MEMORANDUM OF THE DAY'S ACTIVITIES

March 11, 1938

To: The Secretary

From: Mr. Magill

1. Tax bill

It is my understanding that the tax bill as it passed the House should yield about $22 millions less during the next fiscal year than the present internal revenue laws would yield. With Title 1B out the Division calculated that the bill would yield $41 millions less during the next fiscal year than the existing law. The increase on the tax on distilled spirits is estimated to produce $19 millions, leaving a $22 millions deficit out of the total estimated annual revenues for next year of $5,330 millions.

As I advised you yesterday, during a full year with business activity approximating that of 1937, the Division of Research and Statistics has estimated that the bill might yield $107 millions less than the present law. This estimate, however, does not take into account any increase in business activity due to the passage of the bill. It would seem that some of the provisions of the bill, such as those respecting capital gains, will stimulate additional transactions; in which event the estimated loss of revenue due to the bill would, of course, be reduced.

RM

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March 11, 1938

Present:

Mr. Taylor
Mr. Upham
Mr. Murphy

On the question of starting a new bank in Pontiac, Mich., the Secretary asked the three gentlemen for their opinions which they expressed as follows:

Mr. Murphy: In the Pontiac case, from what I know, no. It sets an entirely new precedent and one we don't know what its possible scope might beand I see no reason why we should sponsor one particular group to compete with a going bank.

Mr. Upham: I just heard of this proposal, but I have always been opposed to the Government helping to start a new bank, particularly on the ground that I would be interested in getting the Government out of banking business instead of in it. If there isn't banking capital available in a community, I can't see the Government going in and starting a bank unless we are going to go on the same theory in commercial banking as in agricultural banking, that because there is not enough credit available we have to enter that field, and I am reluctant to do that.

Mr. Taylor: I don't think we ought to do it. If they have $100,000, which they have got, that's big enough to start a bank with.

* * *

Rock Island, Illinois.

Mr. Taylor: Shall we on existing institutions, there there is depreciation in their bond account which impairs their capital structure, shall we make that capital impairment good?

HM,Jr: I have to ask some questions. Is this a National Bank?

Mr. Taylor: This happens to be a State bank.

Hm,Jr: Is it a member or non-member of the Federal Reserve?

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Mr. Taylor: Non-member.

HM,Jr: All right. Do we ever use this pressure to make them come in the Federal Reserve?

Mr. Taylor: We have explored that possibility and did not get on too well.

Mr. Upham: I don't think the Federal Reserve would want this bank anyway.

HM,Jr: What was the total paid-in capital?

Mr. Taylor: Common capital, $200,000. They had a surplus of $200,000.

HM,Jr: And the capital is not impaired except for $5,000? How did that happene?

Mr. Murphy: Due to depreciation in the bond market.

HM,Jr: But not in Governments.

Mr. Upham: Mostly in railroads.

HM,Jr: How many other banks are there in Rock Island?

Mr. Taylor: Quite a few; no shortage in banking facilities.

Mr. Upham: One other bank.

HM,Jr: What kind is that?

Mr. Upham: National bank, about twice the size of this one.

HM,Jr: Has anyone suggested the possibility of letting the National bank take this one over?

Mr. Taylor: I don't think so.

Mr. Upham: That would be my idea.

HM,Jr: Here are people who have managed it so

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badly and you are simply saying to them 'Good boy! You lost this money. You think you are so smart, we will give you it back' and I just raise the question whether here would not be a chance to say to the State Bank of Rock Island 'Very sorry.' Let FDIC move in before they fail. Wouldn't this be the thing? Let FDIC move right in to protect the stockholders and turn this over to the other bank?

Mr. Taylor: Merger?

HM,Jr: Yes. Without having studied this thing, my thought is I would explore the merger thing to the nth degree. Do you concur on that?

Mr. Upham: Yes. I don't think you could force them. Yes, I would certainly try to do that.

Mr. Murphy: If the merger should prove to be the desirable way, would you then approve if it should be requested by FDIC or appropriate authorities in the case to subscribe to additional capital stock in the bank that is taking this over?

HM,Jr: Oh, yes. We would help the other bank take this crowd over. Are we together?

Mr. Taylor: Absolutely. I think we just turn this down.

Mr. Upham: Suggest they try to merger.

HM,Jr: Merger, or try to get some local capital.

oOo-oOo

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Friday
March 11, 1938
10:03 a.m.

HMJr: Hello.

T.O.: Mr. Helvering.

HMJr: Hello.

Guy T. Helvering: Hello.

HMJr: Hello, Guy.

H: How are you?

HMJr: I'm pretty well. Guy, about this Collector, Kelly?

H: Yes.

HMJr: Now, where do we stand on that?

H: He called me up last night.

HMJr: Yes.

H: And I told him - he wanted to come down here and see if I wouldn't recommend over to you a reconsideration of that. And I told him no, that some recommendations have been made on that and that they've conclusively shown three or four points - I didn't think there'd be any question about it, that is, in retaining those chairmanships that they made a regular headquarters for a connecting agency right in his office, that he took people from his office up to headquarters and used them in the campaign and so forth. 'Well,' he said, 'Am I charged with any culpability....'

HMJr: Of what?

H: '...of any fraud or anything..?'

HMJr: And I said, 'No, there's nothing like that in the report except the - a violation of regulations'. 'Well', he said, 'I am to be fired because I've been active for Roosevelt'. (Laughs) That was his talk.

HMJr: I see.

H: 'Well,' I said, 'No, it isn't because you've been active for Roosevelt it's because - -that we have

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certain regulations which we expected people to follow and you haven't done that.'

HMJr: Yes.

H: He didn't - at first he wanted to come down here and go over the records with me but I don't know - when he ended he didn't insist on doing that.

HMJr: When was this, yesterday afternoon, Guy?

H: About five o'clock yesterday evening.

HMJr: I see. Now...

H: He had talked to Steve he said and Steve had told him that he'd better call me if he wanted any hearing on it or anything like that, that it was in my hands.

HMJr: Yes.

H: Well I just as good as told him that I'd be glad to see him and go over this report but I could tell him off hand the charges.

HMJr: Yes.

H: And that it'd be useless for him to come down here because that's virtually what the report showed.

HMJr: Yes.

H: And then of course he went into this harangue about being dismissed because of his activity for the President.

HMJr: I see. Well, how did you leave it, is he coming down or is he going to resign?

H: No, he - he said he didn't think it'd be of any advantage then maybe to come down.

HMJr: Well, is he going to turn in his resignation?

H: Well, he didn't tell me.

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HMJr: Uh huh. But he understands that Monday is the deadline, doesn't he?

H: Yes.

HMJr: What?

H: Yes.

HMJr: Uh huh. Now, I have every indication that the White House is going to back us up.

H: Yes.

HMJr: Because I talked to - I brought it up in Cabinet and told the President that we gave him until Monday. And McIntyre has refused to give the Senators an appointment to see the President on this.

H: Yes.

HMJr: Because, he says, there's no use.

H: Yes.

HMJr: So...

H: Well, of course, that's one thing he went into, whether to give his statement to me over the telephone-that a man charged with murder had a right to defend himself...

HMJr: Yes.

H: ..He thought that in this case that he was charged with things that he never had a chance to

HMJr: Yes.

H: The fact that he had never had opportunity to meet you.

HMJr: Yes.

H: And talk to you about it.

HMJr: Yes.

H: He thought it was a very drastic action and so forth and so on.

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HMJr: Yes.

H: Well, I told him that - well, I just as good as said to him, 'You brought it on yourself.' - That we had thought for some time that the resignations were all - that you filed and weren't accepted - were all prearranged.

HMJr: Yes.

H: And he didn't insist on coming down here then and I don't know that he will.

HMJr: I see. Well...

H: But I - I practically gave him to understand that - that the thing as far as we're concerned would be for him to take the exit.

HMJr: Yes.

H: As plain as I could.

HMJr: Right. Well, thanks, Guy. And if anything comes up let me know, will you?

H: Yes, all right.

HMJr: Thank you.

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Friday
March 11, 1938
11:40 a.m.

HMJr: Hello.

T.O.: Mister Stevens.

HMJr: Thank you.

T.O.: Go ahead.

HMJr: Hello.

Commissioner Stevens: Good morning, Mr. Secretary.

HMJr: How are you?

S: Quite well, thank you.

HMJr: Commissioner Stevens...

S: Yes.

HMJr: I wanted to tell you we've been getting splendid cooperation from your Commission.

S: Well I thank you.

HMJr: On the study we're making.

S: Yes.

HMJr: And I understand that you're going to have an iron and steel report.

S: Yes.

HMJr: And if that could be made available within a reasonable time to us it would be most helpful.

S: Well, all right, it's- a good part of it has been done.

HMJr: Yes.

S: And we've been pressing for - the staff to complete it as soon as possible. The last chapter hasn't yet been submitted to the full board...

HMJr: Yes.

S: ...and it's the most difficult one, it's the one on prices.

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HMJr: Well, that's of course the one we're interested in.

S: That's the one you're interested in. (Laughs)

HMJr: Right.

S: Well, I'll do everything I can to get that report out and completed so that you can have the use of it.

HMJr: Well, you people have been perfectly grand and I appreciate...

S: Well, I appreciate that very much. This is - I haven't been here long enough so that I can say some kind things about this organization. It's one of the best organizations that I've been connected with in the Federal Government.

HMJr: Fine.

S: They've got a good staff here and they do good work and we keep a lot of up-to-date information.

HMJr: That's right.

S: Yes. I'll see - I'll do everything that I can to get that report finished right away.

HMJr: Thank you so much.

S: All right.

HMJr: Thank you.

S: Goodbye.

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Friday
March 11, 1938
12:01 pm

HMJr: Hello.

T.O.: Mr. Welles. Go ahead.

HMJr: Hello.

Sumner Welles: Hello, good morning, and how are you?

HMJr: Fine. Do you know anything about Austria that - other than what's coming over the Ticker and so forth and so on - have you got any confidential information?

W: Ah - a couple of cables this morning, one from Paris..

HMJr: Yes.

W: and one from Vienna.

HMJr: Yes.

W: I have the Minister of Haiti with me now.

HMJr: I see.

W: And - what time are you leaving for lunch?

HMJr: Oh, not until one - a little bit before one.

W: Suppose I call you before then, would it be all right?

HMJr: Yes. Surely.

W: All right. I'll do that.

HMJr: I take it the Haitian Minister is not interested.

W: Yes. Yes.

HMJr: All right. All right.

W: Good.

HMJr: Goodbye.

W: Goodbye.

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Friday
March 11, 1938
12:53 p.m.

HMJr: Hello.

T.O.: Mr. Welles. Go ahead.

Sumner Welles: Hello.

HMJr: Hello, Sumner.

SW: Hello.

HMJr: Well, I'm just curious - if you had any inside dope on Austria.

SW: Yes. I'll read to you what I have now in front of me.

HMJr: Thank you.

SW: The most interesting is a telegram dated 11 o'clock this morning from Vienna.

HMJr: Yes.

SW: Which reads as follows:

"Early this morning Germany closed the entire Austrian frontier. An hour or so ago the tunnel of Austria reopened but Salzburg and Upper Austria remained closed. Rumors of troop movements and closed roads on German side of frontier. The radio has just announced that the Austrians have since 1915 called to arms to assist in maintaining order during the plebiscite. Von Kepler and have left for Germany. The Austrian Government greatly alarmed."

From Berlin a telegram of last night saying that the German press was forbidden to carry any announcement of the proposed plebiscite until last night. They let the Berlin have it then last night. - points out that any plebiscite of the kind announced is a farce on the ground that several weeks should be required and no lists of voters are made out and so on and so on, and regards the matter as incredible.

Then from Paris a telegram also of last night which is rather long and simply quotes the Austrian Minister as to what he thinks about it.

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HMJr: I see.

W: His general view is that Mussolini had not been consulted before the decision was taken to hold the plebiscite. He said that the Austrian Nazis are disconcerted and furious. That Austria could not count on any effective assistance from Italy.

HMJr: Yes.

W: And Mussolini, he goes on to say, is using Austria merely as a pawn in black-mailing Hitler. The Berlin correspondent of Havas returned to Paris yesterday and was being sent back to Berlin immediately. That he said to our Charge d'Affaires that anyone who believed that the events of February 4th had weakened the regime in Germany was greatly mistaken. In his judgment the country is solidly behind Havas - that is behind Hitler. He states that there are indications that the tactics of intimidation used against Czechoslovakia are bearing fruit.

HMJr: I see.

W: So the only telegram that's strictly to the point is the one that I read to you first - from Vienna.

HMJr: Now they've just brought in a flash on the Ticker which says that the official broadcast of the plebiscite has been postponed.

W: Has been postponed?

HMJr: Yes. They just brought that in.

W: Yes. Well...

HMJr: So - I don't know what that means.

W: My impression very definitely is that it's the beginning of the end.

HMJr: That's United Press - that it's been postponed.

W: Yes. I think it's the beginning of the end.

HMJr: Do you think it was postponed - that's good, bad or what?

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W: Well, I don't think that Germany's going to dilly-dally any longer, I think she is going to take action.

HMJr: I see.

W: Whether it will be military or not, it's too early to say.

HMJr: Well, thanks. It's not very cheerful.

W: Not very good, no. All right.

HMJr: Thank you.

W: Goodbye.

HMJr: Goodbye.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 11, 1938, 10 a.m.

NO.: 370

RUSH

FROM COCHRAN.

Yesterday on balance 7,000,000 francs were gained by French control. However, it should be noted that considerable profit-taking which took place did not appreciably strengthen the rate. Throughout the day the market was nervous.

This morning I visited at the Bank of France. At 10 o'clock when I left the Bank the control had sold to Switzerland, at a rate of 159.20, only 17,000,000 pounds. The Swiss banks, you understand, open an hour earlier than those in London and Paris.

This morning when the London market opened the price offered was 158.50 and at this rate the French control begain to sell sterling. Almost all day yesterday the franc was stronger in London than it was in Paris.

END SECTION ONE.

WILSON.

EA:LWW

Regraded Unclassified

The statement of the Bank of France which closed last night and will be published on the seventeenth of March should show heavy Treasury withdrawals from its collateral with the Bank of France, perhaps between 1 1/4 and 1 1/2 billion francs.

My contact said he is not convinced that having Reynaud as Blum's Finance Minister would be sufficient attraction to bring about in France a genuine financial recovery. In his opinion, Reynaud's prestige with capitalists has declined recently, particularly when he indicated his willingness to enter a ministry containing Communists during the last political crisis. My contact furthermore does not have any faith in the scheme which it is alleged Reynaud has in mind should he get authority, viz., to revalue the reserves of the Bank of France and take the profit of around 20 billion francs, and borrowing from the Bank of France an additional 20 billion francs.

END SECTION TWO.

WILSON.

EA:LWW

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PARTIAL PARAPHRASE OF SECTION THREE
NO. 370 OF MARCH 11, 1938 FROM PARIS

The amount of forty billion would be applied to meet the needs of the State, and presumably would eliminate the necessity for borrowing during one year; during this year of respite from borrowing, rectification of the French economy would supposedly be carried forward. The Bank of France would naturally not be pleased with such a plan. As for serious-minded capitalists, it is decidedly questionable whether it would appeal to them as they think the proper method of approach is to begin with the domestic, economic and labor situation, to say nothing of cleaning up the political situation.

The Paris edition of the NEW YORK HERALD this morning says in a headline: "Paul Reynaud stated as Finance Minister; Socialist chief, reputedly on American advice, bows to Radicals on franc"; and in the body of the article says: "Monsieur Blum is reported to have given (in pledging non-intervention in Spain and rejection of exchange control) in to the Radical Socialists, and a reliable source said last night pressure from the Treasury Department in Washington had helped him to make up his mind."

END MESSAGE.

WILSON.

EA:LWW

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Friday
March 11, 1938
11:50 a.m.

HMJr: Hello.

T.O.: I have Mr. Cochran.

HMJr: All right, tell Mr. Taylor he should come in, it's Cochran.

T.O.: Go ahead.

HMJr: Hello.

H. W. Cochran: Hello, Mr. Secretary.

HMJr: Well, how are things today?

C: Did you receive my 370 of this morning? 6-256

HMJr: Ye -

C: You have that?

HMJr: We've got part of it. We have one section.

C: I see. So the market has continued rather nervous all day...

HMJr: Yes.

C: The franc has improved a little bit;- the mark is forward.

HMJr: Yes.

C: Because the people with speculative commitments have wanted to get out of their position.

HMJr: Yes.

C: In view of the news from Austria and Germany.

HMJr: Yes.

C: You see, the Austrians have called out two reserves here presumably to supervise the plebiscite on Sunday.

HMJr: Yes.

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C: The Germans have started to assign troops on the Austro-Hungarian - on the Austro-German border.

HMJr: Yes.

C: And have that practically closed. I say that's caused a lot of worry here and the British are also worried over it, especially since the French position is so uncertain just now.

HMJr: Yes.

C: Blum has been trying all day to form his Government.

HMJr: Yes.

C: They've had various consulations - the latest news is that the national committee of his party, that is the Socialists, will meet in the morning at nine o'clock, so there's not likely to be any decision...

HMJr: Yes.

C: ....on his side whether or not he can form the government until after that meeting tomorrow.

HMJr: I see.

C: See, The Radicals and the Socialists have been sort of passing it back and forth, that is, neither wanting to take the responsibility for shoving the Communists out of the government.

HMJr: Yes.

C: But both of them realizing that a government couldn't succeed in raising a loan or anything else if they have the Communists tied on.

HMJr: Uh huh.

C: And they're still speculating as to whether Reynaud will be in the government or not.

HMJr: Uh huh.

C: And in that telegram, probably the second section, I gave a pretty fair estimate I think of the degree to which he would save the situation now.

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HMJr: Uh huh.

C: I mean, most of my friends think that he has been over-rated and that it's too late for him to do any lot of good now unless he should come in a government very much further right than one with Blum as head.

HMJr: Who was that, Reynaud?

C: Yes. That is, if he would just come in as the one conservative man with Blum...

HMJr: Yes.

C: ...he would not be enough.

HMJr: Yes. Now, in your 371 you talk about a story in the Tribune, see? Hello.

C: Yes.

HMJr: In the New York Tribune?

C: Yes. I - in the Herald-Tribune here. I quoted you...

HMJr: Yes.

C: ...and also the Embassy sent separately in a 'Rush' message...

HMJr: Yes. Well, I haven't talked to anybody.

C: Oh no, we're sure here you've - nothing was said at all.

HMJr: No, I haven't talked to anybody. As a matter of fact I haven't even seen the new Ambassador - from - the French Ambassador.

C: Here it didn't say that you had seen the new Ambassador. It just said, 'Mr. Blum is - has given in to the Radical Socialists,' and so on, 'and a reliable source said last night pressure from the Treasury Department had helped him to make up his mind.'

HMJr: Yes.

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C: It did not mention anything about the Ambassador in the story here.

HMJr: Well, you can tell Wilson, if he wants to he can, through your press - his press contact there, if he thinks wise, they can deny that.

