis of England's capacity to pay and bargaining power. The good will of the United States to England in the present international political situation is worth so much that a debt settlement on the basis of \$75,000,000 per year payment would constitute a *real* ~~truly~~ bargain for her. It is hardly likely that England would make any settlement with us now without the implicit understanding of some quid pro quo.

(b) France

France's debt to us would be reduced from \$3,404,818,945 to \$2,918,743,054, and her annual payments would be \$97,291,400 as against the \$105,000,000 she would be paying us under the original settlement in 1938 rising to \$125,000,000 by 1942. In other words, the immediate saving to France would not appear to be very great, the reason being that under the original settlement France was to pay 1 percent interest until 1940.

France already has a huge deficit and in the present position of her balance of trade and her balance of payments the transfer problem would be extremely awkward.

Nevertheless, as with England, political considerations so transcend the immediate economic ones that she might even be willing to make what would undoubtedly be heavy sacrifices in return for American good will. (It may be of interest that Msr. Merriot, one of the leaders of the Radical Socialist party, at present President of the Chamber of Deputies and probably the next president of France, lost the premiership in December 1932 because he was in favor of continuing the debt payment to the United States. He has never abandoned this position.)

(c) Italy

Italy's original debt of \$1648,034,050 would be reduced to \$1,547,204,170. The application of the principle of the Hungarian debt settlement would just about triple the payments Italy would be making under her original debt settlement, that is, it would rise from \$17,008,875 to \$51,573,400. The increase is to be explained by the fact that in the original Italian debt settlement the interest rate was 1/2 of 1 percent to 1940.

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It is out of the question that Italy would make such a settlement which is more unfavorable for the near future than the original one at a time when every scrap of foreign exchange means so much to her.

(d) Is it politically desirable to reach a general debt settlement at this time? And if so, is such a settlement at all practicable?

The question of the political desirability of a general debt settlement raises issues which are outside the scope of the Treasury Department as such. A general debt settlement which would include Italy and which would include the debts of Germany to the former allied powers would be one of the final parts of a scheme of world pacification. At the present moment, therefore, its practicability would appear to be out of the question. On the other hand, some countries would be only too willing to arrive at some settlement of their debt to us which was not too onerous, not so much in return for an understanding which they know they are not likely to obtain in the present state of American public opinion, but even as a good will investment with the hope of return in the future rather than in the present. (Whether we should exploit this settlement is again factor which is outside the jurisdiction of the Treasury Department.)

Hungary	Funding Agreement 1/			New proposal		
	Principal	Interest	Total	Principal	Interest	Total
Original principal of debt	\$1,685,835.61	-	\$1,685,835.61	\$1,685,835.61	-	\$1,685,835.61
Interest prior to funding 4 1/2% to Dec. 15, 1933 ...	-	\$253,917.43	253,917.43	-	-	-
Interest payable under funding agreement .....	-	2,815,431.42	2,815,431.42	-	-	-
Amount receivable in in 62 years under funding agreement .....	1,685,835.61	3,069,348.85	4,755,184.46	-	-	-
in 46 years under new proposal .....	-	-	-	1,685,835.61	-	1,685,835.61
Less: Payments made to Dec. 15, 1937 .....	73,995.50	404,298.98	478,294.48	478,294.48	-	478,294.48
Balance receivable in 46 years under funding agreement .....	1,611,840.11	2,665,049.87	4,276,889.98	-	-	-
in 30 years under new proposal .....	-	-	-	1,207,541.13	-	1,207,541.13

1/ Not adjusted for changes due to moratorium agreement or interest accrued on amounts due and unpaid since December 15, 1933.

FINISHED INDENTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES ON SAME BASIS AS THE FINANCIAL PROPOSAL OF FEBRUARY 7, 1938.

Country	Original Indebtedness (Principal)	Total amounts received (Principal and Interest)	Percentage of payments received to original indebtedness	Original indebtedness less all payments received	Total indebtedness as of Jan. 31, 1938 (Funded principal and accrued and unpaid interest)	Difference between present indebtedness and indebtedness adjusted to Hungarian proposal	Annual annuity on Hungarian basis (30 years)	Payments due under funding and moratorium (Calendar Year 1937)	Approximate average annual payments for next 30 years under funding and moratorium agreements
	(Col. 1)	(Col. 2)	(Col. 3) (2 + 1)	(Col. 4) (1 - 2)	(Col. 5)	(Col. 6) (5 - 4)	(Col. 7)	(Col. 8)	(Col. 9)
Austria .....	\$ 24,035,708.92	\$ 862,668.00	3.6	\$ 23,173,040.92	\$ 25,005,489.99	\$ 2,832,449.07	\$ 773,101.56	\$ 494,860.25	\$ 593,000
Belgium .....	379,097,200.45	52,191,273.24	13.8	326,895,927.19	440,576,380.97	113,680,453.78	10,895,650.91	15,884,907.76	12,900,000
Czechoslovakia .....	91,879,871.03	80,134,092.26	21.9	71,745,778.77	156,686,603.61	92,913,024.84	2,761,519.29	3,385,622.56	2,100,000
Estonia .....	12,999,145.60	1,246,432.07	8.9	12,752,713.53	18,029,718.13	5,277,004.60	425,023.78	772,700.58	597,000
Finland .....	8,281,926.17	2,101,034.77	21.6	6,180,891.40	8,350,481.80	2,169,590.40	106,029.71	395,286.00	363,000
France .....	2,404,918,945.01	466,075,891.00	14.5	2,918,743,036.01	4,121,120,502.59	1,202,377,466.58	97,391,435.13	107,820,832.24	124,500,000
Great Britain .....	4,277,000,000.00	2,024,843,617.09	47.3	2,252,156,382.91	5,253,719,066.73	3,001,562,683.82	75,071,704.10	208,341,530.10	180,000,000
Greece .....	27,187,000.00	3,778,384.01	13.9	23,408,615.99	33,869,484.24	10,460,868.25	795,530.53	1,417,114.76	540,000
Hungary .....	1,685,225.61	478,294.48	28.4	1,207,931.13	2,316,768.38	1,108,837.25	40,251.37	86,651.32	79,000
Italy .....	1,548,034,050.90	100,829,880.16	6.1	1,447,204,170.74	2,019,207,085.58	472,002,914.84	51,573,473.26	18,483,126.76	22,000,000
Latvia .....	5,132,207.14	761,549.07	14.8	4,370,658.07	6,300,895.27	1,930,237.20	145,691.27	252,566.22	290,000
Lithuania .....	4,981,628.05	1,237,956.68	24.8	3,743,671.45	7,429,514.65	3,685,843.20	124,789.05	288,938.46	240,000
Norway .....	159,666,973.39	22,646,297.06	14.2	137,020,676.33	221,159,919.48	84,139,243.15	4,667,325.83	2,532,079.42	2,665,000
Rumania .....	37,911,122.82	4,791,007.22	12.6	33,120,115.60	53,971,892.36	20,851,776.76	1,104,004.86	1,897,300.16	2,253,000
Turkmenistan .....	51,758,486.55	2,569,771.89	5.0	49,188,714.66	51,663,315.63	2,474,600.97	1,638,990.80	413,515.63	1,409,000
<b>TOTAL .....</b>	<b>10,126,460,010.70</b>	<b>2,727,574,349.19</b>	<b>26.9</b>	<b>7,407,885,661.51</b>	<b>12,493,087,560.86</b>	<b>5,085,201,999.35</b>	<b>246,929,522.05</b>	<b>347,424,455.90</b>	<b>377,749,000</b>

PURCHASE EXPENDITURES

	Finland	Great Britain	USSR	Lithuania	Poland	Belgium		Latvia	Dutch-Indonesian	Greece	Italy
						(Pre-Annexation)	(Post-Annexation)				
1. Date of Funding Agreement	May 1, 1922	June 18, 1922	April 20, 1924	Sept. 27, 1924	Nov. 24, 1924	Aug. 12, 1925	Aug. 18, 1925	Sept. 24, 1925	Oct. 12, 1925	Oct. 29, 1925	Nov. 14, 1925
2. Date of initial disbursement	Dec. 17, 1922	Dec. 17, 1922	Dec. 17, 1922	June 15, 1924	Dec. 15, 1922	June 15, 1922	June 15, 1922	June 15, 1922	June 15, 1922	Dec. 15, 1922	June 15, 1922
3. (a) Principal disbursements											
(i) Government - Cash advances for war purposes	---	3,648,000,000.00	---	---	---	191,780,000.00	---	---	---	---	1,021,000,000.00
(ii) International - Cash advances for war purposes	---	581,000,000.00	---	---	---	---	177,454,447.83	---	51,974,741.10	---	877,054,397.96
Payment of supplies and supplies	---	---	---	4,129,491.95	89,682,709.68	---	29,872,727.54	2,151,889.28	20,404,222.45	11,213,277.86	---
Payment of other supplies	---	---	---	622,126.07	51,571,749.54	---	---	2,410,417.82	5,402,099.19	1,782,767.78	---
Payment of loans	---	---	1,688,020.61	---	34,329,214.37	---	---	---	---	---	---
Total	5,121,922.17	581,000,000.00	1,688,020.61	4,981,688.02	129,682,972.29	191,780,000.00	207,327,205.42	2,152,289.14	71,979,471.02	12,999,142.50	617,084,212.76
(b) Advances to funded:											
Principal disbursements	5,121,922.17	4,074,611,266.41	1,688,020.61	4,981,688.02	129,682,972.29	191,780,000.00	207,327,205.42	2,152,289.14	71,979,471.02	12,999,142.50	1,547,262,197.96
Interest (in case of funding)	727,289.12	569,309,797.74	230,227.43	1,046,916.94	12,979,025.80	---	687,275.62	---	---	1,749,219.72	204,229,129.28
Total	5,849,211.29	4,643,921,064.15	1,918,248.04	6,028,604.96	142,661,998.09	191,780,000.00	208,014,481.04	2,152,289.14	71,979,471.02	14,748,362.22	1,751,491,327.24
Payments received at time of funding	---	---	---	---	---	---	---	---	---	---	---
Principal or remaining funds received	2,022,000.00	4,600,000,000.00	1,339,000.00	2,022,000.00	178,380,000.00	171,780,000.00	246,000,000.00	5,775,000.00	1,022,071,225.00	12,822,000.00	1,042,000,000.00
4. Payments received at account:											
(a) Loan to funding:											
Principal	---	229,161,641.56	---	---	---	---	2,297,120.27	---	---	---	204,219.23
Interest	209,215.27	229,825,529.11	752.04	1,244.27	1,045,284.28	---	10,840,842.21	120,268.95	204,170.00	1,441.05	29,298,427.61
Total	209,215.27	230,079,292.67	752.04	1,244.27	1,046,328.56	---	30,000,292.21	120,268.95	204,170.00	1,441.05	29,598,121.90
(b) Under funding agreements:											
Principal	821,510.25	255,021,000.00	75,928.50	234,740.00	1,297,277.27	10,000,000.00	7,120,000.00	9,300.00	19,227,712.17	---	27,100,000.00
Interest	3,922,209.42	1,226,779,212.42	27,548.24	1,021,222.61	12,210,712.80	---	24,420,000.00	672,020.12	---	1,246,220.12	5,725,720.28
Total	4,743,719.67	1,481,799,212.42	103,476.74	1,255,962.61	12,508,020.07	10,000,000.00	21,540,000.00	681,320.12	19,227,712.17	1,246,220.12	32,825,720.28
Initial payments received	5,101,024.72	1,022,849,027.09	179,194.45	1,227,222.28	22,645,297.28	10,000,000.00	21,191,277.24	761,540.27	20,152,022.28	1,246,432.07	32,825,720.28
5. Interest on or of Dec. 31, 1926:											
Principal (including amortization principal)	5,126,429.28	4,266,020,266.00	1,928,260.00	5,127,429.00	206,227,000.00	181,780,000.00	228,900,000.00	2,229,444.22	146,241,104.90	16,462,212.27	2,024,900,000.00
Interest, accrued and unpaid (including amortization interest)	121,921.05	822,712,044.75	427,228.22	2,221,222.65	46,129,712.65	---	29,222,222.27	1,421,429.09	417,424.74	1,272,722.22	12,022,022.22
Total interestness	5,248,350.33	5,088,732,310.75	2,355,488.22	7,348,651.65	252,356,712.65	181,780,000.00	258,122,222.27	3,650,873.31	147,658,529.64	17,734,934.49	2,036,922,022.22
6. Amount for and unpaid Dec. 31, 1926:											
Principal	---	122,222,222.00	75,222.00	112,222.00	6,722,000.00	14,222,000.00	7,422,000.00	222,222.00	14,222,222.00	222,222.00	22,222,000.00
Interest	---	741,222,222.00	242,222.00	1,012,222.00	21,222,000.00	---	20,222,000.00	1,222,222.00	---	---	10,222,222.00
Residual amounts	---	27,422,222.00	20,222.22	122,222.22	4,222,000.00	---	4,222,000.00	---	---	---	10,222,222.00
Total	---	894,222,222.00	237,422.22	1,234,444.22	22,144,000.00	14,222,000.00	11,644,000.00	1,222,222.00	14,222,222.00	222,222.00	32,444,222.00
7. Name of Funding Agreement:	12	12	12	12	12	12	12	12	12	12	12
Interest rate - 1st 100 years	5%	5%	5%	5%	5%	None	Fixed annuity (Avg. 5% to 25%)	5%	5%	5%	5%
Interest rate - after 1st 100 years	5%	5%	5%	5%	5%	None	5%	5%	5%	5%	5%
Interest accrued on postponed annuity	24 and 24 1/2	24 and 24 1/2	24 and 24 1/2	25 and 24 1/2	25 and 24 1/2	None	24 1/2	24 and 24 1/2	24 and 24 1/2	24 and 24 1/2	24 and 24 1/2

Includes interest under funding agreement postponed and funded into interest-bearing bonds. Further unpaid to credit of \$1,022,000.00 allowed for loss of war of 1917 and 1918 in Baltic Sea. First amount to be paid reference to interest. Interest amount to \$1,022,000.00 written off in computing net liability with Government.