C: Well, he denied this morning the story.

HMJr: What's that?

C: He denied this Herald story this morning.

HMJr: Wilson did?

C: Yes.

HMJr: Hello.

C: Yes.

HMJr: Well, tell Mr. Wilson you've talked to me and that the story is made out of whole cloth.

C: I see. That the story in the States to the effect you'd brought pressure through the French Ambassador?

HMJr: No. No. We've had nothing here.

C: I see. There's no story in the States yet?

HMJr: No. Just wait minute. Wait a minute.

C: All right.

(Short Pause)

HMJr: Mr. Taylor says that the State Department would like us to formally deny it by cable. We'll do that, see. Hello.

C: Yes.

HMJr: So what we can do is this. You can tell Wilson that there's no statement by me and I will confirm this telephone conversation by cable.

C: To tell him that....

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HMJr: That I - that there's no truth to this story.

C: Yes. Yes.

HMJr: That I will confirm that by cable.

C: Uh huh.

HMJr: See? I will confirm that by cable.

C: All right. Fine.

HMJr: See?

C: Yes. You see, he wired the Department this morning already to the effect that this story was absurd.

HMJr: Yes.

C: That he told them here.

HMJr: Yes.

C: But I'll tell him that you have called now and give him this message.

HMJr: That's right. And then I'll confirm that by cable.

C: All right.

HMJr: Now - just a moment. Just hold on a minute.

C: Yes.

HMJr: Archie Lochhead says that the market on this side is absolutely dead.

C: - Is dead there?

HMJr: Yes

C: Well here there hasn't been much trading. The control got a little sterling in around noon.

HMJr: Yes.

C: And their forwards are better.

HMJr: Yes.

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C: The Belga continues weak; yesterday they had to sell two million pounds of silver in London to support it.

HMJr: Yes.

C: They closed a loan here - that was a five and a half per cent loan...

HMJr: Yes.

C: today; but no statement as to whether or not they got the full three billion francs.

HMJr: All right.

C: And you saw that Schacht was in office for four more years.

HMJr: Yes.

C: And - with - with - Blum did not succeed. The latest thought is that they may call on Herriot.

HMJr: I see.

C: That is, it's Herriot or Daladier most likely.

HMJr: All right. Well, thank you.

C: - likely to call Chautemps back because the Right people are pretty much put out because he didn't just throw brakes on yesterday and disclose the real situation.

HMJr: Yes. All right, Cochran.

C: I am going to Basel Saturday night according to plans..

HMJr: Well now, just a moment. Wait a minute.

C: All right.

HMJr: We all think you'd better not go.

C: You think I'd better not?

HMJr: No.

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C: I mean, even if I went on Saturday night and came back Sunday night?

HMJr: Well, just a minute.

C: A couple of times, you see.

HMJr: Well, the consensus of opinion is here -/and there's three people here besides myself...

C: Yes.

HMJr: ..you'd better stay in Paris.

C: I see.

HMJr: Now of course, if the situation changes tomorrow and it clears up why we could change our mind and we could let you know.

C: You would let me know if you want me to stay?

HMJr: No. You stay unless we tell you to go.

C: That's what I understand, yes.

HMJr: Don't go to Basel unless you get further word.

C: No. All right, fine. My train doesn't go until 10 o'clock tomorrow night...

HMJr: Well, we'd have to let you know then by, say, 1 o'clock our time.

C: Fine.

HMJr: But, don't go to Basel unless you get word from us.

C: Good. All right, sir.

HMJr: Thank you.

C: All right.

HMJr: Thank you.

C: Goodnight.

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TELEGRAM SENT

GRAY

March 11, 1938

2 p.m.

AMEMBASSY

PARIS (FRANCE)

143.

Your 371, March 11, noon.

The Secretary of the Treasury states that of course your position is correct. There have been no conversations of any character between the Treasury and the French authorities having an import of this kind.

There seems no need for public statement on this point, but you are free to make decisive denial in the event that you are again approached in regard to the story.

HULL
(HF)

EA:HF:LNW

RECEIVED
MAR 12 1938
TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary.

Regraded Unclassified

JJ

PLAIN

London

Dated March 11, 1938

Rec'd 3:25 p.m.

Secretary of State,

Washington.

204, March 11, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. Reports of developments in Austria have overshadowed all other considerations and the stock market reflected the disquietude -- and it has been disquietude, not anxiety as far as the city is concerned.

Two. The franc again maintained reasonable stability without support and the covering movement continues. The volume was not very large.

The city believes that a concerted plan has been formulated behind the political scenes in Paris with the intention of jockeying the Communists out of the next government and that Blum is a party to this maneuver. In these circumstances and given the effect which developments in Austria will have on French opinion, the city expects that it will prove possible to evolve a broadly-based government which can claim title to being a "national government".

KENNEDY

FEG

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 11, 1938, 5 p.m.

NO. 375

FROM COCHRAN.

Paris exchange market quite nervous all day with wide fluctuations but small business. Both spot and forward franc improved since operators have liquidated certain commitments on political news from Austria and Germany. French control evidently gained a little sterling with Lagard and Society Generale buying for it. Belga continues weak. I understand National Bank of Belgium yesterday yielded two million pounds supporting it.

Journal Official today announces closing this date of current 5 1/2 per cent Treasury loan. Apparently inspired article in the EVENING PRESS says desired three billion francs of cash subscriptions were received. Rate on two year national defense bonds has been advanced from three one-half to four percent.

Yesterday there was some talk in official quarters of raising the discount rate of the Bank of France. However, those in favor of this were convinced by technical advisers that the situation would only be made more difficult for the State, the one big borrower.

French economic indices for February unfavorable.

Schacht reappointed Reichsbank President for four years.

Regraded Unclassified

years. In his speech at annual meeting today it is understood that he did not mention Germany's foreign debts.

WILSON.

EA:LWW

Regraded Unclassified

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Friday, March 11, 1938.

Press Service
No. 12-71

Secretary of the Treasury Morgenthau today announced that reports from the Federal Reserve banks indicate that $450,646,900 of Treasury Notes of Series C-1938, maturing March 15, 1938, have been exchanged for 2-1/2 percent Treasury Bonds of 1948.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

Federal Reserve District	Total Subscriptions Received and Allotted
Boston	$ 12,354,600
New York	316,408,700
Philadelphia	3,788,900
Cleveland	7,600,400
Richmond	11,759,000
Atlanta	6,110,000
Chicago	53,678,100
St. Louis	6,574,200
Minneapolis	10,288,800
Kansas City	15,377,100
Dallas	2,542,500
San Francisco	3,456,100
Treasury	708,500
Total	$ 450,646,900

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Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: March 11, 1938, 5 p.m.

NO.: 376

In connection with the attempt of Blum to form a Government, the maneuvering is centered around the problem of the elimination of the Communists without an open break in the Popular Front resulting. It is recognized by the Socialists as well as by the Radical Socialists that if Blum has Communist participation in the Government he cannot succeed. The Communists for their part, I am informed, are not being too difficult since they realize the situation.

Tomorrow morning there is to be a meeting of the National Council of the Socialist Party. At that meeting the main purpose will be to seek authority for Reynaud to be included in a government from which the Communists are to be excluded. At present Reynaud is attempting "to cover himself on the right" by insisting that Marin be included also. It would, however, be impossible for the Socialists to accept this, and Reynaud's insistence on this point will, it is believed, be finally dropped. It is believed by my friends in the Socialist Party that Blum has considerably better than an even

chance

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chance of success. That Daladier may torpedo the effort is their principal fear.

The Austrian developments are bound to have a tremendous influence in hurrying up a solution of the political crisis in France. Should it not be possible for Blum to set up a government tomorrow, pressure will be brought on Herriot to make an attempt.

WILSON.

EA:EB/LWW

Regraded Unclassified

EG

GRAY

Paris

Dated March 12, 1938

Rec'd 9 a.m.

Secretary of State,

Washington.

RUSH

381, March 12, noon.

Reference my 376, March 11, 5 p.m.

The Austrian situation has, as expected, brought great pressure in favor of forming immediately a government on a broad basis.

At a meeting this morning of the National Council of the Socialist Party Blum requested authorization to attempt to form a national union government extending from the Communists to the extreme right. This authorization has just been given him by a vote of 6,500 to 1600.

As all the major parties are in favor of a national union government under the circumstances they feel with the exception of the Socialists and Communists that Blum is not the person to head it. Blum may also be unable to get Marin representing the Extreme Right to participate in a government including Communists.

Blum is now trying to form such a government.

WILSON

KLP

Regraded Unclassified

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

FROM L. W. Knoke

DATE March 12, 1938.

SUBJECT: Telephone Conversation with Bank of England

Mr. Bolton called at 9:17 this morning: Austria is occupied; Schuschnigg and officials of the old Government are reported to have been sent to concentration camps. Goebbels denies this, yet it is thought in London to be true. There was a semi-panic in Europe this morning with markets difficult to handle. The dollar went up to 4.98 1/4, and he had sold about $2,500,000. There were no other sellers in the market. If we thought it advisable to support sterling in this market, he would be glad to have us do so for their account using our discretion. What he had in mind was about $1,000,000 at about 4.97 1/2.

Most of the European currencies had been under heavy pressure, the belga down to about 16.84 (in our terms) where it had been held for awhile; Swiss francs were offered down to 23.02 (our terms), etc. There had developed a very strong demand for gold for hoarding purposes, as a result of which, he had sold this morning about £1,000,000 in gold. He had spoken to Prague and Budapest on the telephone. The inclination in Prague seemed to be to expect further trouble from Germany but there was no sign there of a panic. The Hungarian frontier against Austria had been closed in order to stem the inflow of Austrian emigrants. Hungary seemed unsympathetic to Nazi conceptions but considered himself safe from German aggression; Italy was undoubtedly disturbed; the Anglo-Italian negotiations seemed to proceed satisfactorily. It was obvious that Chamberlain had been caught on the wrong foot; also that Eden's policy was the more correct. Anglo-German negotiations, as a result of this latest

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coup d'etat, had been wiped off the slate, not only temporarily but, he thought, permanently; thus the political situation in Europe had worsened considerably. The one bright spot in the picture was that it now seemed reasonable to expect the early formation of a national government in France, including every party except the extreme right. Blum had nearly succeeded in his efforts to form such a national government: the only difficulty still to be straightened out was his insistence to head the new government himself. So far, this had been violently opposed by certain quarters, even by some members of his own party.

As a result of this promised clarification of the internal situation in France, the franc had turned much stronger during the morning and Cariguel had had rather a good day, gaining probably £1,500,000.

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255

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

TO CONFIDENTIAL FILES

FROM L. W. Knoke

DATE March 12, 1936.

SUBJECT: Telephone Conversation with Bank of France

Mr. Cariguel called at 11:30 to inquire as to the franc rate in this market. I quoted him 3.19 3/8 to 3.19 7/8, equivalent at 4.99 1/2 to about 1.5630 (in London terms). He instructed me to change his limits to sell at 155.75 and to buy at 156.50, this order to supersede that given earlier in the day.

I asked whether he had any news for me. He replied none other than those reported in the press and on the ticker. A new cabinet had not as yet been formed; they were still talking. He had no opinion as to Blum's chances of success.

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 12, 1938, noon

NO.: 383

RUSH

FROM COCHRAN.

With Paris market and banks closed this morning French holders of commitments in sterling continued tendency of yesterday afternoon in disposing of them on London market, preferring to have cash francs in view of critical international political developments. Franc consequently strengthened to 156 1/4 to the pound at noon. Swiss francs and belgas weakened at London but florin rather steady. British supporting sterling against dollar.

The French control had gained a good amount of sterling at London at a quarter of twelve. It is a pleasure to banking circles to see that due to the crisis in Austria steps are being taken to form a national union government sooner than they had expected. Banking circles would, however, prefer to see at the head of the new set up someone to the right of Blum. Soudan, Socialist Senator, appointed Belgian Minister of Finance. Maurice Frere to be named his technical adviser.

WILSON.

EA:LWW

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Saturday
March 12, 1938
12:48 p.m.

H. M. Cochran: - at their meeting this afternoon had agreed to go in with Blum on this National Union Government.

A. Lochhead: Yes.

C: and one or two other influential senators voted against it.

L: Yes. Well, tell me - how, in forming this cabinet is there - do they think they can leave out the Communist group?

C: No. No...

L: It'll be a Popular Front movement again?

C: As near as I can tell.

L: I see.

C: And the result has been that the Louis Marin - M-a-r-i-n...

L: Yes.

C: group - is quite at the right - refused to join.

L: Well, that's just as well, isn't it?

C: Well, no, it would have been better if they had been in and the Communists had been out.

L: I know. Well, but - if Marin's group pretty far to the right?

C: They're quite to the right.

L: I see.

C: So it may be just as well.

L: I see.

C: The main thing is to get the Radical Socialists in...

L: Yes.

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C: At the same time have the Communists lined up so that they won't throw it over.

L: Yes.

C: But it looks - the latest is that they would have to include them in the government proper.

L: Yes.

C: Now, whether that will be conducive to a return of capital or not, I don't know.

L: Well, now...

C: - You saw the franc was calm in London today and in New York too, as a matter of fact.

L: Well, it was - the market was fairly strong here but they didn't gain anything in this market.

C: No.

L: In other words, I think what they gained was what came from Holland and Switzerland.

C: I see.

L: So - it's not natural that they'd get anything here.

C: No. Well, I was talking a while ago to one of the bankers and they thought that the French control gained at least two hundred and fifty million francs in London today.

L: Well, London said they gained about a billion - about a million and a half pounds.

C: Yes. Well, that would be it.

L: Yes. That would be about right. But nothing - this market has been very quiet.

C: Yes.

L: Now tell me - from the impression I get - this taking over of Austria is pretty well regarded as an accomplished fact...

C: Why, absolutely.

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L: And there'll be no trouble about this particular problem, I mean, any immediate trouble?

C: No. I mean, it's too late now here for them to get excited. I mean, it's - they're forming a government too late. If they had had a strong government the Germans might have hesitated a little bit.

L: Yes. Well, of course they took advantage of a good situation and went ahead on it.

C: Absolutely. And so it's all over now.

L: Yes. And I don't think, as I say, the British, from what I can see, are not going to make any special objections any more than just registering their disapproval.

C: Oh, they registered that - and the story from Berlin this afternoon here said that, "The British and French protests are inexplicable."

L: Yes. Yes. We heard that story.

C: You heard that?

L: Yes. Well now, everything apparently then is going to be fairly quiet over the weekend?

C: I think so. Here it's very quiet. And I've been in touch with everyone this afternoon and they say, 'Well, if Blum doesn't get this Government, why it'll just turn to Herriot and Daladier to go ahead and form one.

L: Yes.

C: But the appearance this afternoon is that Blum will be able to get a Government perhaps tonight.

L: Yes. Well now, I was just speaking to the Secretary a few moments ago...

C: Yes.

L: And we thought that if things had quieted down enough that it would be all right for you to go up to the B.I.S. meeting.

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C: Well, I want to do just what you people feel I...

L: Well, I'll tell you, if the situation is quieted so that it looks as if the French will be forced to form a cabinet and not have any real crisis themselves...

C: Yes.

L: ...it'll be all right if you feel that the B.I.S. maybe, will give you a lot more news than you might get in Paris.

C: That's just it. I can't get much here tomorrow. On the other hand I just thought that I'd better be back here Monday morning.

L: I see. Well then, it's O.K. for you to go ahead then, up to the B.I.S. meeting and then we'll expect you to be back on Monday morning in case anything comes up.

C: You'd both rather I'd come Monday than Tuesday?

L: What's that?

C: I think it's better that I come back...

L: Oh yes. The Secretary - we'll want you back Monday morning.

C: Fine.

L: So I mean - it's just what you can pick up tomorrow.

C: - ten o'clock tonight, you see, it's only six here now.

L: Yes.

C: Unless something comes up by nine o'clock I'll go ahead tonight and I would leave there at ten o'clock tomorrow night and be back here at six-forty-five Monday morning.

L: O. K., then.

C: And I could keep in touch by phone there even if anything came up.

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L: Yes. Then if anything comes up - of course, if any real break comes over on Sunday or anything I mean you could always get in touch with me. The Secretary will be away over the week end.

C: But I could get you through the Treasury there?

L: You can get me through the Treasury or my home telephone number is Cleveland 1011.

C: Cleveland..

L: Cleveland.

C: 11

L: 1011.

C: Yes. Ten eleven.

L: Ten eleven, that's right. All right, then, Cochran, and then we'll hear from you on Monday.

C: All right, fine. And I'll try and see everyone there tomorrow and I might get a little news while here I'm afraid it would be pretty dull.

L: Yes. All right, then.

C: If they do get Blum in he couldn't put on exchange control you see, because it would be bad policy...

L: Oh no, I don't think there'll be anything like that over this weekend.

C: Oh no. I mean, there'll have to be a reflux of capital.

L: Yes. Specially as long as the franc has strengthened up a bit.

C: Yes. Yes. And if they - oh well, there's just nothing going to happen this...

L: Yes. O.K., then.

C: Fine. And I'm glad to hear your voice. I sent you a little publication yesterday, "The Marketeer's Annual Belgian Report" - I thought you might...

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L: Yes, I will be interested in seeing it.

C: Good. All right.

L: O. K., then. Goodbye.

C: Goodbye, Archie.

L: Goodbye.

Regraded Unclassified

JR

GRAY

London

Dated March 12, 1938

Rec'd 1:05 p.m.

Secretary of State,

Washington.

208, March 12, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The rapidity with which developments have occurred in Austria has caused the dollar to be bid against all European currencies. The Bank of England sporadically sold dollars breaking the force of the rise which nevertheless amounted to two cents just after gold fixing. The franc continued bid against sterling although the volume of trading was small. Gold fixing was large with 331 bars dealt in but it is significant that there was no important demand for coin from the Continent.

The city is usually deserted on Saturdays and today is no exception. It is, therefore, impossible to give the reaction of a cross section of opinion but the impression I gain from those with whom I have been able to talk is that it is not the Nazification of Austria that the city will find disturbing but the willingness of Hitler freely to employ force in accomplishing his purpose.

KENNEDY

GW:KLP

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JR

GRAY

Paris

Dated March 12, 1938

Rec'd 4:15 p.m.

Secretary of State,

Washington.

388, March 12, 6 p.m.

Reference my No. 381, March 12, noon.

Blum early this afternoon went to the Elysee and informed the President that he would need more time in his effort to form a government.

The Chamber minority groups informed him, Blum, that they would not support a government including the Communists. The Socialists and Communists then conferred, after which Blum informed the minority groups that the above two parties would not support any government not formed on the Popular Front.

The minority groups then submitted to Blum a list of questions on foreign and financial policy, labor et al. Blum is scheduled to go before these groups at 6 o'clock to reply to those questions.

WILSON

EMB:EDA

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March 12, 1938

3-11

At 10:30 a.m. Friday, Mr. Ben Griswold of Baltimore and Mr. John S. Fleek of Cleveland met with Secretary Morgenthau in his office. Mr. Upham was present.

Mr. Grisowld and Mr. Fleek had been asked by Secretary Morgenthau to find a small business concern which needed and wanted capital financing to the extent of a quarter or half million dollars so that Mr. Morgenthau could use the firm as a sort of case history to follow through and determine what are the difficulties in the way of a small business which wants to secure capital funds.

Mr. Griswold explained that Mr. Fleek had been making a survey of the situation around Cleveland. Generally speaking, he said investment bankers and others were a good deal more willing to talk about past happenings than present or future, unless there were complete disclosure of what was wanted because there was some feeling that they didn't like to have somebody else get away from them what little business there may be.

Mr. Fleek said that he was somewhat embarrassed because he did not know just what Mr. Morgenthau wanted and he would like to give him a good deal more data than he has but he

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would give him some samples of cases which he had run into, some of which were confidential and for none of which did he have any answers.

Mr. Fleek first discussed the case of Allied Oil Company, which had been outlined to him by Mr.Miller,his partner in Hayden Miller & Company. The Allied Oil Company wanted $150,000 for capital expansion. The cost of registration with the SEC would be $20,000, which was considered too high. They had found that attempts to borrow banking funds from either the RFC or the Federal Reserve had meant that they must put up excessive collateral.

Mr. Morgenthau said that was exactly the sort of case in which he was interested but asked if they are in the market today for money. Mr. Fleek did not know this and Mr. Morgenthau requested him to find out and said that he would then follow it through. He wanted to know what they wanted to use the money for.

Mr. Fleek then discussed the Medusa Portland Cement Company. He said that in 1935 this company wanted to put out a bond issue to refund an outstanding issue, upon which default threatened if it were not refunded. Local banks took the first for maturities but since the issue was rated as speculative by the rating agencies and because of a regulation brought out shortly after by the

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Comptroller of the Currency to the effect that banks may not buy speculative securities, the bank examiners criticised bank investment in this security.

Mr. Fleek then mentioned the Midland Steamship Company as wanting to refund about $250,000 in 1935. SEC penalties were prohibiting it. New York and local banks said no. Finally, an investment group with an overlapping directorate with the steamship company took the bonds.

Mr. Fleek said the capital market is not available to small companies, SEC costs and regulations of the Comptroller of the Currency being two of the important bars. Mr. Fleek then gave some record of the growth and financing of Halle Brothers and the Glidden Company in Cleveland to illustrate that small companies formerly could secure financing and are unable to do so now. He indicated that the refunding of maturities is as important as the securing of new money for plant expansion.

Mr. Morgenthau told the two gentlemen that if they want to be helpful to him and have him be helpful to them, they must produce some company which wants a quarter of a million now. If they find that concern, he will go through the procedure as if he were a partner in the firm. Mr. Griswold explained that they have a questionnaire out now in an attempt to find such a firm and that they should have an answer by the first of the month.

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Mr. Fleek commented that so far as the clients of his firm is concerned, they mostly do not want to borrow at the present time either because of the declining business or because of the uncertainty as to what Washington will do or because the bond market situation at the most is not favorable, for much the same reasons.

Mr. Morgenthau commented that the President had talked to Sidney Wienberg of Goldman Sachs & Company and he wondered if Mr. Wienberg is duplicating what Mr. Griswold is doing. Mr. Griswold said the he did not know but thought he could find out.

Mr. Fleek then mentioned the five companies which he designated by the letters "a" to "e" which within the last six months had wanted an aggregate of $3½ million. The issues would have a "b" or "ba" rating at the best and yet they were excellent local companies and were well known. Mr. Morgenthau suggested that Mr. Griswold and Mr. Fleek go to Mr. Upham's office with him and continue the discussion and make available any information or data which they might have. They did this and Mr. Fleek stayed and talked until one o'clock, going over very much the same material, and agreeing to send in copies of memoranda and letters.

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In connection with the Halle Company, Mr. Fleek stated that in 1937 they had wanted to put out an issue of refunding bonds, the Hayden Miller and Company having urged them to do so on the basis of being able to secure a lower interest rate on the outstanding issues. Investigation disclosed that SEC cost of registration would be considerable. After the submission of about ten or twelve different plans for refunding the issue, Hayden Miller and Company were informed that the Halle Company had been able to dispose of it more advantageously directly to a New York insurance company,--thus avoiding all registration costs. Mr. Fleek commented that this practice was growing and that of course it prevented the distribution of good securities to investors who should have them and it might lead eventually to the complete breakdown of the security distribution business as represented by the investment bankers of the country. The old Halle bonds which had been held in Ohio were paid off, the new issue going to the New York insurance company, and what the Ohio people have done with the money, he doesn't know. In any event, they have been deprived of the privilege of investing in this high-class security. Mr. Fleet feels that something ought to be done about relieving the severity of the SEC registration requirements on small concerns, and that the attitude of bank examiners toward bank investments should also be more lenient.

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March 12, 1938

Excerpt from Herman Oliphant's weekly report to the Secretary of March 12, 1938.

Reorganization - Genesee Valley Gas Company, Inc. We attended meetings at the SEC with representatives of the Company. Two plans to carry out the agreement reached at the meeting with Judge Caffey were submitted but as both involved marketing or purchasing on the part of the Treasury, of $113,000 Pavilion bonds held by Genesee, neither was acceptable. SEC is now preparing its own plan and expects to have it ready for us to look at soon. We conferred with representatives of the Company regarding our claim for taxes of approximately $7,100, who submitted a formal offer to compromise our claim for $3,000 in cash. We are considering this offer and expect to advise the Company of our conclusion this week.

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GROUP MEETING

March 14, 1938.
9:30 A. M.

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

H.M.Jr: (Over telephone:) Hello. Thank you. Hello. Yes. Oh yes.

The President is going to call in about fifteen minutes and when he does I'll have to ask you people to step out.

Magill, what have you got on?

Magill: At ten o'clock, Financial Committee meeting. (Inaudible.) .....

H.M.Jr: Well, it's worth it. (Inaudible.) .....

Magill: Yes.

H.M.Jr: Will you be there all day?

Magill: I don't know; he's talking about hurrying the thing through and having public hearings at the end of the week, but I don't believe he will be able to carry out such a schedule.

H.M.Jr: You go any time you feel like it. Does Cy go with you.

Upham: (Shakes head "Yes.")

Taylor: The only conflict is this Banking meeting, and I think it is all right for Cy to go down with Ros.

Upham: At eleven o'clock the R. F. C. - but he thinks there is nothing for us to do there.

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H.M.Jr: Well, it's just a question - do you need him up there?

Magill: (Shrugs) I'd rather leave it to you. I don't know about this R. F. C. meeting.

Upham: I can do both. I can go up there and then come back to the R. F. C.

H.M.Jr: All right.

Magill: That's all right.

H.M.Jr: I don't know how good a tax expert he is, but he's pretty good on banking.

Upham: Thank you.

H.M.Jr: There will be no publicity given out up there will there?

Magill: There is not supposed to be.

Upham: Pat will talk to the press after the session.

H.M.Jr: There is this meeting of the R. F. C. I think you'd better go to that. Will you? Is that in conflict?

Magill: No, it doesn't; this is as good a day as any to go to the R. F. C. They are supposed to be receiving an explanation of the bill as it now stands. It is supposed to be a classroom session this morning. I don't suppose it will be, but that is what it is supposed to be.

H.M.Jr: Anything else?

Magill: No, nothing.

H.M.Jr: Doughton called me Saturday noon, I see. Does that mean he didn't go away?

Magill: He's gone away now. He called and wanted to know whether the conference was apt to occur. I said I didn't know any more than he did about it.

H.M.Jr: He's not in town today?

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Magill: That's what I understand. He'll be gone through Wednesday.

H.M.Jr: Herman?

Oliphant: The conference report of the Independent Offices Appropriation bill is up for vote in the House today, and the Senate will be voting on the conference report on the Act to Amend the Federal Trade Commission Act. The only other matter I have is Mr. Alexander wants to go down to the Hill on some legislation, which matter I have been discussing with McReynolds.

H.M.Jr: Well, he'd better talk to me before he goes down. I want to know what it is about, but I can't do it today.

McReynolds: All right, I'll tell him. I've talked to him off and on about it. I told him I thought, as a matter of courtesy, he ought to clear it through your office.

H.M.Jr: Well - well, you bring it to me, will you please? I don't want him to go up on the Hill without seeing me.

Anything else?

Oliphant: That is all. I'll give you the grade on that paper --

H.M.Jr: Before lunch. I'll have to have it before lunch. Herbert?

Gaston: On that Comptroller-General matter, I talked to Eddie Bartelt and we thought it best not to talk to the newspapermen because I don't think we could get anything out of it. He prepared a letter, which I have read, and I think it is all right.

McReynolds: Here is the letter. It is addressed to Byrnes, but we want to send a copy to Jack Cochran.

H.M.Jr: All right. Have you been able to get anything in any of the papers about the Glee Club?

Gaston: I thought the time wasn't quite ripe, but we are working on it.

H.M.Jr: This week?

Regraded Unclassified

Gaston: Yes.

H.M.Jr? George?

Haas: I have something on this thing. (Hands Secretary notebook.)

H.M.Jr: Listen George, when you fellows come in here Wednesday I expect a finished report on cement and structural steel, and I won't take any excuses. I want to know how much cement the Goverment buys and everything else - I want a finished report. If you need Mac to help you, or Peoples - I want no excuses - a lot of ifs and ands, or anything else. On rackets, I don't expect that. On cement and structural steel I want a finished report. "This is what you can do; these are the powers and we've got to enforce them." If you need any help from Procurement, Mac can get it for you.

McReynolds: Blaisdell is having a meeting this afternoon.

H.M.Jr: But that is rackets.

Oliphant: He's Chairman of the Cement Committee.

H.M.Jr: Is he? I thought that what's-his-name --- Well, anyway, I'm glad you set me straight. I want a finished report during the afternoon, with recommendations for alternative plans, see?

Haas: Yes sir.

McReynolds: You knew that Blaisdell is getting together this afternoon at three, didn't you?

Haas: He talked to me about it.

H.M.Jr: Make out a list of who will be here so we don't overlook anybody - but, a finished report.

Haas: Yes sir.

H.M.Jr: And if you need any help - Mac hasn't got much to do. He can help.

McReynolds: Blaisdell has called me repeatedly in order to see that we have the activities of the Procurement.

H.M.Jr: Where do they meet?

Regraded Unclassified

McReynolds: Here, in 296.

H.M.Jr: Are you going to sit in with them?

McReynolds: I expect to.

H.M.Jr: You'd better. O. K. George?

Haas: Yes sir.

H.M.Jr: All right. Lawyers and everybody be ready?

Oliphant: Ready to go to work on a program of action.

H.M.Jr: "Here, you can take this road, or you can take that road. The Government buys so much cement for the rest of this calendar year - rest of this calendar year"- some period - I mean, we have still got so much to buy. I don't want a lot of history - "Here's what we used to do." "Now, until December 31, the Government will buy so much - to June, 1939, it will buy so much." How much the States - how much the Federal Highways will buy. I want a finished job.

I talked to Commissioner Stephens at Commissioner Fox's suggestion, and he said he'd have out the iron and steel report, and that he liked working with us. He enjoyed working at the three o'clock - and had a good time.

Haas: I think it is quite remarkable that we've got them stimulated over here.

H.M.Jr: You fellows come in at eleven. Wayne, right after this we can get on the French thing.

Taylor: In the meeting this morning I am going to at eleven, I think we'd better retain the position which we have maintained up to now, that we are still listening, because I don't think we ought to vote at this particular stage. I can expand that if you care.

H.M.Jr: No, I'll take it. You're handling it - huh?

Taylor: Yes.

H.M.Jr: All right. Steve?

Gibbons: (Shakes head "No.")

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H.M.Jr: (Nods to Mr. Upham.)

Upham: (Shakes head "No.")

H.M.Jr: You better have a talk with Magill about what you're going to do in the next couple weeks, because I don't want this - I'll let Magill decide. I am more than willing to let Magill decide it.

Magill: We'll thrash it out.

H.M.Jr: You decide that in the next couple weeks. There's no use splitting these people into so many groups nobody gets anything.

(Nods to Mr. Lochhead.)

Lochhead: Rates haven't changed yet. Still nervous, but no change in the early morning.

H.M.Jr: (Over telephone.) Have Harry White come in in five minutes please.

Bell: All I have is this memo here.

H.M.Jr: You mind hanging onto this until we go to see the President.

Bell: I thought you might like to read it sometime before one o'clock.

H.M.Jr: I'm supposed to sign it.

Bell: Yes. I prefer you read it.

H.M.Jr: Did we buy any bills in advance?

Bell: No, we haven't.

H.M.Jr: Next time you speak to Burgess will you give him a little "horse-laugh" about his worries about the market being too high.

Anything else, Dan?

Bell: Nothing.

H.M.Jr: Mac, what are the things - the important things you are going to do besides getting this thing - Did the President answer that Kelly letter?

McReynolds: I couldn't find out from Rudolph whether he had acturally signed it or not. He expected to get it signed.

H.M.Jr: All right.

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March 14, 1938

9:45 am

Present:

Mr. Taylor
Mr. Lochhead
Dr. White
Mrs. Klotz

Dr. White: Any exchange control would have to be imposed over everything. It would involve exchange controls over all transactions. We understand that. And any trade would be subject to the necessity for securing permission, etc., so it would be a little more troublesome, but actual restrictions -- refusal to grant exchanges -- would impinge not only on commercial transactions, but on capital transactions.

Mr. Lochhead: We had the same thing three years ago.

HM,Jr: I would slap on complete exchange control and grant commercial permits.

Dr. White: That's right.

HM,Jr: Just like the Japanese. They put on complete control and then over a period of five or six weeks put this thing on.

Mr. Taylor: We can dress it up -- say, if it useful to have them in on that basis. The way they are going now, you are going to get it anyhow.

Dr. White: Two other things: one, consider the likelihood that they may be able to be more successful if they permit the exchange to drop a little. Just a basis for consideration. I am not sure. Third, I would be extremely surprised if Chamberlain would acquiesce.

(At this point, the Secretary spoke to the President, as follows:)

HM,Jr: 'It's a tragedy. The reason I am

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calling you is this: I have had a chance to do a little thinking over the weekend and I discussed it here with the people in the Treasury, but not outside, and we are ready to recommend, if you think well of it, to Blum that he immediately put on exchange control and then gradually release the commercial transactions. The Japanese did that a year ago January. He has tried everything else. And then tell him but not to do anything about tariffs or anything like that, and gradually get the French capital back." (The President said to inform the English that this is what we are going to do and to try to get them to go along. He said he thought of this a year ago. He also said, Isn't it a tragedy? What's going to happen to the Jews in Austria now.)

"I think this is going to put the British on the spot, because I don't think they like Blum, but I think that if the French and ourselves agree that they can do this and that we will not announce that they have been kicked out of the Tripartite Agreement, I think he would go ahead in a minute. (The President said, I think it is all right.)

"We will work out the details and are you having me for lunch? By that time I will have some word and I will keep the State Department informed of what I do. Is that all right? I don't know the mechanics because I wanted first to get your approval and we will keep London informed and I will go right to it.

"The franc is down to 3.09%. As I was saying to the boys, here Hitler goes and bluffs his way through Europe and if the French showed a little strength they would find England quickly rallying to their side. This way they have no friends at all. Thanks so much."

The Secretary then spoke to Secretary Hull and said, "I am going to try to stir up something and help. I just got through talking to the President and told him it was the opinion of the Treasury that we ought to recommend to the French that they put on exchange control on movement of capital and if they put on complete exchange control and then examine each transaction and release the commercial ones but withhold movement of capital -- for four years they have got nowhere. We think that it is worth trying and so did he. It ought to help the movement of goods rather than hinder it. The reason I am calling

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you is I have not asked anybody except the President and unless you have some objection I would like to go ahead on it. (Mr. Hull said 'At first blush it sounds all right, but let me talk to some of my men.) Will you send somebody over to sit with me? Feis had better come and the sooner he gets here, the better."

Dr. White: Isuppose the political implications of this are clear to you.

HM,Jr: Well, state them.

Dr. White: One of the major issues has been between the so-called 'right' and the 'left' as to whether exchange control shall be imposed. The 'right' has opposed imposition because they felt if Blum were once to put that on he would eliminate the most serious obstacle to going forward with the rest of his social program. As it is, the 'right' says you can't go forward because you are driving capital out of the country and if he were able to say we can stop capital from going out of the country, one of their important arguments for not going forward with their social program, the labor program and others, is eliminated. That's one reason why Blum has tried to make an issue of it, the desire to impose exchange controls.

HM,Jr: It does not quite check. Say it again.

Dr. White: The 'right' groups, Blum being the Popular Front ....

HM,Jr: Call it Blum and Opposed to Blum.

Dr. White: The Opposition has been against exchange controls for several reasons. The chief one has been that they believed or felt or suspected that if exchange controls went into effect it might subsequently, after a period of a month or two months or three months, after successive steps were taken, it would be effective in checking the outflow of most of the capital and they might then go further and bring some of it back by adopting other measures. They were afraid because so long as capital was going out they could say to the French people and Blum 'It is reform which is driving it out.' If you stop it from going out, you lose one of the arguments against adopting reforms. The whole issue of exchange control is

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tied up with Popular Front verus the others and that is one of the reasons Chamberlain ....

HM,Jr: Sure; he doesn't want Blum to succeed.

Dr. White: Blum may use this as manna from Heaven. He would sell his own left leg for it.

HM,Jr: From me to Blum it would be matzoth!

Dr. White: Two points you will want to consider, one which you have already suggested. The second is, at what rate, because the minute they impose exchange control they select a rate at which to peg -- whether you think the current one is most desirable.

Mr. Lochhead: I don't think we ought to insist on specific rates.

HM,Jr: Let the British do that.

Mr. Taylor: On this particular situation, the rate does not make a damn bit of difference. Suppose they take 3 cents and go on exchange control, the gamble that you are taking at this particular time .....

HM,Jr: Don't forget that Blum, when we started in, was opposed to the Tripartite Agreement. He did it as an external matter. He had just said, when he first ran, that he wouldn't do that particular thing.

Dr. White: Yes. Or he wouldn't tie his hands with respect to the gold standard. I think that was it.

HM,Jr: I bet Mr.Hull will raise some objections.

Mr. Taylor: I can tell you what some of the objections are going to be, because I spent some time with Herbert Feis last night.

HM,Jr: As a matter of fact, if they object I will go ahead just the same.

Mr. Taylor: Feis' personal reservations are not as to this move -- that is, exchange control. He does not think that Blum can pull France out of her present situation.

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Monday
March 14, 1938
10:07 a.m.

HMJr: Hello.

Winfield Riefler: Hello.

HMJr: Hello, Win. Are you at home?

R: Yes.

HMJr: Well, I'll take a chance on the telephone, see.

R: Yes.

HMJr: You've followed the papers on what's happened in France?

R: Oh yes.

HMJr: What?

R: Yes.