Items	France	Yugoslavia	Dresses		Australia	Total	UNFUNDED LIABILITIES			Grand Total			
			For sec purposes	(48 Loan of 1928)			Armed	Unarmed	Naval		Total		
												Unfunded	Unfunded
Dec 1, 1925 June 15, 1926	Apr. 29, 1926 June 15, 1926	May 3, 1926 June 15, 1926	May 10, 1929 Jan. 1, 1928	May 10, 1929 May 10, 1929	May 6, 1931 Jan. 1, 1928	4,879,285,000.00	---	---	187,279,750.00	187,279,750.00	7,067,114,750.00		
---	1,970,000,000.00	10,409,894.00	---	---	---	---	---	---	---	---	2,081,000,000.00		
75,000,000.00 12,911,125.00	1,077,477,869.00 407,841,145.01	36,176,465.54 24,978,000.99	15,000,000.00	---	---	2,081,000,000.00 590,484,801.77	---	431,849.14	426,000.00 4,448,483.07	627,931.44 12,498,877.22	590,128,700.21 56,560,965.50		
25,311,353.92	1,434,618,942.01	41,155,486.50	15,000,000.00	12,147,000.00	24,055,705.92	2,081,000,000.00 3,284,075,010.96	8,038,410.15	---	11,052,917.49	431,849.14	4,891,847.39	17,555,314.00	5,273,528,324.70
27,811,353.92	2,494,618,942.01	52,759,486.50	15,000,000.00	12,147,000.00	24,055,705.92	16,135,450,010.96	---	---	11,052,917.49	431,849.14	128,601,357.39	204,999,004.00	10,340,458,074.70
36,116,970.44	2,740,316,043.78	21,007,066.24	10,000,000.00	14,147,000.00	24,055,705.92	2,084,238,203.90	---	---	---	---	---	---	9,884,238,203.90
8,477,670.10	384,970,643.17	11,819,226.00	2,127,223.87	---	---	1,719,166,034.61	---	---	---	---	---	---	1,719,166,034.61
44,598,481.54	4,052,306,686.95	28,827,117.39	15,177,223.87	14,147,000.00	24,055,705.92	11,283,400,258.61	---	---	---	---	---	---	11,583,400,258.61
4,431.54	248,086.99	7,112.39	2,242.87	---	---	4,728,608.14	---	---	---	---	---	---	4,728,608.14
17,41,350,260.43	1,015,000,000.00	40,850,000.00	17,000,000.00	17,167,000.00	17,414,350.00	11,571,577,448.50	---	---	---	---	---	---	11,571,577,448.50
1,799,438.05	44,609,508.18	787,712.50	2,322.67	---	---	271,822,446.80	---	141,760.26	---	---	141,800.26	271,964,246.99	
653,313.74	271,266,202.62	526,089.24	1,128,128.54	---	---	600,890,870.12	---	26,523.48	8,950,311.82	---	8,976,835.30	609,867,695.42	
2,001,945.78	286,078,891.00	1,263,774.69	2,127,078.01	---	---	282,102,718.75	---	128,236.54	8,750,311.82	---	8,878,628.36	283,081,347.11	
2,703,000.00	143,300,000.00	1,225,000.00	125,000.00	831,000.00	831,000.00	478,505,268.04	---	---	---	---	---	478,505,268.04	
29,041.46	26,600,000.00	---	---	1,630,304.00	---	1,319,316,284.36	---	---	---	---	---	1,319,316,284.36	
5,789,081.46	500,000,000.00	1,215,000.00	180,000.00	1,215,000.00	828,168.00	1,795,471,529.44	---	---	---	---	---	1,795,471,529.44	
4,791,007.82	466,075,671.00	2,388,771.89	1,227,078.01	2,468,326.00	868,568.00	2,727,674,249.19	---	158,575.84	8,950,311.82	---	9,118,887.66	2,736,793,136.85	
63,660,860.43	2,863,280,000.00	61,620,000.00	30,160,000.00	11,238,000.00	20,980,400.66	11,220,150,329.04	11,899,917.49	289,990.70	192,401,797.27	704,651,113.64	11,434,611,476.60		
111,331.68	287,470,302.29	26,518.54	75,996.82	2,279,545.27	25,000.23	1,261,327,221.82	10,745,420.61	197,544.83	180,140,817.41	194,088,946.12	1,456,031,247.66		
63,771,803.36	4,111,120,822.58	81,638,518.54	10,167,986.82	13,615,542.27	25,025,400.89	12,492,287,620.86	22,420,600.00	408,544.98	278,742,114.70	260,635,057.76	12,821,085,728.62		
7,000,000.00	317,711,408.15	1,975,000.00	1,710,000.00	2,760,000.00	1,380,273.00	307,763,008.00	11,769,617.49	229,890.78	192,601,999.07	324,821,113.64	319,576,121.70		
---	211,979,707.00	20,010.67	45,000.00	1,710,000.00	---	1,046,704,087.19	10,745,620.61	197,646.20	180,140,817.41	194,088,946.12	1,239,950,013.89		
429,750.77	27,481,977.40	---	171,074.50	488,711.37	168,221.89	124,074,045.97	---	---	---	---	124,242,267.86		
7,428,750.77	445,209,125.71	1,915,015.63	1,928,158.50	4,922,380.37	1,489,200.89	1,400,508,122.20	22,420,600.00	407,544.98	378,742,114.70	396,725,057.76	1,402,242,121.26		
82	82	82	82	82	82	---	---	---	---	---	---		
78	12 yrs. 1928 (5 yrs. 15)	None	None	None	None	---	---	---	---	---	---		
84	12 yrs. 15 (10 yrs. 28 (8 yrs. 29 (7 yrs. 26 (12 yrs. 24)	15 yrs. 2028 (3 yrs. 1/28 (14 yrs. 26 (5 yrs. 15 (3 yrs. 25 (27 yrs. 24)	None	88	None	---	---	---	---	---	---		
26 and 27	---	---	---	None 2028-1924	26	---	---	---	---	---	---		

February 15, 1938.  
11:54 a.m.

H.H.Jr: Hello.

Operator: Mr. Butterworth.

H.H.Jr: Yes.

O: Go ahead.

H.H.Jr: Hello.

Butterworth: Hello, sir.

H.H.Jr: Hello Butterworth.

B: Good afternoon, sir.

H.H.Jr: We just have on the ticker, what Sir John Simon said. Hello.

B: Yes, I've got the full report before me here.

H.H.Jr: Yes. And I'd say that was very satisfactory.

B: Good. Well I'm very glad you're pleased with it.

H.H.Jr: Well, I won't bother - it's all come over the ticker, so I - I won't bother - you to read it to me, see? Hello.

B: Yes.

H.H.Jr: What is the gossip over there today, about the thing?

B: And I think the reaction in the city has been very satisfactory indeed. The officials have welcomed the step as - very much in the same terms that you expected as an earnest - that the Government wanted to remove any deflationary brakes which might have been applied.

H.H.Jr: Fine.

B: And I have spoken to various newspaper people.

H.H.Jr: Yes.

B: And - and from the ticker here, I got a report on the ticker here.

H.M.Jr: Yes.

B: Which not only gave the announcement, but then went on to say that it's not to be regarded in any way as an inflationary step or as introducing any devaluation action.

H.M.Jr: Yes.

B: That the gesture on the part of the United States Treasury to show its desire to remove deflationary brakes.

H.M.Jr: Yes.

B: Now, and likewise in the evening newspaper today, more or less that same theme is felt.

H.M.Jr: Good. Now, I saw one interesting - unlooked for reaction we've had here.

B: I beg pardon, sir?

H.M.Jr: I want to tell you of what unlooked for - reaction we've had here, and that is as a result of this, our long-term Governments have turned very strong.

B: Uh-huh.

H.M.Jr: Because the bank's figure that this is going to mean a gradual increase of their excess reserves, and that they'll have money to invest, so they're buying our very longest Governments.

B: Uh-huh.

H.M.Jr: Which I think is very interesting, and very pleasing.

B: Yes, I think so too.

H.M.Jr: Because if we have a good Government bond market, and then-should get a capital rise in commodities, why we'd have almost the impossible.

B: Quite, sir.

H.M.Jr: But I thought you'd like to know that.

B: Very interested to hear of it.

H.M.Jr: Because I didn't expect that reaction, and people over here - we've got a very good press over here.

B: Right.

H.M.Jr: And I just talked to Dr. Burgess and he said that they're all very much pleased about it, in New York.

B: Oh, good. Well I'm very glad about it.

H.M.Jr: Now, I wish that you'd call up Cochran.

B: Yes.

H.M.Jr: And read to him what Sir John Simon has said, see?

B: Yes.

H.M.Jr: Because I phoned Cochran today and asked him to try to get the French Minister of Finance to say something, see?

B: Yes.

H.M.Jr: And if he had this, why, maybe it would help him to get a statement from -

B: Good. I'll do that, sir.

H.M.Jr: From the French Minister, see?

B: of course, at home  
carried a supplementary question?

H.M.Jr: The supplementary question?

B: Yes.

H.M.Jr: Just a minute. Let me see.

B: Put up by the leader of the opposition.

H.M.Jr: By Sir Pethwick Lawrence?

B:

H.M.Jr: By Lawrence?

B: There were two other questions, which the assembled Parliament just got up on his feet and asked and which Sir John Simon answered extemporaneously.

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H.M.Jr: Well, Sir John Simon replied regarding the first supposition, "I agree with Mr. Lawrence."

B: Yes, that's right.

H.M.Jr: That the currency arrangement of the two countries differ widely.

B: That's right.

H.M.Jr: Is that it?

B: Yes, and then there's another one.

H.M.Jr: Yes, and the other one was a formal one, which was asked him by Major Athley.

B:

H.M.Jr: What?

B: This - there's one after that.

H.M.Jr: Well, it's just coming over now.

B:

H.M.Jr: What's that?

B: He said, "It's here indicated any sort of departure from the tripartite agreement."

H.M.Jr: No, we haven't got that yet.

B: Principles - that agreement was made, this noon.

H.M.Jr: \*I see. Well, it's just coming over the ticker now.

B: Yes.

H.M.Jr: But it's - what they said is all right, isn't it?

B: Oh, it's all right. I just wondered whether - I've got this direct wire man here - whether you wanted me to put the final part of that on the wire.

H.M.Jr: I think so, you might as well put it on the wire.

B: All right, I'll do that.

H.M.Jr: All right. And then you call up Cochran and let him have it.

B: I will indeed. Now, Mr. Secretary, was that telegram, that I sent you on Saturday about the short selling at the SEC matter all right?

H.M.Jr: As far as I know, I sent it over to the SEC and I've had no comments.

B: Good.

H.M.Jr: But I'm going to bring it to the attention of Ambassador Kennedy. I'm going to bring it to his attention.

B: He knows more about that than I do.

H.M.Jr: Well, he knows more about it than I do. I said I never went in for short selling.

B: Nor did I.

H.M.Jr: (laughs) But I thought that he's peculiarly fitted to look into that, when he gets over there.

B: That is a statement on which I would not like to comment.

H.M.Jr: All right. Well I didn't mean it to sound too sarcastic. But -

B: All right, sir.

H.M.Jr: What?

B: I'll <sup>right</sup> -all/sir, I'll telephone Cochran.

H.M.Jr: And while I'm on this particular subject, I understand that the President told him that the present arrangement should continue as is.

B: Oh, good, sir.

H.M.Jr: That I'm to work, that the Treasury is to work directly with the British Treasury through you.

B: Fine. Very good, sir. Thank you so much.

H.M.Jr: But -

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B:

H.M.Jr: I don't look for any trouble in that direction.

B:

Very good, sir. Thank you very much.

H.M.Jr:

All right.

B:

H.M.Jr: Goodbye.

B:

Goodbye.

February 15, 1938

The Secretary had as luncheon guests Messrs. Eccles, Davis, Viner, Taylor and Upham.