HMJr: Now, the franc this morning is down to 309 - cross rate 161.5.

R: Yes.

HMJr: And we're thinking very seriously of recommending to the French that they put on exchange control at once.

R: That's taking the initiative?

HMJr: Pardon me?

R: That's taking the initiative in recommending it?

HMJr: Yes.

R: What do the British say?

HMJr: Well - we'll tell them the same thing - we'd simply say, 'We are going to recommend this.'

R: I see.

HMJr: We'd tell them simultaneously. Nothing's been done yet, I mean, so I'm asking your advice first.

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H: Yes. - Oh, I think that that would be very serious to interfere. It looks to me as though they're coming to it very quickly.

HMJr: Well, all I would say is that if they did it - simply put it this way, 'If you should put on exchange control we would not feel that we would have to put you out of the Tri Partite.'

H: Yes. Well, I think they know that by this time, don't they?

HMJr: No, they don't.

H: They don't.

HMJr: No, they don't. Well, the way I feel is this, for four years they have been going on now, they've lost two and half million in gold; if the merry-go-round moves back in the saddle again and a hint from us might make it possible for him to get somewhere. What would be lost by doing that?

H: You mean...

HMJr: I mean on the part of the United States Government.

H: Yes.

HMJr: I mean, what risk do we run?

H: Well, I think that I would hate to have us mess into the internal affairs. It seems to me they are coming to it as far as that's concerned.

HMJr: This is the external franc.

H: Yes. I don't know whether the French can handle their problem with exchange control any better than they can handle it in any thing else, I rather doubt it.

HMJr: Well... You mean...

H: I mean I would hate to be responsible for giving them advice on handling a problem which is much worse than monetary.

HMJr: Well, you wouldn't say not to do it?

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R: No, I would keep a 'hands-off' policy on them right now.

HMJr: You would? Well, this....

R: They're in - they're in a 'hell of a mess' with Germany coming across border and I'd keep a 'hands-off' policy on them.

HMJr: Uh huh.

R: I wouldn't kick them out of the Tri-partite and I wouldn't - I wouldn't get responsible for anything they do unless you're willing to put something into the pot yourself - give them some real help, and I don't think you can possibly do that.

HMJr: Well, I am going to work on it and concentrate on it for the next couple of days.

R: Yes.

HMJr: If you can come down it will be most helpful.

R: All right. I'll be down.

HMJr: When will you be down?

R: About seven tomorrow morning.

HMJr: That a boy. Thank you.

R: All right.

HMJr: Thank you.

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HM,Jr: I know it. He is just as bad as Cochran. He does not believe in it any more than he does in Mexico.

(At this point, HM,Jr spoke to Dr. Riefler and record of their conversation follows this page.)

Mr. Taylor: There is one point there that is good. That is the question of recommending. I don't think you can recommend. You can do just what you said.

HM,Jr: Would not object if they did so and so.

Dr. White: If they did so and so, you would not be displeased. I don't think you can underestimate the moral support and strengthening of the present Government if the statement is put that way. You can say if they do it you will not be displeased.

HM,Jr: But the great thing we have to watch on this thing, that the people who advise us have what I call 'riding personal hobbies', which, thank God!, I don't do. The hobby is, well, Blum can't succeed and this may help him to succeed.

Mr. Lochhead: My point is what we want to do is to say we are not going to interfere on internal affairs. He has control on internal affairs.

Mr. Taylor: Not to worry about exchange control.

Mr. Lochhead: That's it. Not to worry about exchange control. And the mere fact that news came over here -- there was a report that Blum could not do exchange control because we threatened him on this side -- because we were threatening him -- so we are not going to threaten this.

Dr. White: Not tell them to do it, but if they do it's all right with us.

Mr. Taylor: Very important not to recommend, but say if you find that this is necessary ....

HM,Jr: That's all right.

Dr. White: You will accomplish your purpose far better. That if you do -- I wouldn't even say 'find it necessary' -- if you impose exchange controls, it's all right with us.

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Mr. Lochhead: Depending on the type, and so forth.

Mr. Taylor: Depending on the type, we will keep you a good girl or consider that you are.

Dr. White: If he is able to go to other members in that combined party and say he has received word from the American Secretary of the Treasury thatif they wish to impose exchange controls it will be satisfactory to him, I think he has a great weapon.

Mr. Taylor: As you indicated before, Bonnet and the other boys thought it was necessary that they not impose it because they would immediately lose support of the British and the Americans. Therefore, they could not afford to do it. They would be kicked out of the Tripartite.

Dr. White: With respect to their ability to maintain it, no one can underestimate their difficulty, but even if they are only 50% successful to start with, as time goes on they will learn.

HM,Jr: How much gold has Germany got? $40,000,000 or $50,000,000?

Dr. White: $60 to $70,000,000.

HM,Jr: She's doing it and these boys have over $2,000,000,000.

Mr. Lochhead: Bewley ought to be here about the 21st.

(At this point, the White House pohone rang and after the conversation was over the Secretary said, The President wanted to know whether I wanted Bell or Magill for lunch with me. I think neither. I think the French is more important.)

Dr. White; This step is more important than any of the others.

HM,Jr: Another thing is this: where I would disagree with Win (Dr. Riefler) if you are ready to support them on the control -- let them put in exchange control -- they don't need your help.

HM,Jr: Should we first talk to the English or the English and French.

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Dr. White: The English certainly are not going to answer right away.

HM,Jr: Two ways to do it: talk to the English and keep quiet about the French, and my idea is to do it simultaneously.

Mr. Lochhead: I think we should let the British know.

HM,Jr: Simultaneously.

(At this point, HM,Jr spoke on the phone to Dr. Viner and their conversation follows this page.)

HM,Jr: His thought is it is the only thing to help the French at this time.

(The Secretary went to Mrs. Klotz' office to talk on the phone with his father, calling from New York upon his arrival back from California. In his absence Dr. White and Mr. Taylor had some discussion, which was not recorded.)

HM,Jr: I don't know what it is all about. (Referrig to White and Taylor's conversation.)

Dr. White: I said I thought events of the past couple of days have weakened Chamberlain's position in England and strengthened France's desire to reorient her policy. Wayne's position checked with that. He does not think France is strong enough to take sufficient lead in the European situation to remove the imminent danger of great uncertainty.

Mr. Taylor: I think France insists on always making some mistakes. She wastes her time with the Czechs and Roumanians and Yugoslavians, etc., and get this: in the weakened position which she is in, those mugs are not going to be the slightest good to her in any difficulty she gets into.

HM,Jr: They are a liability.

Mr. Taylor: Absolutely, and have been right from the beginning. And the Russians are a liability.

HM,Jr: As the situation is now, yes.

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Monday
March 14, 1938
10:19 a.m.

HMJr: Hello.

T.O.: Dr. Viner.

HMJr: Hello.

Jacob Viner: Hello.

HMJr: Good morning, Jake.

V: Good morning.

HMJr: How are you?

V: Fair.

HMJr: Jake, the French franc today is down to 309.

V: Yes.

HMJr: Cross rate - 161.5.

V: Yes.

HMJr: I am thinking very seriously of informing the British and the French that if the French should choose to put on exchange control....

V: Yes.

HMJr: it would not be disturbing to us. And I am calling you up for your advice.

V: Well, I do say that it could be done, in the light of the existing circumstances, but as a temporary arrangement.

HMJr: Yes.

V: You see, I wouldn't say that it wouldn't be disturbing to us if they were to adopt it as an enduring practice and system.

HMJr: Well, that - I accept that. I mean, under the existing circumstances.

V: Yes. And as a temporary arrangement.

HMJr: Yes. And as a temporary arrangement.

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V: Well, I think that's all right.

HMJr: You think that's all right?

V: Yes. But, of course, you'll tell it to them confidentially, otherwise they'll say that you're forcing their hand.

HMJr: Oh, no. I'd - I'm not - I'd put it on the grounds - if they choose to do this.

V: Yes.

HMJr: Because up to now we've done everything...

V: Yes.

HMJr: ...to impress upon them that they shouldn't.

V: That's right. I think that's wise now.

HMJr: Are you at home?

V: No.

HMJr: At the University?

V: Yes.

HMJr: Is your switch-board all right?

V: Yes.

HMJr: Now, let me ask you this.

V: Yes.

HMJr: My thought was to informthe British and the French simultaneously.

V: Yes.

HMJr: What do you think of that?

V: Why that's not the way we've been dealing with the British up to now.

HMJr: Oh. Why not?

V: I'd be inclined to say I'd like to that because the way the English have been acting - not on

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this - these matters but in other matters, I'd sort of like to treat the French on a - at least on a parity.

HMJr: I don't think you understood me, I said that we'd do the Eng - inform them simultaneously.

V: I said yes, that I did understand you. I'm saying that that isn't the way we've operated in the past, but under the circumstances I'd like to see that shift - that we do treat the French as equals.

HMJr: Well, you mean before this we ....

V: No. You see before we always talked to London first.

HMJr: I see.

V: Well now, with the way the English have been operating I'd sort of like to tell them simultaneously, if we can, with the French.

HMJr: Yes. Well then you agree that we do it simultaneously?

V: That's right.

HMJr: Well, you would get the political significance for the reason for doing it simultaneously.

V: Yes. Well, that's the point. I like that political significance.

HMJr: Yes. Now, I just spoke to Riefler and asked him if he could be here tomorrow morning. He said he would. Because I am going to concentrate on this until we get it done, one way or the other.

V: All right. I had planned to be there next Monday.

HMJr: Well...

V: If anything very important was there I could be there Thursday or Friday.

HMJr: Well, this will be settled I think in the next couple of days.

V: Yes. Yes. I understand. Now...

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HMJr: I've put it up to the President.

V: What's that?

HMJr: I've put it up to the President as to the principle.

V: Yes.

HMJr: No details. And he said - he gave it his approval.

V: Uh huh.

HMJr: The State Department has it under...

V: I think it's all right.

HMJr: What?

V: I think it's all right. The important thing for them to do is to get strong; nothing else matters.

HMJr: Well, you and I agree entirely.

V: Yes.

HMJr: Couldn't you strain a point and get here tomorrow?

V: What's that?

HMJr: Couldn't you strain a point and get here tomorrow?

V: I can't possibly. It just happens to be the end of a quarter and...

HMJr: Oh.

V: I have examinations and everything else this week. I could possibly come for Thursday but not sooner.

HMJr: Well...

V: But you have - I'm for it.

HMJr: Well, now just a minute.

V: I'm worried about the general situation. The business men here are extraordinarily blue and - hello?

HMJr: Yes. I'm here.

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V: And I'm wondering just what is the - is

HMJr: Well, there's nothing that you don't know.

V: There is?

HMJr: There is not anything.

V: Oh, there is not anything?

HMJr: No.

V: Well, I'll talk to you about it when I'm there. I'll plan - unless I hear from you to come on Thursday...

HMJr: Yes.

V: I'll come on Monday morning.

HMJr: Well, I'll be in touch with you again, because as this thing goes along I'm going to call you up and get your advice.

V: All right. So, I tell you, if you call me - well, I suppose that's too early - the - I was going to say that the easiest way to get me early in the morning is before your ten o'clock, at home.

HMJr: I see.

V: You see, I leave at a quarter to ten.

HMJr: That's a quarter of nine our time.

V: Yes. No, no, I leave - yes, at a quarter of nine your time. And you get up early, you leave home....

HMJr: And you see, you're - wait a minute, what time is it now in Chicago?

V: In Chicago it's now twenty-five to ten.

HMJr: What?

V: Twenty-five to ten.

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HMJr: (Laughs) Well, your clock's wrong but otherwise it's all right. We've got twenty-five minutes past ten.

V: Oh well, I'm looking at a clock here that is wrong. Well - well, it's twenty-five after nine then.

HMJr: Yes. And now, what time do you leave home? What time do you leave home?

V: Why you see I leave...

HMJr: Chicago time.

V: I leave home, Chicago time, at a quarter to ten.

HMJr: Well that's easy. I can call you before then.

V: What's that?

HMJr: I can get you before then.

V: Oh yes. You see, you can get me at your breakfast time.

HMJr: Yes.

V: And that's convenient because then it's at the home and you know you can get me without anybody having to go hunting for me.

HMJr: All right, Jake.

V: All right.

HMJr: Goodbye.

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Mr. Taylor: And before. They have just made an unfortunate mistake. That's where Harry and I differ.

Dr. White: They are a liability in the sense that her rapprochement with Russia has made England very cool towards France, but now that she can no longer depend on England -- one of the reasons being the statement, you probably saw, of Hore-Belisha, Minister of War, announced that in the future England would not send any arms into France; she would send highly mechanized small force.

Mr. Taylor: Most important statement which was made over there.

Dr. White: Which is a sort of announcement to France that England is not going to repeat ...

HM,Jr: As far as Russia goes, this is the way I see it. I think Russia has expressed herself, again and again, that she is not going outside of Russia to help anybody.

Dr. White: She has committed herself to go into Czechoslovakia if France ...

HM Jr: I still don't think Russia is going to step out of her boundary to help anybody.

Mr. Taylor: I don't think France is going to step out of France to help the Czechs or anybody else.

HM,Jr: I don't think you will see Russia stepping across the Russian boundary. She has said, again and again, she will fight if somebody invades Russia.

Dr. White: On the other man's territory.

HM,Jr: No. You watch. I don't think she will step out one bit. My Heavens! she certainly has not done anything in China!

Dr. White: Not, except sending 100 airmen (according to reports from G-2) and 500 planes.

HM,Jr: I think Jake Viner summed the whole thing up -- if we can do anything at this time to help France to

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strengthen herself by simply knowing if she takes this move we are willing to sit behind and say 'good boy!; we hope you make it', that's all we care about. As to the many things about European politics, I am not up enough. I don't particularly care to get in on it. All we are going to say to France is, if you think this is a good move for you to make we are willing to sit behind and see you make it. That's all. The rest of it -- we get into something else.

How long do I have to wait for Mr. Hull?

Dr. White: They will talk this over and it is to be expected you will have to wait a little while, because if he objects ....

HM,Jr: At first blush he thought it was all right. I think we might as well adjourn this meeting and as soon as I hear from Hull I will let you know. Have to give the fellow a reasonable time.

oOo-oOo

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March 14, 1938

At lunch todayin talking about general conditions, HM,Jr said to the President: "As I see it, what you are doing now is just treading water and that you want to wait to see what happens this spring.' The President said, 'Abs olutely.'

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RE BUSINESS SITUATION

March 14, 1938.
11:00 a.m.

Present: Mr. Haas
Mr. White
Mr. Daggit
Mr. Driver
Miss Lonigan

Haas: New York Times index last week went up slightly, you know. The steel production, as estimated by the Steel Institute, last week went up to 29.9, up six tenths. Another figure is coming out today.

It looks as though we're getting a beginning of the spring rise here. Standard Statistics, for example, estimates that the second quarter will average 40 as compared with 30 for the first quarter. Another indication we have of an increase is United States Steel orders. The last figure that came out indicated an activity of 33 percent.

H.M.Jr: I see. I'm just looking at the new one.

Haas: Yes.

H.M.Jr: Chrysler has passed Ford, hasn't he?

Haas: Yes; Ford was up a little bit last week, Mr. Secretary, but that was just a few Lincolns they were producing. I mean the increase was due to Lincolns. Yes, Ford is the laggard now, he's behind.

Now, on the automobile situation, this year the general concensus seems to be that you'll have about 3,000,000 cars as compared with nearly five last year. But I talked to DeBrul of General Motors last Saturday, ...

H.M.Jr: Who's this, now? Debew?

Haas: DeBrul. He was head of research over at N.R.A., loaned from General Motors when Sachs went back.

H.M.Jr: I know who you mean.

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Hess: He does a good many jobs for them. Got more than one economist down there.

Last week the automobile production turned up, but less than seasonal; but even that was encouraging. Ward, that puts out these production estimates, told me on the phone Saturday that he thought this was the - it had passed the bottom and this was the turn. And in his write-up - he told me he'd send me a copy, which came in this morning - (remaining words spoken in low tone, unintelligible) ....

H.M.Jr: I'll borrow this. I've never seen that.

Hess: O.K.

DeBrul let me look at their figures. He has a lot more that I'd like to have. He said he thought they'd give it to us if you'd ask. Will you do that?

H.M.Jr: Yes.

Hess: He had inventory figures, for example, and he had a ten-day used car report that we could get, and, along with Chrysler, you'd have more information than the automobile people themselves, because they don't pass the information between them.

H.M.Jr: Have you asked Chrysler?

Hess: I've asked Chrysler for their sales. I asked like we asked all the others; said we wanted the information for your confidential use. We kept it on the confidential basis, exactly like the others.

H.M.Jr: They haven't come through yet?

Hess: They haven't come through yet. DeBrul said General Motors would probably send me this thing, so I'm hopeful we'll get the same information from Chrysler. According to Ward, Chrysler stocks - heavy buying. DeBrul said that he expected the production to go up from here, but not to expect too much because they have produced their stocks, have quite a stock in the warehouses. But the situation is not excessively - I'll have the exact figures as soon as I get their reports.

The used car campaign, from the first indication, is

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going off very well. We've got some figures for Ford, and in two days ....

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

Haas: You know those figures.

H.M.Jr: I think it's for four days.

Haas: DeBrul told me something which I had heard in other places - I thought you might be interested - that the amount of inventory all around was larger than anybody anticipated. And he believes the main reason for it was that during last year, when they had these sit-down strikes going from one place to another, that the only way employers could combat that situation and talk to labor in any terms at all, was to have a large inventory. So in that way he attributes a good deal of that to the labor situation.

H.M.Jr: Well, this fellow Biggs over at the glass place told me that these automobile people would buy glass - have different departments in the same company buy it and store it in different towns, and the different departments in the same automobile company wouldn't know how much glass they actually had. Said they shipped them secret shipments, piled up this glass. So I mean Chrysler - except the head of it - wouldn't really tell one department what the other department had. They'd hide it away, against strikes.

Haas: The situation would have gone all right if it hadn't turned down. When it turned down, it was bad.

On construction ....

H.M.Jr: Any more of those other figures we had?

Haas: Yes, we have. I've got another figure. It's not in here. But I thought you could see the curve.

H.M.Jr: Well, you sent me that one.

Haas: No, that isn't the chart.

H.M.Jr: You sent me the one, you know, Friday?

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Haas: Yes.

But on some other figures, from Dun & Bradstreet's, it shows this picture. Shows for the country as a whole February was down 54 million, compared with 146 in January. But that was all concentrated in New York because of that same situation which was involved in those other figures. But those contracts awarded - but if you leave New York out of it, the country shows - the rest of the country showed an increase from 40 million to 47 million, and tends to check somewhat with the residential figures that you've got.

Carloading figures, you know, are up last week. But the most important thing from a business point of view is that car lot shipments - miscellaneous shipments were up.

H.M.Jr: For two weeks they're up.

Haas: That's important. And here is another thing which just on the surface now - which should be carefully watched. I think there is some indication of a - of new financing coming out now.

H.M.Jr: The worst thing, I think, is the way retail sales are falling off.

Haas: Oh, that, I think, is to be expected.

H.M.Jr: Why?

Haas: That's usually what happens when you get your - they lag behind, and they're going down while some of the other curves on steel and so on are going up. So that doesn't discourage me so much.

H.M.Jr: Well, there is nothing really new. I've watched this thing so closely, there isn't anything new the last couple days, is there?

Haas: No, no.

H.M.Jr: Good or bad.

Haas: No. Have you seen this new financing stuff? I think that's important. Some of it has more than reached the

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rumor stage. In talking to the investment people, near about Consolidated, Canadian Power, and all that.

Did you see that letter that Goldsmith and Moody and Fitch put out on the Government bond market?

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

Ness: They're getting bearish. Here's the basis for it. First of all - about three or four factors - one is, we'll probably have to go into deficit financing again. The other is that the - this one might amuse you a bit - as business picks up, there will be a bigger call on the banks for other business than Government lending. Well, if that's all that makes the Government bond market go down, I wouldn't worry about it. The other thing is that the banks' capital position is not too liquid and the banks are coming to realize that more and more, and therefore they won't want to take on many longer-term obligations and just as soon as they can get other types of business they will liquidate longer-term obligations. That's the main concern of those... I think they have some significance because they have such a wide circulation.

The high-grade corporation bonds, you might be interested to know, held up very well.

H.M.Jr: I wasn't - I haven't been watching those.

Ness: Held up very well. Now, Mr. Daggit can discuss the commodity price situation. He also has this chart which you were interested in, to which he has added several more companies, several more industries, and carried it back to 1923.

H.M.Jr: All right. This is your report?

Daggit: Yes.

Daggit: Nothing startling has happened from last time to now, so I will devote the time to discussing this chart. We have carried this back to 1923 - you recall that we started before with 1932 - and also added four new groups.

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

Daggit: Rubber, cement, leather, and petroleum refining.

H.M.Jr: Yes.

Daggit: We have revised one or two of our studies.

H.M.Jr: Well now, which ones are the good ones?

Daggit: Steel ....

H.M.Jr: Which are the blue?

Daggit: The good ones, I'd say, are steel ...

H.M.Jr: Well now, let's just see. Production is the black line.

Daggit: Yes. Let's look at the deviations.

H.M.Jr: Is this below?

Daggit: Steel has got down to the low level; in deviations of earlier years it started up in January. The demand index turned down further in January, but that seems to be characteristic. Particularly when we look over this composite index, which is the - the black line is the Federal Reserve index of production and the dotted line is our combined index of basic demand, - it seems to be a characteristic that after a deviation has gotten down to about 10 percent below demand, it starts to turn up, even though the demand index may turn down slightly further.

H.M.Jr: I see.

Daggit: The important fact is that it has got down to ten percent below basic demand, and that in all of our previous experience, going back to '23, that has marked the turning point.

H.M.Jr: I see.

Daggit: Among the good industries on the basis of the chart would be iron and steel, textiles, automobiles, leather production. They have already turned up.

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H.M.Jr: These here, iron and steel?

Leggitt: That's good.

Textiles.

Incidentally, those two together make up about 40 percent of the total index.

H.M.Jr: That right? Of the index of which?

Leggitt: Of the Federal Reserve Board index.

H.M.Jr: Automobiles?

Leggitt: Automobiles. We give the weights in the index up here.

H.M.Jr: I see.

Leggitt: Automobiles, definitely favorable. They would add another five percent. Leather production has already begun to turn up; they add three percent. And rubber tires and tubes would add two percent.

Now, some of the others are neither good nor bad. Lumber is an outstanding one. That is, on the basis of this demand index, lumber production got too high in the middle of '37 and has come down considerably since then. Basic demand turned down, you will notice, before - turned down while lumber production was still going up. In other words, that anticipated the turn in production by about four months. The information we have now, which is discussed at some length in the business review, shows production starting up and new orders continuing above production, which would indicate that the trend should continue up.

H.M.Jr: Well now, look, for this thing - for reading purposes I should think in another week you'd leave off that deviation, leave it on up here, but leave it off here. I don't see - I mean, after all, I don't see really that it helps.

Leggitt: It does complicate it, but I think ....

H.M.Jr: I think it complicates it. In the first place, you can put on more. But if you just leave that off, left it

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on up here - looking at it, I've watched this.

Daggit: I see.

H.M.Jr: And this is the production and there's your demand. It's the difference between the two.

Daggit: Yes. The advantage of this is that it shows at a glance how far the deviation has got below production, as compared to previous years.

H.M.Jr: But you can get it - a look at it here. It kind of makes you blink.

Haas: The whole chart makes you blink.

H.M.Jr: I think it would be much better if the fellow would make one leaving this off. Then you get your trend. But leave this off up here. That just cuts it down by half. Try it once, see how it looks.

Daggit: I think that would make it a more compact chart.

H.M.Jr: I mean I get the thing, I'm very much interested, I think it's very worth while. But it's awful hard - I'd leave this off - the deviation - just cuts it in half. Will you?

Daggit: Yes, sir.

H.M.Jr: That's a good chart. I'll take that along - take that along with me.

Got anything else?

Daggit: No, that's all.

H.M.Jr: What?

Daggit: That would be all, unless you want to discuss the commodity prices.

H.M.Jr: Let me ask you this. Be very careful in your answer. You haven't got enough information to feel that production is turning up, have you?

Daggit: I think we have enough information to indicate that production - that the probabilities are very greatly

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in favor of production turning up from here.

H.M.Jr: Taking out the seasonal factor?

Daggit: Taking out the seasonal factor. I intend to write a discussion of that in the coming week's business review.

H.M.Jr: All right. Now, the only other thing is on commodities - which way are they going to move - the spot prices? I mean the spot cash.

Daggit: My thought is that spot prices will gradually rise from here, from watching the individual commodities and the business situation combined.

H.M.Jr: You do think so?

Daggit: Yes, I do.

H.M.Jr: All right. You think commodity prices will rise?

Daggit: Yes. That, again, of course, has to be expressed in this way, that probabilities appear greatly in favor of a rise. A rise definitely, of course, can't be guaranteed.

H.M.Jr: Have you seen this fellow Baxter? For months forecasting complete collapse of commodity prices. Do we subscribe to his stuff?

Haas: No, but we get copies. I got a series - I believe we have subscribed now.

H.M.Jr: I think you have subscribed.

Haas: That's right, we did.

H.M.Jr: Take a look at the latest.

Daggit: I've seen his reports.

Haas: He's got everything going to pieces.

H.M.Jr: He had it that way last March. He's right so far.

White: He's a crank. His reasons are confused, although he may come out at the right end.

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Haas: Vanderpool, who writes a column for one of the Chicago papers, told me about him, told me he put that stuff out in the previous rise; so Vanderpool called Baxter's attention to it and has now been taken off his complimentary list.

Now Mr. Driver.

Driver: I will comment on the income tax collections first. I have in my hand a statement showing the deposits through March 11. That's the first 11 days of March. And they amount to 74.3 million, in contrast to our estimate of 72 million.

H.M.Jr: Just a second.

Driver: That's up about 2.3 million - about 3 percent.

H.M.Jr: How much you got?

Driver: 74.3, against 72 estimated.

H.M.Jr: Yes. First 11 days.

Driver: About 3 percent increase. So they're running ahead of it. I think during this next week we ought to know pretty well how they're going to run, because the big days come in the immediate future.

H.M.Jr: Yes.

Driver: Now, I also can report that we have completed this study of corporate earnings and that we find the 1937 earnings of 100 of these 160 corporations are up 8 percent, and that indicates to us that the statutory net of corporations is about 8.3 billions, which is a little bit ahead of our 8.1 that we used for our income tax estimates.

H.M.Jr: When can I get a memorandum on that?

Driver: You can get it right away. Just a matter of writing the thing up.

That's all I had to comment on.

H.M.Jr: Well, that's better than 200 million less.

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Haas: Well, it is, keep in mind, just still an estimate.

H.M.Jr: Yes, but on this basis our returns ought to be up a little bit.

Driver: I think it makes us feel like we're pretty sure to get what we estimated. That's about the interpretation.

H.M.Jr: All right. Go ahead.

Driver: That's all I had.

H.M.Jr: Thank you.

White: There is nothing new in the international economic situation. It is not getting worse. England - they had a decrease in unemployment, but it is less than seasonal and not enough to make any difference. So you can sum up the whole situation, aside from the political situation, which altered, - that the situation is no different than it was; about holding its own.

H.M.Jr: Miss Lonigan, between now and when Mr. Feis comes over, can you tell me what the situation is in Michigan?

Lonigan: Well, I didn't like the looks of it, Mr. Secretary, at all. There is no indication that there is going to be any volume of re-employment this spring. They are calling back the tooling and dyeing men.

H.M.Jr: A little louder.

Lonigan: They're calling back the tool and dye men, but when you pin them down they're calling back a very small proportion of them. And it looks as if this were for production next August, rather than for any large size immediate increase. The C.I.O. estimates that - of their 250,000 men in 23 plants, they count as unemployed 162,000 to 187,000. Now, there may be some technical limitations in their work, but I think it is absolutely honest, that is their honest count of their unemployed group for the week of February 28. This was an increase of five thousand over the week of February 19 - an increase at the end of February.

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H.M.Jr: Of five thousand.

Lonigan: Of five thousand. Two weeks ago men were quitting WPA to go back into the factories, and now some of them are straggling back. It isn't staying up. Nothing is staying up, so far as I can discover. They don't think the employers have anything in mind which will make it better. They don't look forward to any employment and they are apparently keeping their minds entirely on cleaning up the used car market, which doesn't help the Detroit employment situation particularly.

In the hotel where I stayed I talked with the maid, and she's been working in that hotel 12 years. She has now been put on a five-day week, and expects to be put on a four-day week. And the people that have been working five and ten years are on the four-day week and going to a three-day week. Everything is drifting downward as a result of the automobile situation.

Social Security Board estimates in August that they'll have 250,000 unemployed among the covered workers in the Detroit area. That is, of course, about half the workers are covered. The relief administration has 36,000 families on relief. That is exclusive of an estimate of 9,000 single men who are roaming the streets without relief, and some single women - I mean their stories are of suicides, that sort of thing. In the counties in the Detroit area outside of Wayne County, they are still on this township relief system, although they are factory workers and virtually city workers. And in one county, Macomb County, the relief allowance is two and a half cents a person a meal; that's the relief allowance.

H.M.Jr: How much?

Lonigan: Two and a half cents a person a meal. That's seven and a half cents a person a day. That's the situation in urban relief in the United States, Mr. Secretary. That's characteristic, including enormous quantities of industrial workers who are dependent for relief on the rural counties.

Shall I go on?

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H.M.Jr: No, it's all right, go ahead.

Lonigan: The C.I.O. is moving its efforts from the organization of workers in factories to a definite publicly-stated program for organizing WPA workers on the same basis on which they organized the workers in the factories. They're going to set up shop stewards and grievance committees, and so forth, with the purpose of a definite national organized campaign to raise WPA wage rates to industrial levels so they can maintain their families on the WPA wage rates. They have gone into the relief situation very heavily. They've been trying to help in investigating and have done an excellent job of investigating their own families, and probably cut down the number of applicants for relief. They were met by Mayor Reading, the anti-C.I.O. candidate who was elected last fall, by having Reading say that they were simply chiselers trying to get on relief, and he ....

H.M.Jr: (On phone) Hello. - Hello, Cordell. (Has conversation with Secretary Hull)

Lonigan: I mentioned that Mayor Reading was setting up these ....

Kelley: Dr. Feis.

H.M.Jr: All right, just a minute.

How long does it take you to type that stuff, get it written for me?

Lonigan: You want this done, and with everything else, right away?

H.M.Jr: What else have you got?

Lonigan: I have some things on the self-help exchange.

H.M.Jr: Well, this comes first. So when will I get it?

Lonigan: It ought to be possible to do it in two hours, Mr. Secretary.

H.M.Jr: Well, I meant - I won't get to read it then, but if I could have it on my desk at 9 o'clock tomorrow morning?

Lonigan: Oh yes.

H.M.Jr: 9 o'clock tomorrow morning.

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Monday
March 14, 1938
11:31 a.m.

HMJr: Hello.

Hello, Secretary Morgenthau. Secretary Hull is coming right on, sir.

Cordell Hull: Hello.

HMJr: Hello, Cordell.

H: Yes. Has Feis gotten over?

HMJr: Well, he just called a couple of minutes ago.

H: I had a crowd of - I had a big delegation in the office here when you called me and I thought I'd get them out in twenty minutes...

HMJr: Yes.

H: and they didn't get out for nearly an hour.

HMJr: Oh.

H: And that's what delayed me.

HMJr: I see. Because I was sort of - been waiting on...

H: I'm sorry. I - these congressmen and senators sent over a whole delegation here...

HMJr: Well now, do I understand I've got your blessing?

H: I told - Feis raised this question, that he thought you might want to consider...

HMJr: Yes.

H: That while that's all right for the French a question of whether we would need to take the initiative and put ourselves on record as recommending it.

HMJr: Well, I hadn't thought of it that way. I was - my thought was to hint to them - <u>if</u> they did it...

V: Yes.

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HMJr: on their own initiative - I mean, it wouldn't make any difference to us, that was all.

H: Yes, they..

HMJr: It would have to come from them. But I wanted to drop a...

H: Yes.

HMJr: a hint, you see?

H: Yes. Yes. Well, he'll be over there...

HMJr: All right.

H: in a minute to talk with you on that point. I think you can work that out all right.

HMJr: Yes. But I just - I just wanted to know....

H: Yes.

HMJr: Well, I'll work with him and it's up to him to keep you informed...

H: All right.

HMJr: Is that all right?

H: Yes. Thank you, Henry.

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March 14, 1938

11:40 am

Present:

Dr. Feis
Mr. Taylor (for part of meeting; see page 3.)
Mr. Lochhead
Dr. White
Mrs. Klotz

HM,Jr: To sum it up, Herbert, we have gone along three or four years with the French, during which period they have lost half of their gold. They can't make a go of it the way they are going. It is out of the question. And what we thought -- and the President said he had this in mind a year ago -- that in some diplomatic way, to be worked out here, that we get word to the French that if they should wish to put on exchange control, due to the present situation, we would find some way to be able to say 'You are still in the Tripartite.' That's boiling it all down.

And furthermore, as Jake Viner said when I put it up to him, 'anything to strengthen the French.' Riefler takes the attitude that we should not tell them what to do. I am not telling them what to do. But if you will remember, before Blum went in the first time he made a campaign speech it was against what subsequently turned out to be the Tripartite Agreenment. Then he changed it around by saying 'this is an external matter and does not affect the internal franc.'

Now I say, reading this (Dow Jones ticker) that the poor fellow wants to do this, but does not know how, and just as long as they keep on they are not going to get anywhere. Whether we like the Blum Government or the 40-hour week or whether we like this or that, I say it is none of my concern, talking for myself, but I feel that their chances of getting a stable Government and assuming their rightful position in Europe would be greatly enhanced if they made this move, after having made a failure of handling their moneys the way they have for the last three years.

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The thought we had here -- and the President's reaction was to do it at once -- if we gave them this hint, that we would notify the English and French simultaneously. I realize you have not had much time to think, but I am willing to listen.

Dr. Feis: It has been in my mind for months, so I have no hesitation in formulating what's in there. Personally, even with exchange control it is my judgment that the Blum Government cannot bring French affairs in shape. Therefore, assuming that this suggested move is feasible and a practical way is found, separate consideration should be given to the timing of it, as to whether you want to do it immediately or defer it somewhat.

As to the move itself, I think we would have to be extraordinarily careful as to the method that we followed in doing it. And that, too, would require some more extended discussion. Assuming that satisfactory assurance can be found on those two points, I think this is the direction of the action you should take. That has been my opinion for ....

HM,Jr: Now, Herbert. We can't do it on this side because we have nobody to work it. Let's do it by the process of elimination.

Dr. Feis: Let me say, first, on that I don't know. I don't know whether one way of doing it might be just the arrangement of a salon lunch over here -- remember, I am just throwing this thing out -- in which you would invite the new Ambassador yourself, at which you, just reflecting the state of the world, gave this out at the lunch. At the lunch you might also have Leroy-Beaulieu. Another way is to do it through Ed Wilson and Cochran. I take it that we would not want to put any piece of writing in French hands. That we start with.

HM,Jr: No. No.

Dr. Feis: Well then, if my first suggestion is too weak ....

HM,Jr: Yes.

Dr. Feis: ... and it's to be handled in Paris, it is a question of whether it is to be done in Paris by having

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Wilson or Cochran or both do it in a Government office or do it outside of a Government office in a more informal way. That's about what it would appear to come down to.

Dr. White: There is some reason not to accept the first one. I think the tone, the exact words, the condition under which this message is transmitted is more important than might usually be the case. It can be made to appear, on the one hand, not as very grudging support or a very gruding desire not to rule them out, and it may on the other hand appear as some sort of moral support and, therefore, I think it is important to use your own instrument; in other words, use the men you have over there rather than work through the Ambassador here and you don't know what his relations with the Government are or the way he would transmit it.

Dr. Feis: All right.

Mr. Lochhead: I thought there was a certain opening in that cable that came over last week saying that they would have had exchange control except for pressure from the United States.

Dr. Feis: You mean that rumor. One of the reasons I called Wayne at once was I thought just this: that a week from now we might want to be on the other side of the question.

HM,Jr: This is what I would suggest. In the first place, get word to Blum that I have an important message for him. Now, whether we should do that through the French Embassy here. Would he please see Wilson and Cochran. You (Feis) would like to have both of them go?

Dr. Feis: No. I think I should let Cochran do it.

HM,Jr: That's my feeling, but I did not want to say it, because Cochran has handled it. And the beauty of Cochran is, notwithstanding the trade treaty thing, he does exactly as I tell him. Exactly.

(Mr. Taylor came in at this point.)

(To Mr. Taylor) Just getting to the point that

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Herbert in principle is for it and has felt that way for a couple of months. He says it will not save Blum.

Dr. Feis: I say the Blum Government cannot save this French situation with or without exchange control. Now whether this or anything else will save the Blum Government, I don't know.

HM,Jr: We explored should we do it on this side and we don't think we should. He said something about Wilson and Cochran. I asked him if he wanted both. He thought a moment and said no, Cochran alone. That pleases me most. We have arrived at the point where I wanted to arrive, that Cochran should do it. Now, how should we get word to Blum that I want him to see Cochran at a time and place which is convenient for him?

Dr. Feis: Wilson can get an appointment for Cochran.

HM,Jr: You wouldn't inform the French Embassy here?

Dr. Feis: No, not to get an appointment with Blum for Cochran. No, I would do it entirely in Paris.

HM,Jr: Then instructions would go to Wilson to please arrange with Mr. Blum that I want him to see Cochran; that Cochran has a message for Mr. Blum from me. After all, I can do it because Blum is Minister of Finance, which is important

Dr. Feis: That's right.

HM,Jr: Had you thought of that?

Dr. Feis: No.