There was some discussion of housing. Mr. Eccles said that the "Resettlement group" was interested in using WPA funds to some extent for the building of groups of houses in various regions throughout the country. His own feeling is that the most that should be done is to give a partial subsidy to private housing in the form of contributed WPA labor. Mr. Morgenthau said that he thought the best thing to do is to let Stewart McDonald do what he can with the new housing act instead of taking up a lot of new plans to interfere with FHA developments. He said that while Harry Hopkins is away, the President is routing WPA matters through the Secretary and Mr. Bell, and that any plan for the use of WPA money in the housing field will not get by them.

Mr. Davis, at the request of Mr. Morgenthau, summarized some of the main features of the new farm bill.

Mr. Morgenthau told Mr. Eccles that the Treasury would deposit with the Federal Reserve System as rapidly as possible an accumulation of \$70 million of silver certificates, in the form of \$10 pieces. Mr. Eccles saw no objection to this and

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said they expected the silver certificates to be placed with them. He said the only merit to such action that he can see is that it will reduce their printing expense for Federal Reserve notes. He condemned the silver program generally and wondered whether or not the Silver Purchase Act could be repealed. Mr. Morgenthau was of the opinion that it could not be at this session. Mr. Morgenthau said he is for the silver program for one very good reason--it is financing General Chiang Kai-shek, and as long as we can keep the Chinese going, it may make it unnecessary to build an \$80 million battleship.

There was some discussion of the action taken yesterday with respect to gold desterilization. Mr. Morgenthau said that Sir John Simon had issued a helpful statement and that everyone on the Hill seemed to be pleased. He said that Burgess reported the action well received in New York. Both he and Mr. Eccles thought that the newspaper stories this morning were very well handled.

Mr. Morgenthau spoke of the fact that the Government bond list was up slightly and indicated his hope that if and as the Government market rises, it may tend to pull the whole bond market along with it. Mr. Eccles stated that the only thing that would pull the bond market up is better earnings.

Upm

February 15, 1988

Mr. Oliphant

Mr. Foley

I attended a meeting on housing yesterday afternoon at 4:30 in Col. James Roosevelt's office. In addition to Col. Roosevelt and his assistant James Rowe, there were present from the RFC - Messrs. Jones and Doherty, from FHA - Messrs. McDonald, McGhee and Ferguson, from Farm Security Administration - Messrs. Snyder and Baldwin, from WPA - Messrs. Williams and Harrington, from the United States Housing Authority, Mr. Straus, from the Department of Labor, Dr. Lubin, and I.

Col. Roosevelt stated that the purpose of the meeting was to discuss a tentative housing program whereby \$750,000,000 could be spent quickly for houses of low-cost to serve the needs of income groups who could afford to pay no more than an average of \$20.00 per month for rent. He pointed out that the only alternative to a successful execution of such a program would be a request of Congress within the next few months for a \$2,000,000,000 appropriation for relief. He said that what he had in mind would entail the lending of money by the RFC at low rates of interest, the furnishing of labor at a yearly going wage by WPA, the furnishing of simple standard house plans by Farm Security Administration and the furnishing of land, materials and utilities by the municipalities, as much of the unit as possible to be cut and assembled off the site.

The agencies interested in the private housing program such as FHA and RFC took up a good deal of time pointing out that the proposal, if given

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effect, would interfere materially with their program as private enterprise naturally would hesitate to enter into competition with the Government. Col. Roosevelt replied that the program was an emergency one to be carried on only for a very limited time and that it was designed to demonstrate to the private building industry which was obviously holding back just what could be accomplished quickly in the way of low-cost construction.

Mr. Williams and Col. Harrington of WPA were of the opinion that the Government would have to undertake direct construction of the projects if the program was to be started this winter.

Col. Roosevelt asked representatives of WPA and FSA to prepare a joint report as to the number of houses which could be constructed with \$750,000,000, the number of people who could be employed on such a program, and the need for and approximate cost of such houses. When the report is ready another meeting of the group is to be called to consider it.

Col. Roosevelt explained that he had asked me to sit in because of my familiarity with the public housing laws in the states. Since very little was said on the subject, I did not take an active part in the discussion.

Mr. Howe called me this morning and said that Col. Roosevelt wanted him to tell the FSA and WPA people that he intended to go through with the idea and that their report should be ready not later than Friday. In the meantime, he asked me to prepare a memorandum as to the powers of the RFC, WPA, FSA and the local housing authorities and municipalities to participate in such a program, and the legislation, if any, which would be needed.

EHPJr/met

February 15, 1938

TO THE TREASURER OF THE UNITED STATES:

There is attached hereto copy of press release by the Secretary of the Treasury on Monday, February 14, 1938, announcing a change in the Treasury's policy with respect to sterilization of gold. You will note that, effective January 1, 1938, all gold acquired by the mints and assay offices from whatever source, up to an aggregate of \$100,000,000 for each quarter, will be deposited in the Treasury as free gold, which in turn will be deposited in the gold certificate fund, Board of Governors, Federal Reserve System, in the usual manner.

Pursuant to this policy, you are authorized and directed to so deposit today with the Federal Reserve Bank of New York for credit to your account, the sum of \$48,000,000 in gold certificates and continue to deposit with that bank hereafter until further notice or until the aggregate of \$100,000,000 is reached within each quarter, gold certificates equivalent to the daily accretions of gold in your account in multiples of \$500,000, on the basis of daily Treasury statements. The amount of gold available for deposit at this time is made up as follows:

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Inactive Gold Account

Amount of inactive gold held December 31, 1937 .....	\$1,227,696,322.83	
Deduct:		
Gold purchased by Stabilization Fund to replace gold released for export on January 3, 1938 .....	4,999,999.97	
Total .....	1,222,696,322.86	
Add:		
Aggregate of daily accumulations of small amounts of gold between December 31, 1937 and February 14, 1938 .....	566,528.45	
Amount of inactive gold on Feb. 14, 1938 ...	1,223,262,851.00	
Deduct:		
Gold purchased today by the Stabili- nation Fund from the inactive gold (an amount equivalent to gold sold between December 31, 1937 and February 14, 1938, by the Stabilization Fund to foreign accounts).....	9,093,384.72	
Daily net accretions of small amounts between December 31, 1937 and February 14, 1938. as above .....	566,528.45	9,659,913.17
Inactive gold account February 14, 1938 after adjustment .....	1,213,602,937.83	

Stabilization Fund gold account

Purchases of gold by Stabilization Fund between December 31, 1937 and February 14, 1938:		
From inactive gold account in Treasury .....	33,009,999.00	
From other sources .....	4,880,940.51	
Total purchases .....	38,890,939.51	
Deduct:		
Purchases from inactive fund to replace gold released for export .....	4,999,999.97	
Total net purchases of gold which have today been sold to the Treasury .....	31,890,939.54	

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Total forward .....	31,560,929.64
Sales of gold between December 31, 1937 and February 14, 1938 to foreign accounts which has been replaced today by the purchase of an equivalent amount from the inactive account .....	<u>9,093,384.72</u>
Net reduction in Stabilization Fund gold between December 31, 1937 and February 14, 1938 .....	<u>22,467,544.92</u>
<u>Free gold in working balance</u>	
Gold transactions between December 31, 1937 and February 14, 1938, affecting free gold in working balance of the Treasury:	
Gold certificates (old form) redeemed .....	\$ 1,316,930.00
Federal Reserve notes redeemed and charged against the redemption fund .....	<u>4,080,306.00</u>
Increase in gold in working balance due to these transactions .....	5,297,135.00
Redemption of national bank notes between December 31, 1937 and February 14, 1938 .....	<u>7,124,439.50</u>
Total reduction in free gold due to above transactions .....	<u>12,491,844.50</u>
Free gold February 14, 1938 .....	237,611,491.88
Debit:	
Amount of above transactions .....	<u>12,491,844.50</u>
Total free gold in working balance at close of business February 14, 1938 .....	<u>215,019,647.38</u>

Summary of net transactions in  
Treasurer's account

Gold acquired from inactive gold account .....	9,609,913.17
Gold acquired from Stabilization Fund (net) .....	<u>22,467,544.82</u>
Reduction in free gold in working balance because of redemption of gold certificates, national bank notes, etc. ....	<u>12,491,844.50</u>

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Amount of gold available close of business February 14, 1938 for deposit with Federal Reserve banks .....	44,619,032.49
Gold received and released from various sources February 15, 1938 .....	<u>1,443,047.31</u>
Total available for deposit .....	<u>46,062,079.80</u>

I should be glad if you will furnish me each day a statement of the condition of the gold account at the same time that you submit a letter for approval transferring the free gold to the Federal Reserve Bank of New York.

*DWB*

DWB:HLB

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Monday, February 14, 1938.

Press Service  
No. 12-51

On December 22, 1936, the Secretary of the Treasury stated that, after conferring with the Board of Governors of the Federal Reserve System, he proposed to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department whenever it was deemed advisable and in the public interest to do so.

In pursuance of that policy, the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, today announces that gold acquired by the mints and assay offices after January 1, 1938, will be included in the Inactive Gold Account only to the extent that such acquisitions in any one quarter exceed \$100,000,000. No change is being made in the procedure whereby any gold released by the mints and assay offices is taken from the Inactive Gold Account.

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## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 15, 1938

TO Mr. Cliphant

FROM Mr. Foley

I attended a meeting on housing yesterday afternoon at 4:30 in Col. James Roosevelt's office. In addition to Col. Roosevelt and his assistant James Rowe, there were present from the RFC - Messrs. Jones and Doherty, from FHA - Messrs. McDonald, McGhee and Ferguson, from Farm Security Administration - Messrs. Snyder and Baldwin, from WPA - Messrs. Williams and Harrington, from the United States Housing Authority, Mr. Straus, from the Department of Labor, Dr. Lubin, and I.

Col. Roosevelt stated that the purpose of the meeting was to discuss a tentative housing program whereby \$750,000,000 could be spent quickly for houses of low-cost to serve the needs of income groups who could afford to pay no more than an average of \$20.00 per month for rent. He pointed out that the only alternative to a successful execution of such a program would be a request of Congress within the next few months for a \$2,000,000,000 appropriation for relief. He said that what he had in mind would entail the lending of money by the RFC at low rates of interest, the furnishing of labor at a yearly going wage by WPA, the furnishing of simple standard house plans by Farm Security Administration and the furnishing of land, materials and utilities by the municipalities, as much of the unit as possible to be cut and assembled off the site.

The agencies interested in the private housing program such as FBA and RFC took up a good deal of time pointing out that the proposal, if given

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effect, would interfere materially with their program as private enterprise naturally would hesitate to enter into competition with the Government. Col. Roosevelt replied that the program was an emergency one to be carried on only for a very limited time and that it was designed to demonstrate to the private building industry which was obviously holding back just what could be accomplished quickly in the way of low-cost construction.

Mr. Williams and Col. Harrington of WPA were of the opinion that the Government would have to undertake direct construction of the projects if the program was to be started this winter.

Col. Roosevelt asked representatives of WPA and FSA to prepare a joint report as to the number of houses which could be constructed with \$750,000,000, the number of people who could be employed on such a program, and the need for and approximate cost of such houses. When the report is ready another meeting of the group is to be called to consider it.

Col. Roosevelt explained that he had asked me to sit in because of my familiarity with the public housing laws in the states. Since very little was said on the subject, I did not take an active part in the discussion.

Mr. Rowe called me this morning and said that Col. Roosevelt wanted him to tell the FSA and WPA people that he intended to go through with the idea and that their report should be ready not later than Friday. In the meantime, he asked me to prepare a memorandum as to the powers of the RFC, WPA, FSA and the local housing authorities and municipalities to participate in such a program, and the legislation, if any, which would be needed.

F. W. H.

MEMORANDUM OF THE DAY'S ACTIVITIES

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February 15, 1938

To: The Secretary  
From: Mr. Magill

1. Reorganization of the Bureau

Mr. Graves is proceeding to Los Angeles on Thursday to take charge of setting up the new Settlement Unit there. He will also look into the organization of the local Internal Revenue agent's office which will thereafter be studied intensively by Mr. Herbert Wood, one of Mr. Graves' assistants. It is our hope that both the agent's office and the Settlement Unit can be organized as models for similar agencies in other parts of the country.

Mr. Graves thinks that we will not have an adequate factual basis to judge the efficiency of the Los Angeles plan before next July. His plan would then be to extend the jurisdiction of the Los Angeles unit over the Pacific Coast districts; and about one year from now to set up a similar organization in some other part of the country. I should like to proceed more rapidly but of course we must wait long enough to make sure that the new organization is an improvement.

Graves does not plan any far-reaching changes in the settlement organizations here in Washington, since he expects to accomplish the desired improvements through transferring the personnel here to offices in the field. I have suggested that he reconsider this question, since it will be several years before the decentralization plan can be fully worked out.

2. Cooperation with Canada

The Canadian Commissioner of Internal Revenue, Mr. Elliott, is in the city for informal conferences regarding administrative cooperation in income tax enforcement. It is contemplated that an addendum to the Canadian Treaty ratified last summer will be negotiated in due course. In the meantime, the Canadian authorities have cooperated satisfactorily in setting up machinery to prevent tax avoidance.

3. Tax bill

I have asked Mr. Shoup to help me coordinate our ideas of basic improvements in the pending tax bill which might be made when it reaches the Finance Committee. There are several important changes in the interests of greater equity upon which all of us would agree, but which would cause a loss of revenue that, under present instructions, would have to be made up in other directions. If the legislative situation develops in such a way that an increase in income or estate tax rates is a possibility, we will have on hand a list of suitable recommendations for improving the structure of the revenue laws.

A.M.

February 15, 1938

3 p. m.

Present:

Dr. Feis  
 Mr. Livesey  
 Mr. Taylor  
 Mr. Oliphant  
 Mr. Bell  
 Mr. Hefflefinger (from Bell's office)  
 Dr. White

HM, Jr: I have not read this memorandum from Mr. Hull that came in this morning. Did you (Feis) write it?

Dr. Feis: Mr. Livesey is the chief of that.

Mr. Bell: It's an expansion of the one of January 10th, isn't it Fred?

Mr. Livesey: Yes and we brought in a couple of ideas that the Huns wanted emphasized.

HM, Jr: Should I read it before we start?

Mr. Livesey: It's a bit lengthy.

HM, Jr: Will we develop it as we go along?

Mr. Livesey: I think so.

HM, Jr: Let me see. Who else do we need?

Mr. Bell: You were to get a memorandum from White.

HM, Jr: Yes.

Mr. Bell: I don't know whether Wayne has it or not. I suppose it's largely on the economic end.

HM, Jr: Well, we will get it all. (To telephone operator: Tell Dr. White (he's in Mr. Taylor's office) to get the memorandum on Hungary and bring it in here,

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please.)

All right. Now, what I say is this. To bring you gentlemen up to date, in talking to the President, he is very much interested and the way he put it, he says, 'Bring me in a joint recommendation from the two Departments.' Then he asked for a complete breakdown of debts by pre-Armistice and post-Armistice, so he could familiarize himself with it, and then also apply what we will call the 'Hungarian formula' to the other debts. You see? And that we have done here, I take it. Haven't we?

Mr. Bell: Yes.

HM, Jr: Then the interesting thing, he said, "How would this be regarded with respect to Finland?" I said, 'We ought to give them a refund.' He said 'That would be marvelous. That would be a wonderful gesture. I would love to do that. That would be a most wonderful gesture to give Finland a refund.' So we must not forget that because he will ask that question: How would you handle Finland? Would you remember that? If he asked, 'What would she be entitled to?', see? But he is very much interested.

And then when Mr. Pelenyi was in, this morning, he wanted to know about going to Cuba; didn't want to rush us. So I said I hoped we would have some kind of an answer for him before the President left Friday night.

That brings you gentlemen up to date.

Dr. Feis: Fine!

HM, Jr: Now, Mr. Bell.

Mr. Bell: Well, I have the statement that you asked for, a breakdown of all of the debts.

HM, Jr: Anybody wants to look over my shoulder, they are welcome.

Mr. Bell: Over in this column represents the funded indebtedness of all those countries and they are arranged chronologically as to the time when settlement was made and here is the unfunded Armenia, Nicaragua and Russia. Anybody can have the Armenia debt, can't they, Fred?

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Mr. Livesey: I think so.

Mr. Bell: This first line shows you the date of the funding agreement and the second line, date indebtedness was incurred. Next line is the original indebtedness split into pre-Armistice and post-Armistice. The only pre-Armistice was cash advanced.

HM, Jr: Take Finland.

Mr. Bell: Finland is the first one that signed a debt agreement.

HM, Jr: Where is the pre-Armistice?

Mr. Bell: None. All post and consisted of relief supplies.

HM, Jr: All right. Let's take Great Britain.

Mr. Bell: Great Britain: \$3,696,000,000 pre-Armistice and \$581,000,000 post-Armistice. They combined them and treated them the same. The only one you treated different was Belgium and those are separate.

HM, Jr: Swell.

Mr. Bell: The only other debt we treated separately was two debts of Greece and that was really not pre-Armistice but this was more or less a commercial loan to bring it up equal to what Great Britain had done under the Tripartite Agreement of February 1918.

HM, Jr: Where do you people show the so-called Hungarian thing?

Mr. Bell: That's a separate statement. This gives you the original indebtedness and that's pre-Armistice, the amount without any interest involved at all, and that's because you total the amount received on account both of principal and interest and this gives you the percentage

(Dr. White came in.)

Dr. White: This is in rough form.

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HM, Jr: That's all right. And I think you had better stick on the other thing.

Dr. White: Anything you say.

HM, Jr: Where are you on the other thing?

Dr. White: We are at sea, but making headway.

HM, Jr: This is going to last about an hour. Would you want to sit in on this?

Dr. White: I don't think there are any ideas that I have here that you probably already haven't.

HM, Jr: I would like for you to sit here with me for an hour if it is not going to stall the other meeting.

Dr. White: I don't think it is going to stall it, but I can be useful there and I am not sure that I can be here, but if you will let me stay here ten minutes I think I can judge.

HM, Jr: Sit down, Harry.

Mr. Bell: This is the original indebtedness of all countries that have refunded their debts without any interest involved. This is total payments received on account of both principal and interest. That's percentage of total original payments and here's original indebtedness less payments. That's net amount. That's amount due, including accrued and unpaid interest up to January 31. Here are the annual annuities applied to these funds on the basis of the Hungary proposal.

HM, Jr: Swell! Let me just read what White has here and then anybody can ask me questions.

Dr. White: That's a rough draft.

HM, Jr: (Hurriedly read to himself White's memo.)

Harry, you just stay here a couple of minutes and I am not going to run very long.

Well, I have got the thing. Does anybody want to see these (Bell's charts). We will have it photostated

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and sent over to you tonight. You have never had anything like it.

Dr. Feis: Got the same results in about one-tenth the space. No, seriously, we would like to have a copy.

HM, Jr: Seriously, we would like to have the same results in one-tenth the space! Well, anyway, I would like Mr. Feis and Mr. Livesey to take the affirmative -- why they think -- let's talk about generalities -- why, looking at the world and the dangerous situation over there, why they think we should take this, accept this. Would you mind doing it that way?

Dr. Feis: Briefly, any sign of a disposition to pay debts I believe should be encouraged. A disposition to pay an inter-Governmental debt, without making it the subject of a bargain for, say, some other quid pro quo, is particularly notable.

HM, Jr: You mean you are in favor of doing it detached from any other agreement?

Dr. Feis: Oh, yes! And the fact that Hungary are ready to do it detached from any other strings is unusual, under present time and circumstances. I think that considering the terms we gave to Austria on similar relief credits; considering the whole group of external obligations that Hungary has to deal with; considering the fact that the formula would not present too serious problems, even if it had to be applied in other debt settlements, which by no means follows; considering all those things, it's a reasonable offer, and that the transaction will also have a generally stimulating effect -- I should expect it -- for one thing, if it were timed properly it would stimulate the possibility of debt arrangements with some other larger creditors. So, judged on its own merits and judged with reference to the general situation, I definitely think we ought to accept.

HM, Jr: Do you mind if -- in the first place, the question was asked, 'What other debts have Hungary got?' Have you asked for those?

Mr. Livesey: We have not had a chance to go into those very deeply. In this memorandum of mine I have a

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statement in general terms.

HM, Jr: Is this the last one?

Mr. Livesey: Yes, and the Hungarians collaborated in this statement; boiled it down to something reasonably small. It is not a statistical presentation.

Mr. Bell: You are asking for the other debts or other foreign debts?

HM, Jr: No, just Hungary's Government debts.

Mr. Bell: They had debts similar to ours, but I understand they have been paid off. Their debts outstanding at the present time -- the nearest thing we can get to it is the annual report of the Foreign Bondholders Protective Council, which just came out, which shows quite a list they have paid off, other Governments.

Mr. Hefflefinger: They have paid off their war debt, which was similar to the debt which they owed us. Amounted to about \$1,150,000.

HM, Jr: But they owe American banks.

Mr. Bell: Yes. They owe American banks, American investors. I don't know about -- I can't separate these. They were League loans floated in this country.

Mr. Livesey: Governmental loan. I haven't gone through the last. The long loan is the League loan which definitely has priority over this loan and that is the only loan they have floated over here. It was dollar loan and offered to other countries as well. For the rest of the world they have pre-war obligations of their own -- what they were allocated when the Austria-Hungary Empire split up, and a great number of different obligations which they were given responsibility for at the end of the war, all bound together and handled through the Case Commune, an organization in Paris terrifically involved in a series of obligations. I don't know whether they are paying those off. Probably they are paying since they are trying to pay issues which do not pass through the Case Commune, but on some of the things they pay only a percentage of the total to be paid to the public, percentage might be 18% of the service, and such and such. They have not done much in post-war issues of their own. I think the League

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loan .....

HM, Jr: Now, may I interrupt you.

Let's say that I would say I recommend accepting this. Do we have any moral obligations towards anybody to keep us from accepting this?

Mr. Bell: No.

Mr. Livesey: No.

HM, Jr: Then why worry what they owe? I am just asking. I tried to get Win Riefler to come down because after all -- he could not come. I did not know that the United States had any moral obligation that we should not accept it or that we had given our word to anybody. Huh?

Dr. Feis: We have no moral obligation. The question would arise, however, as to whether there would be possible criticism on the grounds that the offer being made to us compared unfavorably with the terms with which they were discharging other indebtedness. We have talked that enough with the Hungarians and I believe you have a memorandum on the way that disposes of that matter rather extensively.

In summary, I get the impression that no human mind can make too close a comparison between the treatment accorded the various obligations, but taken by and large the same type of treatment they have given their other creditors on their League loan affords an example. What they have done has been to cut down .....

Mr. Bell: \$7½ millions was the original.

Dr. Feis: \$7½ millions cut to .....

Mr. Livesey: They cut it 40%.

Dr. Feis: \$7½ millions cut 40%, and extended the amortization scale, lengthened it away out from the original terms. In their treatment of short-term bankers' credits you get into a perfect maze because those have been handled by deposit of blocked pengos and the banks have shuffled off those blocked pengos with huge variety of rates and I don't think there is any way of computing what percent of

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their principal they rescued. I should doubt whether it would be substantial. Well, in a sense, since the American Government would be getting the whole of its principle, it would be pretty hard to establish that the bankers had done much better. At any rate, when you get into the maze of their European obligations, you get into a perfectly terrific situation and I would be prepared to discover, on close-up examination, that at one point or another some group, might possibly be a French group that was given new money, was getting somewhat better than this. I would also be prepared to discover that they could not get rid of their other debts on terms more favorable to them. That that whole comparison would be built up, and you have a part of it in the memorandum which is on its way over.

HM, Jr: Both Mr. Bell and I, when we went over it Sunday -- I was talking for myself -- were perfectly amazed that you did not seem to treat any two countries alike, so when it gets down to the question of being consistent there is no trouble about not being compared with what previous people did, because no two countries seemed to have been treated alike. The fellow who paid first got hit the hardest, every incentive to wait as long as possible. So I am not worried about that. This is the main thing. The \$40,000 a year is a trifle compared to the possible impact...

Dr. Feis: Exactly!

HM, Jr: In our relationship to Great Britain.

Dr. Feis: Exactly.

HM, Jr: And that this is what interests me the most.

Dr. Feis: Sure.

HM, Jr: Now, I want a gentlemen's agreement with the State Department and that is this: that if the Treasury -- and I lay great stress on this -- if the Treasury would recommend that we accept this, treating it, as you pointed out earlier, entirely separate from any other negotiations, I would like to have a gentlemen's agreement with you people that after we do this thing if England should say 'We would like to take this up with the Treasury' that you give us a free hand irrespective of anything else. Now I think you people want to cross that bridge because I don't want to find

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myself in the position that England might come along with something as good as this, see, and then you people say, 'No, you can't accept it because they won't go along with us on something else.' Is that fair, to ask that?

Dr. Feis: Yes, but .....

HM, Jr: I don't want to find myself in the position that from their angle you look at it differently. What England offered us would be fair. I am on the spot because I can't accept it because I have to play ball with the State Department and say, 'No, I can't accept this because the State Department does not want me to.'

Dr. Feis: Subject, necessarily, to confirmation by Mr. Hull, I should expect him to say that any debt offer of Great Britain that was acceptable to the Treasury of the United States would be acceptable to the State Department without reference to any other business that we may have up with Great Britain.

HM, Jr: Well, that's all right. That would apply to any other country?

Dr. Feis: Yes. And his whole policy has been in the opposite direction, to try to prepare the way for discussions on the debt question with Great Britain most effectively by a trade agreement, but the way having been prepared to keep the treatment of debts quite independent of any other issue, I have never heard the slightest divergence from that attitude.

HM, Jr: You can see the importance of fixing that principle.

Dr. Feis: Oh, quite wholly so, but I don't see any problem.