HM,Jr: I had not either until just this minute!

Mr. Taylor: It's a nifty!

HM,Jr: All right. Then there are two ways. We have not yet talked to the British; waiting to hear from you whether this is at all interesting. If you say yes, this is the road we want to take, then we would inform the British or we can do the thing simultaneously and

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say to Great Britain 'We are sending this message to Mr. Blum. We want to let you know at the same moment.'

Dr. Feis: Or a third way would be to ask the British whether they -- that you propose to do it almost at once and whether they have any observations they would like to make.

HM,Jr: I don't want to do that because I know what the answer would be. The answer would be no. And I have discussed that with the President. He said inform the British, but he did not say ask them. I am quite sure the answer would be no and it would take days to get an answer, and this is a question of hours. This is simultaneous consultation, and the only ....

Dr. Feis: It is more than consultation; it is an expression of American attitude formulated without prior discussion with the British and you will be saying to them ....

HM,Jr: Wait, Herbert. The British -- the things they have done with the French without our ever finding out except by accident is unbelievable. After all, the question of Dutch loan repayment, of British loan...

Dr. Feis: The difference is you will be saying to Blum that if you should decide to impose this restriction, control of exchange, you would do everything feasible to see that that was considered compatible with the continued operation of the Tripartite.

HM,Jr: That's right.

Dr. Feis: Well, that can't be effected unless the French ....

HM,Jr: That's right.

Dr. Feis: ... are willing to take some position that creates an occasion and a need for consultation.

HM,Jr: That's right. Let's be very frank with each other. I am willing to be three to one that if we asked the British would they do it, they would say no.

Dr. Feis: I should think if you talked to the

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British you could say one of two things. If you say you propose to do this, do they have any comment, I don't think they would come back and suggest to you that you should not. They might say that they would not do the same thing. If you ask them whether they would be willing to join you in doing it, I think they would say no.

HM,Jr: And the third way, my suggestion, do it and tell the British simultaneously; or, fourth, first sound out the French and say, How do you feel about this? and, If you would like us to put up, whatever you call it, a test question, we are thinking of putting this up to you. If this would be acceptable, let us know. Then we will put it up to you and to the British simultaneously, but we are first putting it up to you.

Dr. Feis: That's still the fourth.

HM,Jr: 'My dear Mr. Blum: -- I am thinking out loud -- how would you feel if I would put up this kind of proposition to you and the British, but before saying anything to the British, inasmuch as it is a French matter, I want to know how you feel.'

Dr. White: I am for that approach, very much.

HM,Jr: 'Because I don't know what your situation is. How would you feel about my putting up this sort of thing to you and the British?'

Mr. Taylor: 'If you have it in mind, I think you would find that we are not opposed to it.'

HM,Jr: Yes. 'Because if you have it in mind, you will find that we will go along.'

Dr. Feis: I think it is either that or the other one, telling the British that you propose to say this to Mr. Blum; have they any comment to make, -- because of the fact that lack of British cooperation would deprive this move, if they took it, of some of its effectiveness.

Dr. White: I doubt it very much whether they would, under those circumstances would take the other position of not cooperating, all things considered, Herbert. Taking the whole situation, it would be a very, very difficult step for them to take. They might not like it,

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but it's the only way.

Mr. Lochhead: 164 is the cross rate and incidentally they got weak after the news came out that Blum was not favoring exchange control.

Dr. Feis: In order to let the discussion go on and complete it, I think it has narrowed down to those two things.

HM,Jr: Two things: should we say to the British, first, that we are thinking of putting this to the French....

Dr. Feis: We are going to.

HM,Jr: Yes. Or should we go to Mr. Blum and say, 'Mr. Blum, if we put the following question to you, would you like us to continue -- in other words, it's really exploring the situation.

Dr. Feis: That's right. It's one or the other and if they could be put on paper, it's one of the questions I would like to take back to Mr. Hull.

HM,Jr: I want those two things written out now, because I am lunching with the President. I am going to take them over at one o'clock. You (Feis) can take copies with you.

Dr. Feis: Is Mr. Hull going to be there for lunch too?

HM,Jr: No. But I am going to take them over and if you can show them to Mr. Hull before one o'clock, fine!

Dr. Feis: I am sure I can.

HM,Jr: But if you want to go into Taylor's office now and write down those two things, that would be fine. As to the principles involved, there are two things.

Dr. Feis: I can put them verbally.

Mr. Taylor: One is exploratory.

HM,Jr: One is to say to the British we are thinking of saying to the French 'In case you should put on exchange

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control, the United States Trasury will not kick you out of the Tripartite Agreement.'

Dr. Feis: 'Have you any comment?'

No. 2 is to say to the French, 'We don't know how your thinking is going in the face of exchange developments of the last day or two, but we thought we would let you know that if you judged it would be useful to you in your situation, we are prepared at once to inform the British that if you should decide to put on restricted exchange control, we would make every effort to try to make that fit into the continued operation of the Tripartite Agreement and ascertain whether the British are willing to take a similar position.'

HM,Jr: That's right, but I have to have those two things written out so when I talk to Cochran.

Then, the other thing, if when you go back you could immediately get off a cable to Wilson, because it takes five hours for him to get it, and simply said 'If you get a telephone call to say proceed, it means please arrange the thing.' Can't you get it to him in advnace?

Dr. Feis: Do it right away.

HM,Jr: Get a cable off immediately that if Cochran gets a message from the Secretary, Wilson should take my word and arrange it. Perfectly frankly, I don't see -- don't put this alternative up to Mr. Hull unless the President suggests it.

Dr. Feis: I would like to do it for this reason: this question of just how you handle the British may affect his political relationships with the British and also his trade agreement negotiations.

HM,Jr: All right. All right.

Mr. Taylor: I think on No. 1, which is the exploratory thing, which I am strongly in favor of as opposed to the other ....

Dr. Feis: I gather the Secretary is too.

HM,Jr: I am too. Because it is like going to

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a fellow who is almost bankrupt and say 'I am going to talk to your chief creditor', but before I do I would like to have your permission.'

Dr. Feis: The British have a bigger trade interest and a bigger financial interest in France than we have.

HM,Jr: I would much rather go to the fellow in trouble.

Mr. Taylor: And sound him out, because we may find he has a commitment to form his Government.

Dr. Feis: He may also have a commitment with the British because in an economic and financial way the British are more deeply involved in France than we are.

HM,Jr: I would rather put it up in an exploratory way and do the French first.

Mr. Taylor: We are entitled to know before we go ahead with it.

Dr. White: I agree with your position. I should like to see made, not so spun out, because it is a little bit doubtful after you get through reading it.

HM,Jr: You have between now and one o'clock.

oOo-oOo

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Draft

March 14.

Tell the British that you propose to say this to Mr. Blum. Have they any comment to make?

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DRAFT

March 14, 1938

Message to the French:

We do not know how your thinking is going in the face of exchange developments of the last day or two, but we thought we would let you know that if you judged it would be useful to you in your situation, we are prepared at once to inform the British that if you should decide to put on restricted exchange control, we would make every effort to try to make that fit into the continued operation of the Tripartite Agreement and ascertain whether the British are willing to take a similar position.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: March 14, noon

No. 395

FROM COCHRAN

At 11:30 this forenoon I made a call at the Bank of France. The rate of franc-sterling had opened at about 157. There was such demand for sterling that the French control was obliged at once to let the rate slip or face the possibility of exhausting its two billion francs of gold and foreign exchange. There began to appear some hesitancy among the operators by the time the rate moved, and the control then stepped in and pushed the rate back to 161.50. At the hour I was in the bank, the intervention above-described and the slight interventions made at various points to feel out the market had cost the control 400,000 pounds.

The Bank tried to get instructions from the new government before starting operations. Blum, the Prime Minister who also holds the Treasury portfolio, replied that he was uninterested in rates. Instructions could not be received from Spinasse, Minister in charge of the budget. The office telephone of the Minister of Finance was answered by a newspaper man who, being close to Blum, has presumably been given a confidential post in that Ministry.

:DJW

Wilson

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Monday
March 14, 1938
12:56 p.m.

HMJr: Hello.

T.O.: Dr. Feis.

HMJr: O.K.

T.O.: Go ahead.

HMJr: Hello.

Herbert Feis: Henry, I've - we've just had a meeting on that.

HMJr: Good.

F: And the Secretary says he has no comment and he says - I mean, it's all right.

HMJr: Yes.

F: He just throws out this for your consideration please.

HMJr: Go ahead.

F: In - if Cochran will see Blum - I mean that's the message before that message.

HMJr: Oh, he is?

F: Yes. -If Cochran willsee Blum,- Now he says as far as he can understand he'll be doing two things. First, say to Mr. Blum, 'In the light of what's taking place in the exchange field we'll be glad to advise as to how it looks to you and whether you have any plans in mind or something of that sort.

HMJr: Yes.

F: In short, first, to seek information.

HMJr: Yes.

F: Two, he said, -- to settle a line between giving an intimation and making an active suggestion.

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HMJr: Yes.

F: And he'd feel happier in lighter repercussions if the thing could be handled giving a clear intimation of what our attitude would be but not making an active suggestion. Am I clear?

HMJr: Yes. I got it. I got it.

F: And...

HMJr: Go ahead.

F: And so, you want me then to get this cable right off to Paris?

HMJr: Yes.

F: And say in that cable - tell him that you're going to ask him to make this appointment?

HMJr: That's right.

F: But you're going to tell him that over the telephone, aren't you?

HMJr: Yes.

F: You want it to go by cable too?

HMJr: Yes.

F: And to do it when he gets a cable from me saying to proceed?

HMJr: Well, when he gets word from Cochran.

F: When he gets word from ....

HMJr: Just as soon as I've talked to Cochran, Cochran will ask him to do it.

F: Oh. Right.

HMJr: And we'll put it - who's coming over this afternoon?

F: If you - if the invitation stands - Dunn and myself.

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HMJr: Well, that's fine. - Well, then simply say that as soon as he gets - as soon as I've talked with Cochran Cochran will make this request of Wilson and that it has the Department's approval that Wilson should proceed. Is that all right?

F: Correct.

HMJr: What?

F: Yes.

HMJr: Is that all right?

F: Completely.

HMJr: Thank you,- and then you and Dunn will be over at two-thirty?

F: Correct.

HMJr: And I've got the call in for two-thirty so you'd better get here at two-twenty-nine.

F: All right. And I've made myself clear - the Secretary says so far - he says as far as it can be handled as intimation rather than suggestion, that's his preference.

HMJr: Well, I'm in agreement with him.

F: Right.

HMJr: I'm in agreement with him.

F: Right.

HMJr: Thank you.

F: Goodbye.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 14, 1938

NO.: 393

RUSH.

FROM COCHRAN.

On Sunday I was in Basel, where the usual two-day meeting was held by the BIS directors.

Prior to the beginning of the session of Governors on Sunday afternoon, Schacht asked the Chairman, Mr. Niemeyer, not to let the Austrian topic come up for discussion, and the subject was not taken up. The reorganization of the management has been dropped, and it was decided that the annual report should be signed by Beyen. Leon Fraser had made a written suggestion regarding disposing of American shares, but this was found to be impracticable because of alleged conflict with statutes, even though the management was in sympathy with the suggestion.

I had a talk with Schacht and with Vocke, his director. The first question put to me by Schacht was as to international and particularly reaction in France to the move into Austria which Hitler made. Schacht told me that Wilhelm has already gone to Vienna; Wilhelm is the German official exchange control expert. He also told me that on ~~Monday~~ Monday the President of the Austrian National

Bank

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Bank, Kienboeck, would not be in office. [Kienboeck was associated with Dollfuss and Schuschnigg; he is of Jewish mother, in addition.] Schacht could not tell me just what the legal status of Austria would be. Therefore he was not able to say whether the schilling would continue as a currency, perhaps with a fixed value against the German currency. However, Schacht is convinced that the establishment of full exchange control in Austria is immediately essential to prevent flight from Austria of Austrian and foreign capital. Another reason for exchange control is to prevent the reichsmarks which are already being used by German troops in Austria as their medium of payment from getting onto foreign markets and thus upsetting his control of rates of the German currency. Louis Rothschild, according to Schacht, had wanted to leave Vienna in order to attend a directors meeting in Czechoslovakia, but at the border he was stopped.

Schacht expressed to Rooth, the President of the Swedish Central Bank, his regret that they would have to reinstate exchange control in Austria, which was the one country in Europe that had been taking the lead in throwing off post war restrictions. Schacht urged the necessity of having such questions discussed in early international negotiations. It was still too early, Schacht said, to

say

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say what would be done regarding service on external loans of Austria.

Schacht laughed at the idea of his successor in the Ministry of Economics, Funk complaining that German bonds were not at par value - Shhacht had forced the bonds down so that he could buy them at a lower price. He didn't say anything to me to confirm the fear of some of my contacts that in the near future Germany might take a unilateral decision regarding reduction of the principal of the foreign loans of Germany. On Monday morning Schacht was to fly back to Berlin.

Schacht's assistant, Vocke, stressed the unanimity in Austria of Nazi sentiment; it was foolish he said, for a country having such sentiment to follow the small minority government and the small section of Vienna, by whom Nazism is opposed. Vocke insists that with regard to the interest of German people in Czechoslovakia, nothing will be done now. He said Czechoslovakia has no reason to fear a future similar to Austria's.

The Versailles Treaty is blamed by Vocke for nations' unwise delimitation. He admitted that it was not likely to be very happy for the important Jewish population in Vienna.

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Vienna.

Members of the Italian group at Basel were visibly upset before the Sunday afternoon press had brought to Basel an account of the letter which Hitler sent to Mussolini explaining his move and promising to respect the boundary line of Italy. The Italian group admitted to me that no advance information had been given to Rome, and that the move had involved no deal to assure to Italy a freer hand in the Mediterranean. Schuschnigg was blamed by them for precipitating the crisis by an unwise speech formmowed by his decision on the plebiscite. As for Austria, they consoled themselves by saying that the developments had demonstrated how very far sympathy in Austria was for Germany, and therefore, how little Austria could ever have been a support to Italy, and how poor a buffer state it was when in eight hours time the German troops had reached the Brenner Pass. [It is my impression that the Italians felt that the quickness of the move by Germany to the Brenner Pass was expressly to impress the Italians.] They emphasized, too, that those people in Italy who are of Austrian blood are predominantly Catholic and were not German at any time. These people will, therefore be even more loyal Italian subjects now, since Austria has been absorbed by an anti-Catholic Government.

The

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The Italian group expressed pleasure with the first reports of the trade and paying agreements recently negotiated in London by d'Agostini. They said they hoped these agreements augured well for the Italo-British political conversations which are to open very soon.

I was told positively by both Norman and Niemeyer that developments in Austria definitely stopped Anglo-German conversations of any kind. Norman and Niemeyer did not minimize the probability that on Monday evening Chamberlain would be severely attacked by Parliament. In their opinion, any weakening on Chamberlain's part now toward Germany would lead to elections in Great Britain. They said they did not see any reason why conversations should not be carried on with Italy. However, they believe that such conversations would be long drawn out in order to prevent any severe shock to British sensibilities and, in view of the present tense state of international affairs, the long discussions would avoid the risk of misunderstandings.

The failure of the American Government to make peace with business was a disappointment to Norman. He said he is not very hopeful but is keenly desirous of seeing in the United States an early economic pickup.

Jacobsson, the Swedish economist, interprets our figures on trade and our various economic indices as indicating that the United States is entirely to blame for the present

American

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American depression. The ardor which he had for our new deal formerly has now cooled, but for our growing steadiness in monetary policy he did have some kind words. In his opinion, the pound-sterling will shortly be at $4.90, and he thinks this rate could be borne by our foreign trade. Jacobsson mentioned that Washington was a wise man in his time, when American production was barely five percent of the world's figure; however, he said, now when American production is 45 percent we are foolish to believe that we can isolate ourselves from the world and not take our share of responsibility.

The Netherlands Bank President, Trip, was depressed over the lesson that Germany's brute force is giving the world now, as well as the fact that the League of Nations is dead, and the growing difficulties of Treasuries in financing armament and taking care of those who lack employment. The unemployment situation in the Netherlands is now becoming serious because of the rationalization which took place in industry in that country during the period of deflation when an effort was being made to remain on the gold standard. The "investors front" in the Netherlands, he said, has not been effective in bringing to a halt cheap conversion loans. ~~The~~ My friend said that he had no choice but to keep on with his policy of taking gold.

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However, he realizes how importantly dependent upon the United States and Great Britain maintaining the gold price is his own future.

The Swiss National Bank President, Bachmann, told me the Swiss were very nervous since the Germans moved in as their neighbors on another front and set up exchange and trade barriers in Austria. The Swiss do not have very great investments in Austria, he said, but Swiss banks, on the other hand, have a considerable amount of Austrian savings deposits. He presumes that Hitler will now force the Austrians to repatriate these funds. Even though he does lose this, he (Bachmann) expects to gain more flight capital from the French, in view of the immediate outlook for that country. The business relations ~~with~~ between the Swiss and our Treasury and Federal Reserve delight Bachmann.

Governor Rooth expressed to me also his happiness over the quick and favorable decisions on gold transactions taken recently. To some of us he gave a memorandum which was prepared by his Bank's Vice Chairman, on the desirability of lifting all gold restrictions and permitting international circulation of gold "billets" of a standard size.

Many of my friends expressed regret over the fate

of

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of Austria, but they think the matter is settled. The only remaining question is the wording of the plebiscite to be instituted by Hitler.

Some of my contacts said they would be delighted to see Hitler occupy himself against Russia for a few years. However, they fear that Czechoslovakia will be moved on next, and of course his occupation of Austria would facilitate that. Taking into consideration Hitler's remarkable sense of timing, my friends do not expect him to make any move towards the German part of Czechoslovakia before he has had a chance to thoroughly digest Austria.

The Belgian director, Galopin, said that both economically and financially there has been a further decline in his country. In a conversation with me Governor Jansen and Baudweyns, his alternate of the National Bank of Belgium, praised the recent selection of Soudan as Minister of Finance in Belgium.

General regret was expressed that the Austrian tragedy had apparently been insufficient to shock the French into a National Union Government. The central bankers do not believe that a new Blum Popular Front Government could raise a national defense loan or that it will be able to avoid

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avoid an increase in difficulties of a financial and monetary nature. Reaction in France to the Austrian situation leads many to doubt that military aid would be given to Czechoslovakia by France; this was not better than a 50-50 wager in the opinion of even the British. Governor Fournier of the Bank of France fortunately did not come to Basel, and he was therefore spared the necessity of having to listen to caustic criticism of France.

END MESSAGE.

WILSON.

EA:LWW

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PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: March 14, 1938, 2 p.m.

NO.: 148

RUSH.

STRICTLY CONFIDENTIAL.

By telephone this afternoon Secretary Morgenthau is going to ask Cochran to see Blum, in his role as Minister of Finance, as promptly as possible. Cochran will be given instructions over the telephone.

Will you please arrange this appointment for Cochran when it is requested by him.

HULL.