HM, Jr: Well, it has never come up, Herbert, because this is the first time since I have been Secretary of the Treasury, a little over four years, that we have ever had an offer.

Dr. Feis: I quite see the importance.

HM, Jr: And \$40,000 is not worth while to put Mr. Hull in the position that either he or I might be

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embarrassed. That's all. It could be just as embarrassing to him because he might find himself in this position that Great Britain would say, 'We made you an offer, a debt offer; you won't take that and you are holding us up with your trade treaty.'

Dr. Feis: I can see that you would want affirmation, but I don't think you will have any trouble getting it because his policy is the same as yours.

HM, Jr.: I know how close to his heart the British trade treaty is. Naturally, it would be the climax of his being Secretary of State, the climax of his career. And I wouldn't think the little less of him if he said 'No, that comes first,' and inasmuch as you people have been pushing us on this, I don't want any possibility of a misunderstanding between Mr. Hull and myself.

Dr. Feis: Quite.

HM, Jr.: You (Dr. White) seem to be going this like. (Shaking head negatively.)

Dr. White: I have only one thought in mind, which you probably have considered. We agree that this amount is negligible. I don't think you can dispose of it on the grounds that it won't interfere with any subsequent settlement, on the grounds that anything the State Department might do. I think it's beyond their control. I believe that this establishes a principle, a criterion which will be a major factor in any subsequent settlement and, therefore, it appears to me that this thing should be completely ignored as such and the crucial problem should be the careful consideration as to whether or not this principle which you are establishing here is the principle of debt settlement that you would want with England; whether you think you could get a better one; whether this is the best you could get, and whether this would meet with political acceptance. In other words, it seems to me that the issue that ought to be decided now is liberal debt settlement and not this one. I don't see the hurry.

HM, Jr.: Well, I think there is a hurry, for this reason. I think that -- Mr. Feis can correct me or confirm what I say -- I see Hungary in one of the key positions in Central Europe. I think with what we have been able to do here with France has certainly been most helpful in keeping France going. No question about it. And no one is

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going to underestimate the importance of keeping France going, certainly under her present type of Government. Now if she is in one position and Hungary is in another, if at this time we could step in and help Hungary so that -- she is at the bridge there of middle Europe, as between the Balkans, Poland and Austria -- that we could strengthen her hand and as a result of this she wanted some loans from private sources and could get them, I think with France on one hand and Hungary on the other, I think it would be most helpful at this time towards the peace of Europe. Now, that's what I am thinking of.

Dr. White: I was just thinking of days.

HM, Jr: I am thinking of days. It's just a matter of days, and until we can do the British thing it might be another couple of years.

Mr. Taylor: I don't think, whatever you may do later, it's this principle plus uniform treatment for anybody else that comes in and does want to negotiate that can be determined at this time. I think it is necessary to determine what you might describe as uniform treatment.

HM, Jr: We could sit here around this table and argue for two years and discuss what Great Britain could pay and might miss it by a mile. These fellows are ready to do this. When I read what the other people have done -- I did not realize it when I talked to Herbert Feis -- we have accepted the principle of no interest. We have accepted that. I did not realize it before. And knowing how jittery the whole world is, if we could do something at this time to settle one country, then maybe lend them a little money, that's why I am trying to rush this thing through and get it settled by Friday night.

Dr. White: You are sure you are not exaggerating the importance of this settlement at this time?

HM, Jr: - I don't think I can.

Dr. White: \$40,000 and what they may be able to borrow -- unless there is something else in the picture that I don't know about.

HM, Jr: I think anything the United States does to show its interest and sympathy towards a Democratic country in

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Europe at this time can't be over-estimated at this time.

Dr. White: I will grant you the general principle...

Dr. Feis: That's all important, but I think Mr. White's statement greatly exaggerated the problem. Leaving out of the question that if we could get the Hungarian terms from Great Britain, of course that would be excellent -- far more than I anticipate or anticipate we will ever get from Great Britain unless the dollar greatly depreciates -- leaving that out of the question, you have a debt arising out of the purchase of a couple thousands of tons of flour after the Armistice, purely relief but closely allied to the Austrian debt already settled without interest. Already one subordinated to the International League loan of that type, special relief character, and I think it would not be difficult at all in the presentation of this to Congress and the public to treat it as an operation more or less sui generis, of its own type, and not appear to be committing yourself to any principle of settlement that you inevitable have to follow in your major debt settlement any more than you can be bound by the Hungarians. We will conclude again if we could get these terms from Great Britain, the Treasury could consider itself obviously lucky.

Dr. White: Possibly yes; possibly no.

Dr. Feis: The difficulty with these Hungarian terms, on the basis of general settlement, is that they would be quite impartial, not harsh, for example, like those for Italy.

HM, Jr: And France. I have done some homework on this.

Dr. Feis: The last offer in 1934 or 1935 was 10% "maybe".

Mr. Livesey: Double hedges. You could not see through the hedges.

HM, Jr: The way I feel about this thing, I think at this time it is most opportune, particularly with the British announcing that they are going to lend abroad, I think that they having made that statement and everything that I hear about the Hungarians -- golly! those people have just starved themselves in order to pay their debts and balance their budget and they are just hanging on by

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their eye teeth to get through and if they don't deserve encouragement, then nobody does. Now, I did not get this from Pelenyi, because I have not talked to him. I thought Anne O'Hare McCormack's two letters were interesting from Budapest.

I am ready, Dan. I don't know how you and the rest of you feel, but I am ready to write the letter right now.

Mr. Taylor: I have only one point to make. I think this is useful comment. I am ready to do it too, but I want to make this comment. You had all these conversations in the beginning about ability to pay. All right. Now, do we wish to redetermine ability to pay or will we take those original estimates of the ability to pay as saying, All right; we will move from there and we are not going to try to establish the individual ability to pay of any country, so you can give them uniform treatment.

HM, Jr: I can answer that. If I was going into that -- as far as I am concerned, what these people did before was so inconsistent and so hard to understand and their studies as to ability to pay, of Italy, for example, are so full of sleight-of-hand and everything else -- as far as I am concerned, I would do just like I did on Mr. Feis' London Economic Conference. I say I was not in the Treasury. I know nothing about it. Don't know what Mr. Feis did over there. Nobody in the Treasury knows what was done over there in debt settlement.

Dr. White: If you have made up your mind that is the principle on which you want to settle debts .....

HM, Jr: I would say anything already before me is "out the window". I don't know what they did and I am not going to study it.

Mr. Taylor: We are starting over again and we have not investigated the ability of Hungary to pay in connection with this, but we do take it from -- all right, here's an amount which they owed and we are establishing a principle of giving them credit for everything that they have paid in the past on what they owed. Therefore, there must be something in our mind which says that that original amount was O. K. Perfectly easy to establish what their original amount was. This does not bother me at all. I think we

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ought to have that clearly in our minds that's what we are doing. That we are saying the original amount was the correct amount.

Dr. Feis: Not in this case, Wayne. It's a little bit wrong. They are paying the original amount borrowed, not an amount gauged by capacity to pay. All they did in your original settlement, they took the original amount borrowed, added a little for interest, made a new total and spread it out over a period of years.

Mr. Taylor: But you are willing to go back to the original amount without arguing.

Dr. Feis: That's what they borrowed.

Mr. Taylor: Now, are you willing to do the same thing -- in other words, go back to the original amount and then apply this principle?

Dr. Feis: Again, that is a wrong conclusion. The original amount is the amount they borrowed.

Dr. White: But his point is you may want to have another principle, which is, the original amount is not the amount borrowed.

Mr. Bell: In other words, you think you might have to establish the same amount now, under the debt agreement as it stands today.

Mr. Taylor: And then apply this principle and make it retroactive.

Dr. Feis: I treat this more or less as a thing by itself.

HM, Jr: He could go a step further if, for instance, subsequently, for Finland, if we find subsequently we have to make a scale down on the original amount, will we give Austria the benefit. That's all.

Dr. Taylor: You mean would we give Finland.

HM, Jr: Let's say we do this for Hungary and then we have to give Finland the benefit and if somebody comes alone and we give them better treatment ....

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Mr. Taylor: I maintain you could give anybody better treatment if you apply the principle.

Mr. Bell: Minimum treatment.

Mr. Taylor: Yes; minimum, uniform and retroactive.

Dr. Feis: Not a single one would hold in practice.

Mr. Livesey: The President's message on the debts was we would stand by the principle; we would treat these countries separately.

Mr. Oliphant: I would take up each case as it comes up and try to do the sensible thing in each case, realizing there are diverse and multiple differences, and if this looks like a wise and sensible thing to do, I would do it.

Mr. Taylor: Then you can't give Finland a refund.

Mr. Oliphant: I would not commit myself to refund.

Dr. Feis: On the refund treatment and most favored nation, please reserve your judgment because if you listen long enough I think you will.

Dr. White: I think Herman's statement is excellent if it were not for the history of the past few years. This is a resumption of the whole debt problem. What you said had a certain relevance some years ago, but now you are beginning a sort of new regime, new principle of debt settlement. This may be the first step in a series and I don't think you can ignore the principles on which this was established and say you will consider each one in turn, because if it is a bargaining principle you are, in a sense restricting your bargaining power. If it is, I think you are making it a little more difficult to establish another principle when you have already registered this, so that the time factor reduces somewhat the potency of what you state.

Mr. Oliphant: Well, I tried to include all circumstances including what has gone before. I feel sure we would find it being theoretical rather than being sagacious.

HM, Jr: I want, for a moment, to digress and -- Dan, put yourself in the position of the Director of the Budget. Take a look at this. (Carbon copy of memorandum from State Department.) Can't you give them enough money so I can get

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better than a fourth carbon. Allow them \$50.00 so I could get a readable copy.

Mr. Bell: That's probably why they did that.

HM, Jr: Now, look, gentlemen. This is what I say and I am willing to play this on just what I call a hunch or instinct or common sense, and everything tells me at this time not to fool around with this thing, but to take it. That's the way I feel. I think that this whole thing -- I do think it is a matter of days on that. And I would like to write a letter now, take the time, you people, to draft a letter to the President so that you could take a copy of it back to Mr. Hull and say this is what I am ready to sign. All right, Harry, you can be excused. Do you (Mr. Taylor) want to go back too? Wayne, you are not opposed to this?

Mr. Taylor: Not a bit. I think you can use this framework. If you want to go any place you can go there.

HM, Jr: The way I feel, we often sit around here for months (I am not being personal) and try to get the ultra-ultra refinement of everything and then wait too long. I am terrifically impressed with the urgency of doing the thing now.

Mr. Taylor: That does not bother me at all, but I think you ....

HM, Jr: I don't know how the President feels and I am more than pleased to take this thing up on the Hill myself and sound up the Committees. No one has taken their pulse in five or six years. How long since anybody has been up on the Hill on one of these things?

Mr. Bell: 1929 was the last.

Dr. Feis: But if you expect to get in a jam on that, which I should not think you would, then you describe this as a loan, minor flour purchase, made back in 1924 having no relation to your major war financing.

HM, Jr: You say that's the way to get into a jam?

Dr. Feis: No. I say if you did get into an unexpected jam.

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HM, Jr: Fortunately, the Committees that this goes before I have the friendliest relations with. If I have any standing with any Committees on the Hill, I have with these. So I can find out very quickly.

Now, Herbert, let's write a letter to the President for Mr. Hull and myself to sign. How would you word it?

Mr. Bell: Herbert, what worries me about the argument you put up, if we accept this settlement on this basis, it's the best settlement we can accept because you brought into it the question of relief, that this was a relief obligation and, therefore, we ought to be very liberal, whereas the other debts represent or are closely allied to commercial debts and we can't expect anything as good as this. Now, I don't think you can get settlement as good as this out of the French, which is approximately \$97,000,000.

Dr. Feis: Nor do I. If we ever reach a settlement with France we should have to take less than \$97,000,000 a year. That's the only way I could answer.

Mr. Bell: I think your argument that this is a relief debt goes out the window.

Dr. Feis: I don't think you would be estopped from giving any other countries more favorable terms because that's why Hungary brought a clause in there that if we gave any more favorable terms to any other country. I talked them out of it because I thought it would complicate every one of your negotiations if you had to take that into account.

HM, Jr: And that's why I haven't got the nerve to put the screws on these fellows knowing that if I could get as good, as favorable, a settlement out of France I would be getting something marvelous. Here I sit and put the screws on poor old Hungary, taking the argument that some day I want to settle the French debt. We will get a better debt settlement out of Hungary knowing all the time that if I take this offer, the French can't approach that. The only one that could approach it would be England and if we got as good out of England we would be getting something very fine.

Mr. Oliphant: That's the way to put it to the

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Committee. Hungary comes in and -- voluntary action -- and offers us something better than we can get out of any other country.

Dr. Feis: I take it you would say that only in Executive session.

HM, Jr: Now, before we start this letter, Mr. Bell says there is some misstatement in the Aide Memoire. I don't know how much importance you attach to this. Certain references they make to other countries. But I think Bell has had Hefflefinger to take care of this thing.

Dr. Feis: It might save some time in drafting the President's letter -- would you want a few of us to prepare a letter for you by tomorrow?

Mr. Olichant: I would like to have your rough thought. I would like to listen to you block it out the first time.

HM, Jr: To me the letter is very simple. I would simply say, 'President of the United States. Dear Sir: After giving careful consideration to the offer of the Hungarian Government to settle their debt, as outlined in the Aide Memoire attached hereto, we feel that under the circumstances this is a fair offer and we recommend that you accept it.'

Now, you can refine that and that's all I would say.

Dr. Feis: And make your other explanations orally to the President.

HM, Jr: Oh, yes! Something along that line and I am willing to sign it. And the President asked for a joint memorandum from Mr. Hull and myself in writing. Now he's entitled to it and that's why I do it and the rest -- the questions and answers -- are orally.

Mr. Bell: Nothing can be done on this until you have your conferences on the Hill. The State Department can't reply to the Hungarian Government.

HM, Jr: No. The President says to me, 'I want a joint statement from Mr. Hull and you as to whether or

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not you recommend it to me (the President). And then, I take it, the President will sit down and say, 'I accept your recommendation and please take the necessary steps to comply with the law by consulting with Congress,' or whatever the law says, and so on.

Dr. Feis: It comes to me that the Secretary, too, is probably leaving Friday, so that is another reason for trying to expedite. He's going out to Des Moines for three days.

HM, Jr: No reason why this can't be done this week.

Mr. Cliphant: Unless there is something special in somebody's mind, I don't think it necessary to put anything more in the letter.

Mr. Liversay: You might add 'and authorize the Secretary of the Treasury to reduce it to more definite terms with a view to negotiating it with the Hungarian Government.'

H<sup>rd</sup> Jr: Read it again, Miss Chauncey, as you now have it.

Mr. Liversay: (After listening to the reading) Make it 'Authorize the Secretary of the Treasury to negotiate on this basis the terms of a formal agreement for submission to the Congress.'

HM, Jr: How does it read now, Miss Chauncey?

Miss Chauncey: "After giving careful consideration to the offer of the Hungarian Government to settle their debt, as outlined in the Aide Memoire attached hereto, we feel that under the circumstances this is a fair offer and we recommend that you accept it and authorize the Secretary of the Treasury to negotiate on this basis the terms of a formal agreement for submission to the Congress."

HM, Jr: All right, Miss Chauncey, if you will type that up.

And you people work on it and send me over something tomorrow morning and I will sign it and get Mr. Hull to sign it.

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Dr. Feis: I think it ought to be on Treasury paper. We will take it over and get the Secretary's signature.

Before we send it back, do you want us to inquire if the Secretary is prepared to go ahead.

HM, Jr: If that comes over signed, I will take it that it meets with the Secretary's approval. When that comes back -- and what I am telling McIntyre (I am going to take this chance) that Mr. Hull and I are ready to come over at 2 o'clock tomorrow.

Dr. Feis: I may find that the Secretary is going to turn tables and before he commits himself to this thing he will ask for a joint meeting with the Treasury. 'Can I have the Treasury over here to tell me this is all right?' I don't think he will.

HM, Jr: No. He talked to me. He said, 'Get together with Feis,' and although he did not say it, the implication was that he would take what you recommended. I could not bind you, but what I got from his conversation -- because, my heavens! he has been trying to throw this on me now, for how long?

Dr. Feis: I don't anticipate any trouble.

HM, Jr: I should say, in view of past history, in trying to wish this on me, I think we have done a fine job.

Dr. Feis: We will put it before Mr. Hull.

HM, Jr: Will you do one thing for me when you get back. Tell Butterworth I would like him to write me a letter, two copies, of just what transpired over the weekend and his various conversations with the British Treasury. That was all on the telephone. I think you ought to have a record. I want it official.

Mr. Bell: I think we ought to have a memorandum on Hungary's debts, all its ramifications, pre-war. I don't think you can go before a Committee in Congress without that.

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DRAFT)

My dear Mr. President:

After giving careful consideration to the offer of the Hungarian Government to settle their debt, as outlined in the Aide Memoire attached hereto, we feel that under the circumstances this is a fair offer and we recommend that you accept it and authorize the Secretary of the Treasury to negotiate on this basis the terms of a formal agreement for submission to the Congress.

Faithfully yours,



Country	Original Indebtedness (Principal)	Total amounts received (Principal and Interest)	Percentage of payments re- ceived to original indebtedness	Original in- debtedness less all payments received	Total indebted- ness as of Jan. 31, 1938 (Funded princi- pal and accrued and unpaid in- terest)	Differences be- tween present in- debtedness and indebtedness adjusted to Hungarian proposal	Annual annuity on Hungarian basis (30 years)	Payments due under funding and moratorium agreements (Calendar Year 1937)	Approximate average an- nual payments for next 30 years under funding and moratorium agreements
	(Col. 1)	(Col. 2)	(Col. 3) (2 + 1)	(Col. 4) (1 - 2)	(Col. 5)	(Col. 6) (5 - 4)	(Col. 7)	(Col. 8)	(Col. 9)
Austria .....	\$ 24,055,708.92	\$ 222,666.00	3.0	\$ 23,193,040.92	\$ 25,000,480.92	\$ 2,812,440.07	\$ 775,101.36	\$ 484,660.23	\$ 692,000
Belgium .....	379,087,200.43	52,191,273.24	15.0	326,895,927.19	440,576,260.97	113,680,433.78	10,296,250.91	15,684,907.78	12,900,000
Czechoslovakia ....	91,879,671.03	20,134,092.26	21.9	71,745,578.77	158,558,603.61	93,913,024.84	2,761,512.29	2,365,625.56	8,100,000
Estonia .....	13,999,145.60	1,245,432.07	8.9	12,750,713.53	18,039,715.15	5,289,004.60	455,023.78	776,700.98	697,000
Finland .....	8,281,926.17	8,101,034.77	61.6	3,180,891.40	8,350,461.00	3,169,569.60	106,029.71	399,286.00	303,000
France .....	3,404,818,945.01	466,073,891.00	14.3	2,918,745,054.01	4,121,120,502.96	1,202,377,448.95	97,351,425.13	107,620,832.24	124,500,000
Great Britain .....	4,277,000,000.00	2,024,948,817.09	47.3	2,252,151,182.91	2,263,719,066.73	3,011,567,885.82	78,071,706.10	309,341,370.10	190,000,000
Greece .....	27,167,000.00	3,778,364.01	13.9	23,388,635.99	33,658,484.24	10,479,848.25	779,650.53	1,417,114.78	540,000
Hungary .....	1,685,835.61	478,894.48	28.4	1,207,541.13	2,315,268.35	1,108,727.22	40,251.37	88,651.32	79,000
Italy .....	1,648,034,000.90	100,829,860.16	6.1	1,547,204,170.74	2,019,207,085.68	472,702,884.94	51,873,472.36	18,483,156.75	22,000,000
Latvia .....	5,132,807.14	761,649.07	14.8	4,370,738.07	8,300,866.27	3,930,128.20	145,691.27	323,466.32	290,000
Lithuania .....	4,981,628.03	1,237,956.58	24.8	3,743,671.45	7,429,214.65	3,685,543.20	134,786.05	286,999.66	260,000
Poland .....	159,666,970.39	22,645,297.55	14.2	137,020,674.84	252,139,819.66	115,139,144.82	4,567,365.72	9,522,079.62	8,650,000
Romania .....	37,911,122.92	4,791,007.23	12.6	33,120,115.70	63,971,892.36	30,851,746.66	1,104,004.06	1,997,500.16	2,253,000
Slovakia .....	51,756,486.55	2,568,771.69	5.0	49,187,714.86	61,663,215.63	12,475,500.77	1,628,990.20	413,515.63	1,409,000
<b>TOT. I .....</b>	<b>10,138,460,010.70</b>	<b>2,727,574,349.18</b>	<b>26.9</b>	<b>7,407,985,661.51</b>	<b>12,493,067,660.66</b>	<b>5,085,301,999.38</b>	<b>246,729,122.02</b>	<b>347,424,455.90</b>	<b>377,749,000</b>

FORM 100-1000  
Approved by the Dept. of State  
Technical Series, 1938.



DEPARTMENT OF STATE  
WASHINGTON

February 14, 1938

My dear Mr. Secretary:

I have received your letter of February 10 and note that you are giving the Hungarian Minister's Aide Mémoire on Hungary's relief debt most careful study and will seek to discuss it with the President within the next few days. I enclose as of possible interest a copy of a memorandum prepared in this Department under date of February 8 on the Hungarian proposal.

Sincerely yours,

*6*  
*Cordell Hull*

Enclosure:

Copy of memorandum  
of February 8, 1938.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

February 8, 1938.

THE HUNGARIAN DEBT PROPOSAL

The indebtedness of the Government of Hungary to the Government of the United States is properly designated as the Hungarian relief debt. It originated in the sale of flour to the Hungarian Government under the Act of March 30, 1920, which authorized the United States Grain Corporation to sell flour in its possession on credit to relieve the populations of countries suffering for the want of food.

The original obligation acquired May 29, 1920, was a single bond in the principal amount of \$1,686,835.61. With interest accrued at the rate of 4 1/4 percent per annum in the total amount of \$253,000, the obligation was funded as of December 15, 1923, by agreement made April 25, 1924, into \$1,939,000 principal amount of bonds maturing serially on each December 15 for 63 years beginning December 15, 1924, and ending December 15, 1985. The bonds bear interest payable semi-annually at 3 percent until December 15, 1933, and at 3 1/2 percent thereafter until paid. The basis of computation of the debt and the interest rates are the same as the Debt Agreement with Great Britain.

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The Hungarians point out that their debt payments, which are on what Secretary Mellon called "the <sup>straight</sup> British-American basis" have been much higher than those required of other Danubian states in their debt settlements. Yugoslavia was charged no interest during the first 12 years, interest at the rate of 1/8% for three years thereafter, 1/2% for the next 14 years, 2% for 3 years, and 3 1/2% thereafter, making an average rate of 1.03% for 32 years and a present value of the debt annuities, discounted at 3% per annum, at 45.8% of their face value, whereas the Hungarian settlement called for an average interest rate of 3.308% for 32 years and a present value discounted at 3% of 104.6% of par value. For Rumania the first 14 annuities called for payments on principal after which 3 1/2% interest was to be paid on the remaining principal. Italy was allowed to pay for the first five years on an indebtedness of \$2,042,000,000, arbitrary annuities of \$5,000,000 on principal account during the first five years and thereafter interest was fixed at 1/5% for ten years and then increased for successive ten-year periods to 1/4%, 1/3%, 3/4%, 1%, and for the last seven years 2%, making an average interest rate of .408% and a present value, discounted at 3%, of 36.4% of the debt. The Austrian debt settlement provided for payment in 40 annuities, not divided into principal and interest but totalling

\$24,814,825

\$24,814,885 as against an original indebtedness of \$24,055,709. The first five annuities were in amounts equal to about 1.3% of the face value of the debt. In view of these differing terms and of the defaults of the debtors, in actual performance, Yugoslavia has paid on principal account 1.9% of the funded principal and on interest account, nothing; Rumania, 8.1% of the funded principal and .07% interest; Italy, about 1.3% of the funded principal and about .28% interest; Austria 3.5% of the funded principal; Hungary 3.8% of the funded principal and 20.8% interest thereon.

Hungary made all payments punctually until the Hoover Moratorium, by which the interest and principal due and payable December 15, 1931, and June 15, 1932, were postponed in the total amount of \$89,342.75 and by agreement made May 27, 1933, were made repayable with interest at the rate of 4% per annum in twenty equal semi-annual payments over a period of ten years beginning July 1, 1933.

On December 31, 1931, the Hungarian Government proclaimed a general transfer moratorium affecting payments due in foreign currencies on all Hungarian long-term and short-term indebtedness payable outside the territory of Hungary. It has made no payment into the United States Treasury on its indebtedness from that date until December 15, 1937, when it made a payment of \$9,828.18 on account Interest

Interest and principal past due now stand at about \$457,845. The principal of the debt has been reduced by payments to \$1,908,560. The total payments made by Hungary for principal and interest on the debt have totalled \$478,294.48.

The payment of \$9,828.16 received December 15, 1937, was made pursuant to a note of the Hungarian Legation dated August 18, 1937, which contemplated semi-annual payments in that amount from December 15, 1937, to June 15, 1940, inclusive. This proposal for partial payments during the three-year period was made in connection with arrangements undertaken in 1937 by the Hungarian Government for a general liquidation of the transfer moratorium.

The security clause in the debt agreement of May 26, 1924 provided that the obligation of Hungary shall be "a first charge upon all the assets and revenues of Hungary", provided, however, that all or any part of such security might be released by the Secretary of the Treasury to cooperate in a program involving the flotation of a Hungarian loan for reconstruction purposes. Under this authority the Secretary of the Treasury did, on May 29, 1936, subordinate the lien of the Hungarian Relief Bonds upon the assets and revenues of Hungary to that of the reconstruction loan floated in 1934. (The security clause also referred to relief obligations of Hungary to Denmark, France,

France, Great Britain, Holland, Norway, Sweden and Switzerland. These obligations have since been repaid.)