EA:LWW

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MEMORANDUM OF THE DAY'S ACTIVITIES

March 14, 1938

To: The Secretary

From: Mr. Magill

1. Tax bill

The Finance Committee listened all day to an explanation of the bill, finally adjourning about 4:30. It was evident that Senator Harrison is going to try hard to put through his Committee the program which he announced in yesterday's papers. Senator Harrison and individual members of the Committee also expressed disapproval of various detailed amendments designed to stop loopholes and to raise additional revenue.

I still feel hopeful that we can get through the Committee a bill which will raise as much revenue as the existing law, but it is likely that the bill will differ in major respects from the House bill. Hence, as it looks now, the final tax bill will be thrashed out in conference.

I would like to get the President's ideas as soon as possible.

Rm

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 14, 1938

TO Secretary Morgenthau

FROM M. A. Harris

A short weekly review of the.

U. S. Government security market

During the first three days of the past week interest centered in the "rights" and the new 2 1/2 percent bonds. The "rights", which were bid for at 101.12 at the close of the previous week, rose to 101.20 bid on Monday and by Wednesday were bid for at 101.22. Outstanding issues were neglected but prices remained steady until Friday when an easier tone developed, with declines ranging to 5/32nds being recorded. In late trading Friday and on Saturday further losses developed, due mainly to foreign news. However, these losses were attributed to markdowns by dealers and not to any heavy selling in the market. Turnover, aside from the rights, for the week as a whole was small and reports continued to indicate a scarcity of bonds in the market.

The net result for the week was an average loss of slightly more than 1/4 of a point by Treasury bonds, with individual losses ranging from 6 to 12/32nds. The new 2 1/2s were quoted at the close Saturday 101.15 bid, 101.18 offered.

Treasury notes finished the week unchanged to 4/32nds lower, with the exception of the 1938 maturities. The 2 7/8% issue maturing June next was in good demand at times and the price advanced to 101.20 bid,

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up 3/32nds, which is 29/32nds above a "no yield" basis. Other 1938 maturities gained 1/32nd.

Corporate Bonds

With the exception of better grade industrials and utilities, corporate bonds were persistently weak last week, particularly the rails. Below is given various Moody's bond averages for March 4th and 11th and the change for this period:

AAA Bonds	Industrials	Rails	Utilities	All
Mar. 4	122.17	105.60	118.16	114.93
Mar. 11	122.17	104.67	117.94	114.51
	-0-	- 0. 93	- 0.22	- 0.42
BAA Bonds				
Mar. 4	91.66	50.79	76.17	69.58
Mar. 11	89.84	44.92	75.24	65.56
	- 1.82	- 5.87	- 0.93	- 4.02

Dealers' Portfolio

Dealers' holding of government securities declined $48 million during the past week. Practically all of the decline was in their holdings of Treasury notes.

	Holdings Mar. 5	Holdings Mar. 12	Change
Treasury bonds	32.4	32.7	+ 0.3
" notes (maturing within 1 yr.)	41.9	21.9	-20.0
" " (maturing within 1-5 yrs.)	89.7	59.2	-30.5
" bills	-0.6	0.9	+ 1.5
H.O.L.C. bonds	10.9	8.3	- 2.6
F.F.M.C. bonds	0.6	3.9	+ 3.3
	174.9	126.9	-48.0

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Treasury Accounts

The only transaction during the past week was the purchase of $1,000,000 2 7/8% Treasury bonds of 1955/60 for the account of the Government Life Insurance Fund.

Funds available for investment (March 12, 1938)

Postal Savings System	$ 5,061,000 *
Federal Deposit Insurance Corp.	20,414,000 *
	$ 25,475,000

* Desired to be kept uninvested.

System Account

At the beginning of the week, the Federal Reserve System held $75,912,000 of the 3% Treasury notes due March 15, 1938. During the first three days $55,000,000 of these notes were sold in the market and replaced by purchases of various other Treasury notes and the balance of $20,912,000 was entered for exchange into the new 2 1/2% Treasury bonds of 1948. There were no other transactions of any significance.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 14 1938

TO Secretary Morgenthau

FROM Herman Oliphant

For your information -

Recalling the special instructions under which the Louisiana tax cases have been handled, I am proceeding on the assumption that these special instructions do not apply to new tax cases for subsequent years, involving the same individuals covered by the original investigation. Such new tax cases will, subject to your better judgment, be handled just as are any other tax cases coming into the office.

Herman Oliphant

HMJr

Rm

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March 14, 1938

2:30 pm

Present:

Mr. Dunn
Dr. Feis:
Mr. Taylor
Mr. Lochhead
Dr. White
Mrs. Klotz

The Secretary spoke to Cochran at 2:30, the call having been placed in advance. Their conversation follows this page.

The conversation was interrupted in several places for discussion among the group present in the Secretary's office. Refer to pages 9-A, 13-A and 14-A. Also see pages 18, 19 and 20 for further discussion in the Secretary's office after completion of the telephone conversation.

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Monday
March 14, 1938
2:30 p.m.

HMJr: Hello.

T.O.: Mr. Wilson on the line. Go ahead.

HMJr: Hello. Hello. Hello.

T.O.: Hello, Mr. Wilson.

Edwin C. Wilson: Yes.

HMJr: Hello, Wilson.

W: Hello.

HMJr: Is this Mr. Wilson?

W: Yes.

HMJr: This is Henry Morgenthau.

W: Yes. How are you, Mr. Secretary?

HMJr: Can you hear me all right?

W: Very well now; I didn't at first. Cochran's here with me.

HMJr: Good. Well now - -

W: Hello?

HMJr: Mr. Dunn and Herbert Feis are here with me.

W: Who? Herbert Feis and who else?

HMJr: Mr. Dunn.

W: Right.

HMJr: And I - I don't know whether you've had a chance to get that cable or not. Hello?

W: No, we haven't gotten it yet.

HMJr: You have not?

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W: No.

HMJr: Well, you'll get it.

W: All right.

HMJr: Now, in that there'll be ---

W: Hello?

HMJr: Did - has Cochran had a chance to get that secret code of mine?

W: No, he hasn't gotten it yet.

HMJr: Hello?

W: Hello.

HMJr: He didn't get it?

W: Hello.

HMJr: Has Cochran got a special code from me today?

W: No. No. Nothing yet.

HMJr: All right. Well, what we're going to ask you to do...

W: Yes.

HMJr: ..is to arrange for Cochran to see Mr. Blum.

W: Yes.

HMJr: As Minister of Finance.

W: Yes.

HMJr: To see Mr. Blum in his capacity as Minister of Finance.

W: Yes.

HMJr: As soon as possible.

W: Yes.

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HMJr: Now, if you'll stay there - I'd like to talk to Mr. Cochran and then maybe Mr. Dunn will have a word to say to you.

W: All right. Let me tell you first that I have all - Hello, can you hear me?

HMJr: Yes, very well.

W: That I already this afternoon sent a message through Blum's private secretary, Mr. Cunningham , whom I know very well, saying that whenever Blum could get free for a moment I'd like to talk to him about the general situation here and what he has in mind.

HMJr: Well, if - when you get through and listen to this - is there somebody there that they can repeat what I am going to say - that can take it down?

W: I'll get somebody in just a moment.

HMJr: Thank you.

W: I'll ask Cochran if he will get Miss - one of my secretaries. Just a minute. Hello.

HMJr: Hello.

W: In just a moment we'll have a stenographer right here.

HMJr: Thank you.

W: Just a second.

(Pause)

W: What time did that wire get off that you were speaking about?

HMJr: What's that?

W: What time was that wire sent that you were speaking about? - That special message?

HMJr: 10:30 this morning.

W: I see. All right, we'll take this down. I'll read it off if you'll give it go me.

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HMJr: Well, I think you'd better maybe let Cochran - because he's used to my voice better.

H: I'll ask him if he'll come here and take it.

HMJr: If you don't mind.

H. M. Cochran: Hello.

HMJr: Hello, Cochran.

C: Yes, Mr. Secretary.

HMJr: Now I am going to read a statement to you that I'd like you to take down.

C: All right.

HMJr: And then afterwards I'll explain to you what I want done with it.

C: All right. I'll read it aloud to our secretary here as you give it to me.

HMJr: All right.

"We assume..."

C: What's that?

HMJr: "We assume..."

C: "We assume..."

HMJr: "...that in view of the foreign exchange developments..."

C: "...that in view of the foreign exchange developments..."

HMJr: "...of the past few days..."

C: "...of the past few days..."

HMJr: "...you have explored the possibility..."

C: "...you have explored the possibility..."

HMJr: "...of imposing exchange control..."

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C: "...of imposing exchange control..."

HMJr: Period.

C: Period.

HMJr: "If you feel..."

C: "If you feel..."

HMJr: "...that your internal situation..."

C: "...that your internal situation..."

HMJr: "...can best be stabilized..."

C: ",..can best be stabilized..."

HMJr: "...by the temporary imposition..."

C: "...by the temporary imposition..."

HMJr: "...of exchange restrictions..."

C: "...of exchange restrictions..."

HMJr: "...which will control capital movements..."

C: "...which will control capital movements..."

HMJr: Comma.

C: Comma.

HMJr: "we are prepared..."

C: "we are prepared..."

HMJr: "...to discuss this question..."

C: "...to discuss this question..."

HMJr: "...immediately with you..."

C: "...immediately with you..."

HMJr: "...and the British Treasury..."

C: "...and the British Treasury..."

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HMJr: "..to the end that every effort..."

C: "..to the end that every effort..."

HMJr: "...that every effort be made..."

C: "...that every effort be made..."

HMJr: "...by our three governments..."

C: "...by our three governments..."

HMJr: "...to cooperate under the Tri-partite agreement..."

C: "...to cooperate under the Tri-partite agreement..."

HMJr: "...with your efforts..."

C: "...with your efforts..."

HMJr: "...to stabilize your internal situation..."

C: "...to stabilize your internal situation..."

HMJr: "...by the imposition..."

C: "...by the imposition..."

HMJr: "...of certain exchange restrictions..."

C: "...of..."

HMJr: "...of certain exchange restrictions..."

C: "...exchange restrictions..."

HMJr: "...by the imposition of certain exchange restrictions..."

C: "...the imposition of such exchange restrictions..."

HMJr: No, "...by the imposition of certain - of certain..."

C: "...certain..."

HMJr: Yes. "...exchange restrictions..."

C: "...exchange restrictions..."

HMJr: Now, the thought is this, and this has the full approval of my superior and of Mr. Hull, see?

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C: That was the end of the statement? Yes.

HMJr: No, no, no - no. The Statement...

C: I see.

HMJr: All right. All right. This - what I'm saying has the full approval of the President.

C: Surely.

HMJr: And the thought is this, that Mr. Wilson will ask for an appointment for you to see Mr. Blum in his capacity as Minister of Finance.

C: Ask for an appointment for me to see Mr. Blum in his capacity as Minister of Finance?

HMJr: Yes.

C: Yes.

HMJr: And you will say that I want to ask him the following question.

C: Yes.

HMJr: And then read this statement to him, you see?

C: I see. I will read this statement to him?

HMJr: Yes. And what I want to find out is - would this - the information contained in this statement be acceptable to him.

C: I see.

HMJr: In other words, I'm building it up purely tentatively.

C: I see.

HMJr: Is that clear?

C: Yes. You want Mr. Wilson to make an appointment for me to see Mr. Blum in his capacity as Minister of Finance.

HMJr: That's right.

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C: Then I ask to read to him a statement to see that that has his approval.

HMJr: Yes.

C: I mean, you're trying to - seeking information, is that the point?

HMJr: Yes. If Mr. Blum says, "Yes, I'd like Mr. Morgenthau to put that question to me after the British, then I'll do it." You see?

C: I see.

HMJr: But I don't want to put it to them unless Mr. Blum asks me to.

C: You don't want to put the question either to him or to the British unless he wants you to.

HMJr: Yes. Now we said - and we haven't put it up to anybody else yet, either.

C: You have not put it up to anyone else?

HMJr: No. We're putting it to him simply in the form of a question.

C: You're putting it to him simply in the form of a question?

HMJr: And want to know whether he will request me to do this.

C: And want to know whether he will request you to do this?

HMJr: Yes.

C: I see.

HMJr: Now, as usual, I'd like to have your comments.

C: All right. The comments on this so far?

HMJr: Hello.

C: Hello.

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HMJr: What do you think of this?

C: I say, that's the complete statement there, is it?

HMJr: That's finished; that's all.

C: I see.

HMJr: I mean have you any comments to make?

C: I just wonder if it's a little premature; that is my first reaction. Because the feeling here is - at least in financial circles - that this government is not likely to last very long.

HMJr: Uh huh.

C: And that there'll probably then be another government more of a National Front character which would inspire confidence and which would bring a repatriation of capital.

HMJr: Uh huh.

C: Now we can see in two or three days whether there is such a possibity.

HMJr: Well, now just hold the wire a minute, will you please.

C: Yes.

(Long pause) * See page 9-A

HMJr: Hello.

C: Hello.

HMJr: Just stay there, will you.

C: All right.

(Short pause)

HMJr: Hello.

C: Hello.

HMJr: Hello. Hello.

Regraded Unclassified

9-A

(Refer to asterisk on page 9 of phone conversation. Where "long pause" is indicated, the following conversation took place in the Secretary's office.)

Dr. Feis: Would you be willing to give Cochran a little bit of explanation regarding the idea that this does not interfere with the payment of merchandise imports, because if you do you immediately put a bomb under our French agreement which is a matter of primary importance to the United States.

Mr. Taylor: That's all in there.

Dr. Feis: I can see the French question it and say it is not in there. That phrasing is phrasing that can be used anywhere.

HM,Jr: (To Mr. Cochran) Just stay there.

Dr. Feis: I cannot in the name of the Secretary of State say we are willing to do that.

Mr. Taylor: I think you are unnecessarily concerned.

HM,Jr(See top of page 10) To Mr. Cochran: "Unfortunately, through no fault of mine, the people here did not clear this with each other. * * *)

Dr. Feis: (To Mr. Taylor) Will that become part of his instructions?

Dr. White: Is this a way out? What you are stating here has no relation or in no way implies other relations which exist between the French and the United States Government. The trade treaty takes care of that. Nothing you are saying here modifies that.

HM,Jr: Can't we put it this way? That they should apply exchange control in a way which would not interfere with the trade treaty.

Mr. Dunn: All right.

Dr. Feis: Complete!

HM,Jr: Is that all right?

Dr. Feis: Complete!

Regraded Unclassified

C: Hello.

HMJr: Unfortunately, through no fault of mine, the people here did not clear this with each other. I had every reason to believe before I saw the President that they had exchanged information and I find that they hadn't.

C: They have not exchanged information with each other?

HMJr: No. What I'm going to do is I'm going to let Herbert Feis get on and explain what he has in mind and then you've got the position of both.

C: All right.

HMJr: And then there can't be any possible misunderstanding.

C: All right.

(Short Pause)

Herbert Feis: Hello, Cochran.

C: Hello, Feis.

F: Can you hear me?

C: Yes, very well.

F: The one immediate preoccupation...

C: No, I missed you then, I didn't hear a word.

F: The one immediate thought I have is this.

C: Yes.

F: As to the meaning of the phraseology.

C: Yes.

F: That the exchange control - any type of exchange control that they might introduce should not interfere with the prompt and complete provision of exchange for goods for commodity transactions.

C: Yourvoice doesn't register; I don't get all the words.

Regraded Unclassified

F: That the - any exchange control arrangement that they may introduce should not interfere with the prompt payment - the prompt provision of exchange for the payment of goods.

C: You mean that should be added on to the other statement - that would be your idea?

F: In explanation you should make that clear.

C: That any exchange control should not interfere with the normal payment, did you use that word?

F: Prompt.

C: ...with the prompt payment - give me the rest of it and I'll repeat it.

F: ...prompt for merchandise...

C: ...for merchandise...

F: ...usually... Do you get that?

C: ...merchandise.

F: Now, you remember we have said that to the French...

C: Yes.

F: in connection with our treaty.

C: You've said it to the French when Blum was in before.

F: We have said it periodically over the last two or three years.

C: So it's that phrase that you wanted to use, the one we've used before?

F: To be added as our explanation.

C: To be added as our explanation?

F: Yes. Now, the Secretary of the Treasury will confirm that. Wait -

MJr: Hello.

C: Hello, Mr. Secretary.

Regraded Unclassified

HMJr: I can't - this is the first time this has ever happened that Mr. Taylor hasn't cleared with the Department while I was with the President or before I went over.

C: Yes. Yes.

HMJr: And this statement which I read to you has the full approval of the President.

C: Yes.

HMJr: And, inasmuch as my understanding is, that on monetary matters I can work...

C: Yes.

HMJr: And I can't - now, just one minute - we'll hold on. Mr. Dunn is here and I'll ask him. Now, just a minute. But I've never been in this position before since I've been here.

C: I see.

HMJr: Now just a minute. Mr. Dunn is here. Just a minute.

C: Yes, Mr. Secretary.

(Short pause)

HMJr: Just stay there.

C: Hello.

HMJr: Hold on, please.

C: Yes, I'm holding.

(Long pause)

HMJr: Hello.

C: Hello, Mr. Secretary.

HMJr: Mr. Dunn and Mr. Feis agree to this.

C: Yes.

HMJr: This suggestion. That in applying...

Regraded Unclassified

C: That in applying...

HMJr: Yes, you take this down. In applying the exchange control...

C: In applying the exchange control...

HMJr: ...it should in no way interfere...

C: ...shall no way...

HMJr: ...interfere...

C: ...interfere...

HMJr: ...with provisions...

C: ...with provisions...

HMJr: ...which now exist...

C: ...which now exist...

HMJr: ...in the Trade Treaty...

C: ...in the Trade Treaty...

HMJr: ...between our two countries.

C: ...between our two countries.

HMJr: Now, just a moment.

(Long pause) * See page 13-A

HMJr: Hello.

C: Hello.

HMJr: And add this.. ...or impair its value...

C: ...or impair its value...

HMJr: Now, you'd better repeat this last statement. This cancels what Herbert Feis told you.

C: This cancels what Herbert Feis told me?

HMJr: Yes.

Regraded Unclassified

(Refer to asterisk on page 13 of phone conversation. Where "long pause" is indicated, the following conversation took place among the group in the Secretary's office.)

Dr. Feis: 'Or impair its value'. We have said that periodically with the French Government.

HM,Jr: (To Cochran) (See telephone conversation record) Add 'or impair its value.'

Telephone conversation resumed.

Regraded Unclassified

C: And you want me to repeat this back?

HMJr: If you please.

C: All right. This time I'll read it to you.

That in applying exchange control it shall in no way interfere with provisions which now exist in the trade agreement between our two countries or impair its value.

HMJr: That's right.

C: What's that?

HMJr: Yes. Now, just a minute.

(Long pause) * See page 14-A

James Clement Dunn: Hello, Cochran.

C: Yes.

D: Is Ed. Wilson there? This is Dunn speaking.

C: Yes, sir. Ed's right here. Shall we put him on?