During 1937 Hungary negotiated a permanent settlement of the League Loan (the Reconstruction Loan of 1934) providing for payment of 50 percent of the original rate of interest suspending the sinking fund until 1940, and extending the maturity from 1944 to 1979, so that the present service is about 30 percent of the original annuity. This loan enjoys a definite priority over the Relief Debt owed to the United States, which was subordinated to it pursuant to Act of Congress.

The League Loan is the only permanent debt settlement yet made or offered by the Hungarian Government. The detailed terms of the temporary (three-year) adjustments offered other groups of creditors are too complex for brief statement, as they comprise in addition to national debts a wide variety of debts owed by municipalities, banks, mortgage institutes, and private debtors, which are not charges on the budget of the Hungarian National Government but which the National Government must regulate in liquidating the transfer moratorium in order to assure that the total debt service shall not exceed the available foreign exchange. A common feature of the temporary agreements is provision for payment of interest at reduced rates, which

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in no case exceed  $1\frac{3}{4}\%$ , together with a right for the Hungarian Government to repurchase principal by tender or open-market purchase, which means repayment of principal at prices far below par, such as 30-25 percent of par. The terms are therefore not closely comparable with those offered the American Government on the Relief Debt obligations, which are not available for purchase by tender or in the open market at prices below par. It is stated that on all long-term debts the annuities to be paid to the creditors during the three-year period 1937-40 will be not more than 10 to 30 percent of the original annuities. The League of Nations Financial Committee, which has been in close contact with the Hungarian financial situation since 1931, estimates that under the concluded and proposed agreements Hungary's foreign debt charges for the year beginning August 1, 1937 will be about \$13,000,000 as against an estimate of \$55,000,000 in 1931. These payments are made on an aggregate foreign debt of \$700,000,000, regarding which Hungary has to negotiate with creditors in many different countries, each presenting legal and equitable arguments for high priority.

The present proposal of the Hungarian Government offers the United States a higher percentage of the original annuity required for debt service than has been offered

offered any other Hungarian creditor, including holders of League Loan bonds, and provides for complete payment of principal at par, which is also more than has been proposed to any other creditor. The Hungarian Government points to such comparisons which are likely to be advanced by other creditors as arguments in seeking better terms than have been offered or accorded them.

The present Hungarian proposal to the United States is that the original amount borrowed be paid in full by crediting all payments hitherto made as payments against the original principal, and paying the remainder of the original principal in a series of annuities over a period of approximately thirty years. Under this proposal total past payments of \$478,294.48 would be credited against the original debt of \$1,885,835.61, leaving a present indebtedness of \$1,207,541.13. Repayment of this amount in thirty equal annual annuities would require annuities of \$40,251.37.

Following are comparative figures showing the application of the principle of the Hungarian proposal to the indebtedness of Great Britain, France and Italy, to which have been added in parentheses the payments scheduled for the fiscal or calendar year 1938 under existing debt agreements, disregarding Hoover moratorium repayment annuities:

Great Britain

<b>Great Britain</b>	
Original debt	\$4,377,000,000
Paid to date	<u>3,024,848,817</u>
New principal	\$1,352,151,183 ÷ 30 = \$45,100,000 (183,125,000)
<b>France</b>	
Original debt	\$3,404,818,945
Paid to date	<u>488,075,891</u>
	\$2,916,743,054 ÷ 30 = \$97,224,400 (105,000,000)
<b>Italy</b>	
Original debt	\$1,548,034,050
Paid to date	<u>478,234</u>
	\$1,547,555,816 ÷ 30 = \$51,585,170 (17,000,000)
<b>Hungary</b>	
Original debt	\$1,885,835.61
Paid to date	<u>478,234.48</u>
	\$1,407,601.13 ÷ 30 = \$46,920.04 (78,222)

(The parenthetic figures for Great Britain and Hungary are the approximate level at which payments are scheduled to continue until 1984 or 1985; the French agreement provided for annuities of \$110,000,000 in the fiscal year 1939, \$115,000,000 in 1940, \$120,000,000 in 1941, and thereafter \$135,000,000 until 1985; Italian scheduled payments increase very gradually and do not reach \$50,000,000 per annum until 1985.)

AID RECEIVED ON HUNGARY'S EXTERIOR DEBT TO THE UNITED STATES.

1. Hungary, normally a wheat and flour exporting country, was faced in 1920 with a threatening famine. It became necessary therefore to purchase on credit from the United States Grain Corporation 13,890 tons of flour at a price of \$121.57 per ton and the Hungarian Government became indebted to the American Government for the cost of this purchase in the amount of \$1,686,835.

This debt was funded into interest-bearing bonds in 1924. The funded principal amount of these bonds was \$1,939,000 since there was included in the total an amount of \$253,000 which had accrued as interest between 1920 and 1924.

The Hungarian-American debt settlement was worked out on the same basis as the British-American debt funding settlement, containing none of the concessions which were later granted from those terms to other countries. The total principal to be repaid included, as has already been remarked, a large element of accrued interest. Furthermore the annual payments becoming due on the new principal from the very beginning of the agreement contained a large element of interest payment.

This is in contrast to the settlements reached with other Danubian countries which had likewise incurred relief debts to the American Government at about the same time and for similar purposes. In these other funding arrangements the annuities provided for the years between 1924 and 1931 were all on account of the principal amount of indebtedness.

On the other hand, as a result of this difference in terms, of the \$468,466.32 which the Hungarian Government paid during these years, only \$75,956.80 was applied to reduction of principal, the other \$393,714.76 being charged as interest. Thus the actual unpaid principal of the Hungarian debt now stands at a

substantially higher total than it would, had Hungary enjoyed the terms later granted to other Danubian countries.

The failure of Hungary to effect payments to the United States under the terms of its debt contract had no relation whatsoever with the defaults of other debtors of the United States. In December, 1931, six months before the Hoover Moratorium expired, the sudden withdrawal of foreign short-term credits completely exhausted the gold and foreign exchange reserves of the National Bank of Hungary and forced the Government, in order to safeguard the financial stability of the country, to decree a transfer moratorium on all foreign debts.

The annuities due under the funding agreement of 1924 were included, however, by the Hungarian Government in every budget passed by Parliament from 1932 to 1937, and on each payment date the United States Government was informed that in lieu of transfer, Treasury bills in the national currency were deposited in its favor.

Since the summer of 1937 the Hungarian Government has been emerging from the moratorium which for several years has interrupted payments on all kinds of Hungarian foreign debts to all classes of creditors in all parts of the world. Arrangements on a provisional and temporary basis have been worked out with various groups of creditors. Concomitantly a payment of \$9,828.16 was made to the American Government on December 15, 1937.

2. Responsive to the repeated indications given by the American Government to the effect "that this Government is fully disposed to discuss, through diplomatic channels, any proposals which your Government may desire to put forward in regard to the payment of this indebtedness, and to assure you that such proposals would receive careful consideration with a view to eventual submission to the American Congress", the Hungarian Government is now prepared to offer to the

United States Government to pay in full the total original amount borrowed.

It therefore tentatively formulates for the consideration of the American Government a possible basis of a new debt arrangement between the two countries to replace completely the debt agreement of 1924 and accruals thereunder.

The forms and terms for effecting this new settlement which are under consideration as the basis of a possible offer to the American Government are as follows:

(a) That all payments hitherto made by the Hungarian Government under the debt settlement of 1924 to the United States (approximate amount \$478,000) should be recalculated as credited against original principal (\$1,685,000).

(b) That the original principal (\$1,685,000) of the amount borrowed less the preceding amount paid (\$478,000) or \$1,207,000 be paid in full in a series of annuities.

(c) The sum total of these annuities shall be equal to this reduced principal and shall be in the form of dated non-interest-bearing notes falling due at specified dates. These annuities shall run for a period of approximately thirty years (and hence each would be approximately in the amount of \$39,000).

3. The Hungarian Government wishes to point out that the sum total of these annuities, taken together with amounts previously paid by the Hungarian Government under the debt agreement of 1924, would be identical with the whole original amount borrowed, and thus represent an exact and full discharge of the debt.

The Hungarian Government hopes all the more that this offer will prove acceptable to the American Government as it very closely approximates the basis for payment annuities already accepted in the Austrian settlement of May 8th, 1920

for the discharge of a relief indebtedness of the same character and referring to a country whose capacity to pay can hardly be considered inferior to that of Hungary.

In announcing the signature of said agreement with Austria, the Treasury Department stated that "The settlement compares favorably with the settlements made by the United States with the Government of Greece, Italy and Yugoslavia".

The Hungarian offer would be even more favorable to the United States Government as in contrast to the terms of the Austrian settlement the Hungarian Government offers complete repayment of its relief obligation within the present generation.

(Signed) JOHN PELENTI

Washington, D. C.

February 7, 1938.

February 15, 1938.

My dear Mr. Secretary:

Thank you for sending me a copy of the memorandum on the Hungarian Debt Proposal dated February 8th prepared in your department which I have read with great interest.

Sincerely,

The Honorable,

The Secretary of State.



*ask today  
then*

DEPARTMENT OF STATE  
WASHINGTON

*11/273*

February 14, 1938

My dear Mr. Secretary:

I have received your letter of February 10 and note that you are giving the Hungarian Minister's Aide ~~Mémoire~~ Mémoire on Hungary's relief debt most careful study and will seek to discuss it with the President within the next few days. I enclose as of possible interest a copy of a memorandum prepared in this Department under date of February 8 on the Hungarian proposal.

Sincerely yours,

*Cordell Hull*

Enclosure:  
Copy of memorandum  
of February 8, 1938.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

February 8, 1938.

THE HUNGARIAN DEBT PROPOSAL

The indebtedness of the Government of Hungary to the Government of the United States is properly designated as the Hungarian Relief Debt. It originated in the sale of Flour to the Hungarian Government under the Act of March 30, 1920, which authorized the United States Grain Corporation to sell Flour in its possession on credit to relieve the populations of countries suffering for the want of food.

The original obligation acquired May 29, 1920, was a single bond in the principal amount of \$1,585,835.61. With interest accrued at the rate of 4 1/4 percent per annum in the total amount of \$383,000, the obligation was funded as of December 15, 1923, by agreement made April 25, 1924, into \$1,939,000 principal amount of bonds maturing serially on each December 15 for 82 years beginning December 15, 1924, and ending December 15, 1985. The bonds bear interest payable semi-annually at 3 percent until December 15, 1933, and at 3 1/2 percent thereafter until paid. The basis of computation of the debt and the interest rates are the same as the Debt Agreement with Great Britain.

The-

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The Hungarians point out that their debt payments, which are on what Secretary Mellon called "the <sup>straight</sup> British-American basis" have been much higher than those required of other Danubian states in their debt settlements. Yugoslavia was charged no interest during the first 12 years, interest at the rate of 1/8% for three years thereafter, 1/2% for the next 14 years, 2% for 3 years, and 3 1/2% thereafter, making an average rate of 1.03% for 62 years and a present value of the debt annuities, discounted at 3% per annum, at 45.8% of their face value, whereas the Hungarian settlement called for an average interest rate of 3.308% for 62 years and a present value discounted at 3% of 104.6% of par value. For Rumania the first 14 annuities called for payments on principal after which 3 1/2% interest was to be paid on the remaining principal. Italy was allowed to pay for the first five years on an indebtedness of \$2,043,000,000, arbitrary annuities of \$5,000,000 on principal account during the first five years and thereafter interest was fixed at 1/8% for ten years and then increased for successive ten-year periods to 1/4%, 1/2%, 3/4%, 1%, and for the last seven years 2%, making an average interest rate of .408% and a present value, discounted at 3%, of 36.4% of the debt. The Austrian debt settlement provided for payment in 40 annuities, not divided into principal and interest but totalling

\$24,514,225

\$24,614,385 as against an original indebtedness of \$24,055,709. The first five annuities were in amounts equal to about 1.2% of the face value of the debt. In view of these differing terms and of the defaults of the debtors, in actual performance, Yugoslavia has paid on principal account 1.9% of the funded principal and on interest account, nothing; Rumania, 8.1% of the funded principal and .07% interest; Italy, about 1.8% of the funded principal and about .28% interest; Austria 3.5% of the funded principal; Hungary 3.8% of the funded principal and 20.8% interest thereon.

Hungary made all payments punctually until the Hoover Moratorium, by which the interest and principal due and payable December 15, 1931, and June 15, 1932, were postponed in the total amount of \$89,342.75 and by agreement made May 27, 1932, were made repayable with interest at the rate of 4% per annum in twenty equal semi-annual payments over a period of ten years beginning July 1, 1933.

On December 28, 1931, the Hungarian Government proclaimed a general transfer moratorium affecting payments due in foreign currencies on all Hungarian long-term and short-term indebtedness payable outside the territory of Hungary. It has made no payment into the United States Treasury on its indebtedness from that date until December 15, 1937, when it made a payment of \$9,826.18 on account  
Interest

Interest and principal past due now stand at about \$457,845. The principal of the debt has been reduced by payments to \$1,908,560. The total payments made by Hungary for principal and interest on the debt have totalled \$478,294.48.

The payment of \$9,828.16 received December 15, 1937, was made pursuant to a note of the Hungarian Legation dated August 16, 1937, which contemplated semi-annual payments in that amount from December 15, 1937, to June 15, 1940, inclusive. This proposal for partial payments during the three-year period was made in connection with arrangements undertaken in 1937 by the Hungarian Government for a general liquidation of the transfer moratorium.

The security clause in the debt agreement of May 26, 1924 provided that the obligation of Hungary shall be "a first charge upon all the assets and revenues of Hungary", provided, however, that all or any part of such security might be released by the Secretary of the Treasury to cooperate in a program involving the flotation of a Hungarian loan for reconstruction purposes. Under this authority the Secretary of the Treasury did, on May 29, 1924, subordinate the lien of the Hungarian Relief Bonds upon the assets and revenues of Hungary to that of the Reconstruction Loan floated in 1924. (The security clause also referred to relief obligations of Hungary to Denmark, France,

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France, Great Britain, Holland, Norway, Sweden and Switzerland. These obligations have since been repaid.)

During 1937 Hungary negotiated a permanent settlement of the League Loan (the Reconstruction Loan of 1924) providing for payment of 80 percent of the original rate of interest suspending the sinking fund until 1940, and extending the maturity from 1944 to 1979, so that the present service is about 30 percent of the original annuity. This loan enjoys a definite priority over the Relief Debt owed to the United States, which was subordinated to it pursuant to Act of Congress.

The League Loan is the only permanent debt settlement yet made or offered by the Hungarian Government. The detailed terms of the temporary (three-year) adjustments offered other groups of creditors are too complex for brief statement, as they comprise in addition to national debts a wide variety of debts owed by municipalities, banks, mortgage institutes, and private debtors, which are not charges on the budget of the Hungarian National Government but which the National Government must regulate in liquidating the transfer moratorium in order to assure that the total debt service shall not exceed the available foreign exchange. A common feature of the temporary agreements is provision for payment of interest at reduced rates, which

in

-5-

in no case exceed 1 3/4%, together with a right for the Hungarian Government to repurchase principal by tender or open-market purchase, which means repayment of principal at prices far below par, such as 20-25 percent of par. The terms are therefore not closely comparable with those offered the American Government on the Relief Debt obligations, which are not available for purchase by tender or in the open market at prices below par. It is stated that on all long-term debts the annuities to be paid to the creditors during the three-year period 1937-40 will be not more than 10 to 30 percent of the original annuities. The League of Nations Financial Committee, which has been in close contact with the Hungarian financial situation since 1931, estimates that under the concluded and proposed agreements Hungary's foreign debt charges for the year beginning August 1, 1937 will be about \$13,000,000 as against an estimate of \$55,000,000 in 1931. These payments are made on an aggregate foreign debt of \$700,000,000, regarding which Hungary has to negotiate with creditors in many different countries, each presenting legal and equitable arguments for high priority.

The present proposal of the Hungarian Government offers the United States a higher percentage of the original annuity required for debt service than has been offered

offered any other Hungarian creditor, including holders of League Loan bonds, and provides for complete payment of principal at par, which is also more than has been proposed to any other creditor. The Hungarian Government points to such comparisons which are likely to be advanced by other creditors as arguments in seeking better terms than have been offered or accorded them.

The present Hungarian proposal to the United States is that the original amount borrowed be paid in full by crediting all payments hitherto made as payments against the original principal, and paying the remainder of the original principal in a series of annuities over a period of approximately thirty years. Under this proposal total past payments of \$478,294.49 would be credited against the original debt of \$1,095,835.61, leaving a present indebtedness of \$1,207,541.13. Repayment of this amount in thirty equal annual annuities would require annuities of \$40,261.37.

Following are comparative figures showing the application of the principle of the Hungarian proposal to the indebtedness of Great Britain, France and Italy, to which have been added in parentheses the payments scheduled for the fiscal or calendar year 1938 under existing debt agreements, disregarding Hoover moratorium repayment annuities:

Great Britain

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Great Britain			
Original debt	\$4,277,000,000		
Paid to date	<u>2,024,848,817</u>		
New principal	\$2,252,151,183	÷ 30 = \$75,100,000	(193,125,000)
France			
Original debt	\$3,404,818,945		
Paid to date	<u>486,075,891</u>		
	\$2,918,743,054	÷ 30 = \$97,291,400	(105,000,000)
Italy			
Original debt	\$1,648,034,050		
Paid to date	<u>478,224</u>		
	\$1,647,555,826	÷ 30 = \$51,573,400	(17,008,875)
Hungary			
Original debt	\$1,685,835.61		
Paid to date	<u>478,224.48</u>		
	\$1,207,611.13	÷ 30 = \$40,251.37	(76,222)

(The parenthetic figures for Great Britain and Hungary are the approximate level at which payments are scheduled to continue until 1984 or 1985; the French agreement provided for annuities of \$110,000,000 in the fiscal year 1939, \$115,000,000 in 1940, \$120,000,000 in 1941, and thereafter \$125,000,000 until 1955; Italian scheduled payments increase very gradually and do not reach \$50,000,000 per annum until 1988.)

EAT LIVERNY:DJW

February 15, 1938.  
4:35 p.m.

H.M.Jr: Hello.

Aubrey Williams: Hello, Mr. Secretary.

H.M.Jr: How are you?

W: I'm all right, sir. Thank you, sir.

H.M.Jr: Aubrey, I got a report from Ed Foley on this meeting that took place at Jimmy Roosevelt's office.

W: Yes. Yes.

H.M.Jr: Now what is the status of that as of today?

W: Well the status is this that Jimmy asked Harrington and Baldwin of the Resettlement to get together figures with regards to, for example, a block sum expenditure, say of seven hundred and fifty million dollars, in a housing program and see what it would do in the way of employing people, and Harrington was to also - Stewart Macdonald was to send over two men to Harrington's office and they were to have something ready by Friday afternoon at four thirty.

H.M.Jr: I see.

W: That's - that's where the thing stands now, as I understand it. He asked me and he asked Baldwin and he asked Stewart Macdonald to have some one in our shops sit down together and work out something that would indicate what could be done, what - give full particulars for a meeting on Friday afternoon at four thirty.

H.M.Jr: Well I've talked to him and I've talked to Stewart Macdonald and Eccles, I think it's a great mistake both from the standpoint of your office and from the standpoint of Stewart Macdonald's office. I think it just makes his job impossible. I just can't - it just doesn't make sense to me, and -

W: Well, this thing of course is - really comes almost as a presidential command.

H.M.Jr: I understand. I just wanted to find out - well, I'm - I'm going to talk to the President.

- 2 -

W: I - I think what I'm trying to do is to work out something that will result in a - some suggestions to the President for self liquidating kind of work.

H.M.Jr: I understand.

W: Yes.

H.M.Jr: Well I just wanted to know how much - where it stood.

W: Yes, well that's where it is right now.

H.M.Jr: All right.

W: Goodbye.

H.M.Jr: Thank you.

W: Goodbye.

EG

PLAIN

London

Dated February 15, 1938

Rec'd 1:10 p.m.

Secretary of State,  
Washington.

RUSH

130, February 15, 6 p.m.

FOR SECRETARY OF THE TREASURY FROM BUTTERWORTH

I have telephoned the Chancellor of the Exchequer's parliamentary statement to Cochran.

As requested by telephone I am only cabling the last two extemporaneous questions which were put to Simon in the House of Commons this afternoon:

Mr. Grenfell of the Labor Party: "Is it not true to say that when gold is bought up and segregated either in part or in large blocks as in the case of America or our own country it must always have a deflationary effect or at least a limitation of the expansion of credit?"

Before the Chancellor of the Exchequer could reply Mr. Graham White of the Liberal Party asked "Are not these considerations covered by the original Tripartite Agreement?"

Simon replied: "I think my original answer really

covered

-2- #130, February 15, 6 p.m. from London

covered these points. Nothing that is here indicated is any sort of departure from the Tripartite Agreement. The principle of that agreement remains and it is respected I believe by the different parties to it. We have no intention whatever of departing from it. Our methods are not quite the same as other methods of attaining the same results and I do not consider because this step has been taken in the United States it follows that we should take exactly the same form of step but we desire to maintain a common position."

Although all the London newspapers have carried an account of yesterday's announcement and press conference no editorials have appeared in the morning papers on this subject due to the time element. However as of possible interest there is appended below the report which appeared on the ticker this noon.

"Considerable interest has been aroused in the City and on the Continent, by the announcement made yesterday by Mr. Morgenthau, Secretary of the United States Treasury concerning the change that is to be made in the gold sterilization programme of the United States. In authoritative quarters in London the opinion is held that this new policy of ceasing to sterilize gold imports up

to

-3- #130, February 15, 6 p.m. from London

to 80,000,000 pounds per annum is not to be regarded in any way as an inflationary gesture or as an introduction to any devaluation action.

It is merely a gesture on the part of the United States Treasury to show its desire to remove the deflationary brakes which have been applied during the past few months. Any gold that leaves the United States will come out of the sterilization account; any gold that comes into the United States in excess of sums of over 100,000,000 dollars acquired in any quarter of a year will be used to increase excess bank reserves".

Typical of the City comment is that which appeared in the EVENING STANDARD.

"The latest news from the United States indicates that the Government there is taking one more step to take off the deflationary brakes put on the economic machine last year." After reproducing the communique as telegraphed to me the article concludes:

"This development does not mean that the United States Government is to pursue an inflationary policy, and should not justify any lack of confidence in the dollar."

JOHNSON

HPD

EDA

GRAY

PARIS

Dated February 15, 1938

Received 5:50 p.m.

Secretary of State

Washington

RUSH.

245, February 15, 9 p.m.

FROM COCHRAN.

Reference Department's 88, February 14, 7 p.m. of which I left copies when calling at Ministry of Finance this afternoon.

At 8:00 o'clock this evening French Ministry of Finance issued a communique to the press, which Rueff telephoned to me, and of which following is a literal translation:

"The Minister of Finance has taken cognizance of the statement of Mr. Morgenthau relative to the partial attenuation of measures for sterilization of gold in the United States. He welcomes with pleasure a decision which appears to him consistent with the spirit of the tripartite agreement".

BULLITT

EMB:NPL

EDA TELEGRAM SENT

GRAY

February 15, 1938

6 p.m.

AMEMBASSY

LONDON (ENGLAND)

68.

FOR BUTTERWORTH.

Please send full account by mail of your conversations over the weekend with British officials regarding gold sterilization matter for information of Treasury and State Departments.

HULL  
HF

EA:HF:LWW

CA

Gray 

PARIS

Dated Feb. 15, 1938

Refd 6:20 p.m.

Secretary of State,  
Washington.

244, February 15, 6 p.m.

FROM COCCERAN

Last Friday's recovery in the franc has been reversed beginning with weakness on London market Saturday and followed by declining rate in Paris yesterday and today. French control has been giving some sterling to prevent too sharp decline and sterling rate came back late this evening to 152.80 after reaching 92. Week-end speeches by Flandin emphasizing seriousness of French financial situation and by Fabou. Again urging credit and exchange control made bad impression. Possibility of metallurgical workers striking in northern France again threatens. With announcement yesterday that Credit National loan had been fully subscribed last Friday and formally closed, rumors developed as to terms of another new loan and rates declined.

At Ministry of Finance this afternoon Rueff told me that the new loan to be opened tomorrow will consist of treasury bonds to a total of 3,000,000,000 francs running 4, 8 and 12 years to be issued at 94 and bear <sup>5.5%</sup>~~5%~~ interest.

Statement of Secretary of the Treasury on gold sterilization was reported accurately in AGENCE ECONOMIE this

morning

CA --2-- 244 from Paris

morning which also carried comment thereon by Messrs Thomas, Rankin and Fish, and summaries of remarks of New York observers and the JOURNAL OF COMMERCE. Papers such as LE MATIN, PETIT PARISIEN and PARIS MIDI carry telegraphic summary of announcement without comment.

DIFFICULTY of this evening carries a telegram from Edie describing the decision taken by the Treasury. The financial sheet then provides a summary of the action taken so far by the administration in connection with gold sterilization and comments that the Treasury no longer fears for the time being another gold invasion and that it is no longer afraid of a too easy money situation. Therefore it has adapted its gold policy to the new conditions. The matter has notably a symbolic significance, this paper observes. It considers that the President does not intend to attempt to stimulate economy by restrictions but at the same time the view is put forward that "no disorderly inflation" is to be feared. It is pointed out that the decision has been well received in American orthodox and conservative quarters which see in it a measured action. It concludes that what they admire here in France in the attitude of President Roosevelt is the versatility with which he adapts himself to circumstances.

WILLIAMS

NPL 515