D: Let us speak to him now.

C: All right.

Wilson: Hello.

D: Hello, Ed.

Wilson: Hello, Jimmy.

D: How are you?

Wilson: Pretty good.

D: I've been sitting right here, Herbert Feis and I have been right here with the Secretary of the Treasury.

Wilson: Yes.

D: And-as the Secretary of the Treasury gave you those instructions.

Regraded Unclassified

14-A

(Refer to asterisk on page 14 of phone conversation. Where "long pause" is indicated, the following discussion took place in the Secretary's office.)

Dr. White: That seems to indicate that you are saying that they shall not apply such and such exchange controls. Isn't probably what you have in mind that the exchange in mind, in acquiescing to, are not those which will do the following?

Mr. Taylor: It says capital movements right on the face of the thing.

(Telephone conversation resumed, with Mr. Dunn speaking to Mr. Wilson.)

Regraded Unclassified

W: Yes.

D: That's all right.

W: Yes.

D: Do you understand?

W: I do. Your - both Cochran and I have got some doubt as to the - as to your doing it at this time.

D: As what?

W: As to the wisdom of doing it at this time.

(short pause)

D: Oh yes. (Spoken to Secretary of Treasury)

W: Who?

D: Oh, well, you're to go ahead and make the appointment just as soon as you can, for Cochran.

W: Yes. I understand all that, but I...

D: Yes.

W: I was raising the question of whether you're convinced it's wise to do it at at an early moment like this.

D: Well, I'll - I'll put the Secretary of the Treasury on now. Hold on.

W: All right.

HMJr: Hello.

W: Yes.

HMJr: This is what the President wants and he wants it as quickly as possible.

W: I see.

HMJr: I mean he wants us to get this to Mr. Blum just as quickly as possible.

Regraded Unclassified

W: We'll make an appointment then and have it done immediately.

HMJr: Thank you so much.

W: All right.

HMJr: Thank you. Let me have Cochran once more.

W: I think he's coming right on.

Cochran: Hello.

HMJr: Cochran, let me go over this, you don't have to take this down; this is just for your background.

C: Yes, sir.

HMJr: I - this - if and when you see Mr. Blum...

C: yes.

HMJr: ..you have this statement in your hand..,you understand?

C: Yes.

HMJr: which you can read to him.

C: Yes.

HMJr: And this is a question which I am raising.

C: Yes.

HMJr: Now, the points that Herbert Feis raises - and that's for your background what I gave you is - that we hope that if he accepts this asking us to propose this - that in applying the kind of foreign exchange control, you see?

C: Yes.

HMJr: But I mean that kind of exchange control which will not in any way interfere with the trade treaty. Now that's what they were trying to get over.

C: Yes. Yes.

HMJr: And - see?

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C: The kind of exchange control which would not interfere with the trade treaty.

HMJr: You see? In other words, we're not trying to put ideas into their head and furthermore we want to make very sure that in raising this question we're simply asking Mr. Blum, "Do you invite us to send you this kind of a message or don't you?" You see?

C: - invite us to send the French a message.

HMJr: You see?

C: Yes.

HMJr: But as to the timing, that decision was made over here and we're willing to take that responsibility.

C: As to the timing you take the responsibility.

HMJr: Yes. And as I say, if you could still see him tonight, that would be good. And if not, the first thing tomorrow morning.

C: You see, it's eight o'clock here now.

HMJr: I know, but they work there - I'm sure Mr. Blum will be up till midnight.

C: Fine. We'll try and get in touch with him tonight.

HMJr: After all he's not the President of France.

C: All right, I'll remember that, when I talk to him.

HMJr: (Laughs) All right. Good luck.

C: All right, sir.

HMJr: Goodbye.

C: Goodbye.

Regraded Unclassified

HM,Jr: I am sorry, but in my experience with the State Department that's the first time it has ever happened. It is not a very good exhibition before Mr. Dunn, but they have always taken the rough spots off before ...

Mr. Dunn: I think you are all right. You are putting it in the form of a question.

HM,Jr: It's kind of tough on me and ....

Mr. Dunn: I think it is all clear now.

HM,Jr: They always work on this and I took it perfectly for granted that you had cleared it with the State Department. But having shown it to the President, I could not change it, but I should think you would be satisfied now.

Mr. Dunn: Yes.

Mr. Taylor: The only thing to do was explain to Cochran, as was done, what that meant. That's perfectly clear. I am very sorry that I made a mistake on it. I did not think I was making one.

HM,Jr: It's finished. But next time let's do it before it comes to me. Have you (Mr. Dunn) anything more to throw on this?

Mr. Dunn: Nothing further.

Dr. Feis: I am sorry, too. It's the first time we have ever had any kind of difficulty.

Mr. Dunn and Dr. Feis left.

HM,Jr: Maybe Mr. Hull did something to it.

Mr. Taylor: They were protecting the State Department's position correctly.

Mr. Lochhead: Feis said as far as the State Department was concerned, it was all right to send it as dictated this morning, but if he agreed to that he could not object to our softening it down. This phrase here we thought was a little weaker than you had intended to make it. But when you talked to Feis at ten minutes of one he said that the

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Secretary wanted it on the basis of intimation and we immediately agreed that the second one was the one to be sent.

Mr. Taylor: It's all right.

HM,Jr: What I wanted to say, strictly in this room, not double crossing anybody,in this room, I think what the United States Government has to make up its mind, I want you people to think about it, if we can really save France. That is more important than temporarily not living up 100% to the trade treaty.

Dr. White: Of course.

HM,Jr: If I am willing to stretch this Tripartite Agreement twice as far as she was ever supposed to and have it include exchange control, the State Department can stretch their thing and say 'We will close our eye on this thing' and give these fellows a chance because when they first put on exchange control it has to be on everything because how are they going to distinguish, the first week, what is merchandise shipment and what is capital flight?

Dr. White: Moreover, the treaty is protected in its several provisions. Just put in for that purpose. In event exchange controls were applied, there is adequate protection.

HM,Jr: What do you mean within the spirit of the trade treaty? Just what are you talking about?

Dr. White: I have already sent for a copy of the treaty I will mark it up.

Lochhead: We are operating under exchange control here in the United States. We are operating under licenses right now. And if you are wanting to take a great amount of capital out of Great Britain, do you think you can do that?

HM,Jr: The point I want to make, you three ought to study that trade treaty to see just how can we do this.

Mr. Taylor: Regular boiler-plate clause in there.

HM,Jr: Archie says he thinks that Feis went back and told Mr. Hull this and Mr. Hull had an afterthought or somebody had one. But I think the way we handled this was o.k.

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Mr. Taylor: Yes, your additional statement fixed it just right.

Mr. Lochhead: They were handling that telephone conversation like a hot potato.

HM,Jr: I did not tell him much different the last time, did I?

Mr. Taylor: I think what happened, Herbert right at the beginning when we started that message, we say we assume that during this thing you have considered imposing exchange control, he started jumping there. He said 'Limited .'

Dr. White: 'Restricted' is the word he used.

HM,Jr: Those things happen every once in a while, but the answer is we have 10 telephone calls and 9 are perfect and this one finished all right, so it is o.k.

There won't be anything more tonight. It's 8 o'clock there tonight. Just wanted to see if we had left anything undone.

Dr. White: Merely want to call your attention. I thought you said to Viner you would get in touch with him before you moved.

HM,Jr: Viner o. k'd this.

I have seldom seen the President so pleased with any idea. For four days I have been thinking how we could do this.

Dr. White: This is the fastest we have ever moved.

HM,Jr: Whenever he does that, I know I am all right.

Well, Harry, you can move fast for two reasons, one is we have learned the technique of this thing and, second, the situation is moving so fast over there.

Dr. White: Then there is a certain amount of ground that was already covered in the question.

oOo-oOo

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Draft of Message to the French:

We assume that in view of the foreign exchange developments of the past few days you have explored the possibility of imposing exchange control. If you feel that your internal situation can best be stabilized by the temporary imposition of exchange restrictions which will control capital movements, we are prepared to discuss this question immediately with you and the British Treasury to the end that every effort be made by our three Governments to cooperate under the Tripartite Agreement with your efforts to stabilize your internal situation by the imposition of certain exchange restrictions.

Regraded Unclassified

EG

PLAIN

London

Dated March 14, 1938

Rec'd 2:45 p.m.

Secretary of State,

Washington.

213, March 14, 8 p.m.

FOR TREASURY FROM BUTTERWORTH

The character of the new French Government is a decided disappointment. The precipitous nature of the franc's decline, from 155 to 164, reflects the market's disappointment that a broadly based Government was not formed at a time when both for external as well as internal reasons one is required. Furthermore, Blum does not inspire confidence as Finance Minister nor for that matter does Paul Boncour as Foreign Minister. This reaction seems to be general for franc sales came from all over the continent as well as Paris and London. The French fund operated sporadically checking the decline and its task was facilitated by profit taking. The volume of trading was fairly large.

Security markets were weak today; most Government bonds were adversely affected, the range being from British

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British Government's off 1/2 to 3/4 of a point to Austrian sevens declining 26 points.

As indicated in the last paragraph of my 208, March 12, 1 p.m. the city has been more disturbed by the manner of Austria's seizure than by the actual fact of its amalgamation with Germany and it is noteworthy that Czechoslovak eights closed at 84-1/2. The city takes it for granted that another period of political markets has begun.

KENNEDY

WWC:KLP

Regraded Unclassified

Monday
March 14, 1938
3:15 p.m.

HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: How are you?

J: Fine. How are you?

HMJr: Jesse.

J: Yes.

HMJr: I had a chance to talk to the President about your two suggestions. Number 1, that you be permitted to loan directly to municipalities.

J: Yes.

HMJr: O. K.

J: Yes.

HMJr: And, he also - I said, if you are going to do this thing you've got to give Jones the same chance as you have Stewart McDonald and not let Hopkins compete with him.

J: Yes.

HMJr: And the President said yes, but of course they would let them build sewers and sidewalks and any labor that they could put on the building instead of on a highway and I said, "Well, that's all right."

J: Yes.

HMJr: But not let Hopkins build schools and that sort of thing.

J: Yes.

HMJr: Well, he's agreed to that.

J: All right.

HMJr: And then the other thing, that you can go back and make capital loans to business.

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J: Yes.

HMJr: And he says fine.

J: Good.

HMJr: So, as far as we're concerned, God bless you. Go to it.

J: Well then I'll see what I can do on the Hill, huh?

HMJr: That's the idea.

J: Thank you very much for that's a fine job.

HMJr: Thank you.

J: And listen...

HMJr: Yes.

J: I asked Upham to see if we could meet - not tomorrow but another day, because, you see, the President wants to go away at twelve on Wednesday.

HMJr: That's good.

J: And I wanted to talk with you and I suggested Wednesday or Thursday, preferably Thursday.

HMJr: Well now, just a minute. Let's fix it right now - right now, while the going is good.

J: Wednesday would do.

HMJr: No, we could it Thursday - you want it Thursday afternoon?

J: Could you do it in the morning?

HMJr: I have press at ten-thirty.

J: It won't take us - it oughtn't to take us long.

HMJr: Well, do you want to do it at eleven?

J: Eleven would be fine.

HMJr: Eleven - Jesse the Jones.

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J: Ah - Henry, I want to slip in on you a minute, but I can do that tomorrow.

HMJr: All right.

J: I've got a message to give you directly before we have the meeting.

HMJr: O. K.

J: All right.

HMJr: Goodbye.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 14, 1938, 4 p.m.

NO.: 396

RUSH.

The Government in power now is another Popular Front Government under direction of the Socialists, with Radical Socialist participation and Communist support, like the first Government of Blum's. It is probable that this Government will have a brief existence, during which time its task will be very difficult. As Blum himself admitted in a talk on the radio, the present Government is a disappointment to those who had hoped that a National Union Government would be established. He said he would be willing to renew his efforts to form a National Union Government whenever public opinion develops further along those lines.

Action on the exchanges is an indication of the way this Government's announcement has generally been received in France. This morning during one hour the franc moved from 157 to the pound to above 161.

It seems that it is extremely unlikely that full powers to deal with the financial situation will be given to Blum by the Senate. Neither does it appear likely that the Senate will approve any program on which agreement is reached

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reached by the Socialists and Communists of the Chamber. It will be remembered that the fall of Blum's first Government was due to the Senate. When it comes to dealing with the Senate, Chautemp's absence will greatly weaken the present Government. There is obviously little enthusiasm over Paul-Boncour of the Ministry of Foreign Affairs.

It is possible it will be the role of this Government to serve as a bridge towards the formation of a Government which is more representative, and which must be formed at some stage if the French are to arrest the process of economic, financial and social deterioration in their country.

WILSON.

EA:LWW

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

373/4

FROM: American Legation, Berne, Switzerland

DATE: March 14, 1938, 5 p.m.

NO.: 16

Developments in Austria officially viewed here with composure and relief that armed conflict has been avoided greatly disturb public both in German and French speaking Switzerland. Swiss of all classes see in German action in Austria potential threat to Switzerland's security. This feeling only partly reflected in the Swiss press as a result of an appeal to it by the federal political department following Hitler speech on February 19 to moderate criticism of Germany.

Developments in France especially disturbing at present to Swiss banking and business interests.

The following is confidential: I was informed this morning by Rossy, Vice President of the National Bank, that he considers it inevitable that foreign exchange control will be instituted in France. On Saturday the National Bank intervened, as well as today, to support the recent 200,000,000 franc French railways loan in Switzerland. The National Bank bought 2,000,000 today, and 1,000,000 on Saturday.

The present situation's only favorable aspect which appears to us here is that the possibility of an Anglo-Italian agreement is improved. The Minister of Great

Britain

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Britain here appears very hopeful and intimated today he had reason to be so; I believe the Minister is currently informed.

BIGELOW.

EA:LWW

Regraded Unclassified

PARTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 14, 1938, 8 p.m.

NO.: 402

RUSH

FROM COCHRAN.

At six o'clock I had a talk with the Bank of France. There has been a nervous exchange market all day, but not a large turnover. This afternoon the sterling rate had moved to 164 after the Bourse closed. The control brought the rate back to 160.50 and 160.80 at slight expense between 5:00 and 6:00 o'clock. It is my understanding that the National Bank of Belgium sold gold in London and possibly also in New York, to support the belga which was the weakest of the other currencies under the Tripartite. Sale in London of 3 or $4,000,000 coming from the Japanese supported sterling against the dollar.

French rentes dropped over 1.50 francs and domestic shares were weak. Certain internationals, particularly South African gold mines, were in demand. Blum has given statement to press saying that in order to effect a correlation of financial and monetary policies with the general national program he is supplementing his own qualities of calmness and sang froid with technical competence on the part of Spinasse, Minister of the Budget, and Mendes-France, Under Secretary

of

Regraded Unclassified

of the Treasury. Furthermore, he referred to an old friend Georges Boris (the newspaperman mentioned in the final paragraph of my 395, March 14, noon). Blum said that it was wrong for speculators to interpret the presence of Boris in the Ministry of Finance as the installation of exchange control. He remarked that the opinions of Spinasse and Mendes-France against exchange control were equally well known. The Prime Minister concluded by saying, "As for myself, I have governed for a year and a half and I do not admit that one should draw any conclusion from the presence of such - and such a personality near me."

WILSON

EA:LWW

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 14, 1938, 10 p.m.

NO.: 404

RUSH.

FOR THE SECRETARY OF THE TREASURY.

STRICTLY CONFIDENTIAL. FROM COCHRAN.

I refer to telegram No. 148 of March 14, 2 p.m., from the Department. This telegram arrived after the telephone conversation between Secretary Morgenthau, Mr. Dunn, Mr. Feis, Mr. Wilson and myself.

Wilson telephoned Blumel at 8:00 o'clock. He arranged a meeting with Blum as Minister of Finance to receive me at his home. At 8:45 this evening I met Blum alone in his apartment, and I told him that I had come on a strictly confidential errand as personal representative of Secretary Morgenthau.

Secretary Morgenthau, I said, wanted him to say, in his capacity as Minister of Finance, whether he wanted us to propose a certain question to him officially. I told Blum that we had not made an approach to the British Treasury and that nothing further would be done unless he might want us to send him an official communication.

I gave Blum an oral French translation of the message I had received over the telephone, which in substance was

as

Regraded Unclassified

as follows:

In view of the trend of exchange developments of the past few days, we assume that you have explored the possibility of imposing control on exchange. Should you feel that the internal situation in France can best be stabilized by the temporary imposition of restrictions on exchange which will control movements of capital, we are prepared to discuss this question immediately with you and the British Treasury to the end that every effort be made by our three governments to cooperate under the Tripartite Agreement with your efforts to stabilize the internal situation in France by the imposition of certain restrictions on exchange.

In explanation I added that if they applied exchange control it should in no way interfere with provisions which now exist in the trade treaty between our two countries or impair the value of the trade treaty.

I was asked by Blum to convey to the Secretary of the Treasury his most appreciative thanks for this message, which showed such keen and sympathetic understanding of the present situation in France, and which message came as a source of great comfort and relief to Blum; he told me he would keep it strictly confidential and personal as it was given to him.

I was reminded by Blum that he was at the head of the government

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government when the Tripartite Agreement went into effect, and that he personally was responsible for part of the drafting of the agreement, and that he wants the agreement to be preserved. I was assured by Blum that he would make every effort to avoid control of exchange.

Blum expressed uncertainty that he or any prime minister who may succeed him will be able to avoid exchange control. Furthermore, he said France might be on the eve of a war, and the internal value of the franc was not important if war should come, that gold and credit were what counted when a country is at war. Blum told me he did not want to see the gold reserves of the Bank of France used endlessly and hopelessly through the stabilization fund to maintain the franc's exchange value. ~~Therefore~~ ~~he~~ It is not possible to get loans indefinitely and Blum feels that London is tired of France's borrowing from them. Means of checking flight of French capital are being studied by Blum, and he may call upon us for assistance to bring this about. Before Blum admits that the situation demands exchange control he will explore every possible alternative. Blum does not want the Secretary of the Treasury to feel that he has any preconceived plan in which exchange control is involved, therefore, he does not want an official approach to be made to him or to the British by us at the present

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present time. Developments will be watched, and if Blum believes that circumstances warrant the undertaking of discussions to see if it is possible to reconcile some form of exchange control with the Tripartite Agreement which would entirely respect the terms and value of the trade agreement between France and the United States, he will communicate confidentially to me the message he wants communicated to our Secretary of the Treasury. For the present he said he would not tell his collaborators about the message I gave to him this evening.

I did not leave a written message with Blum.

END OF MESSAGE.

WILSON.

EA:LNW

Regraded Unclassified

March 14, 1938

H.D.W.

I. Why did he reply as he did?

II. In the light of his answer, was the sending of your message worthwhile?

III. Was it prematurely sent?

I. Why did he reply as he did?

One or more of the following may explain the reply received:

1. He may intend to permit the franc to decline (possibly to approach 2½ cents or 200 to the pound) and then initiate the conversations preliminary to imposition of exchange control. The advantages to France of this step are:

(a) There would be a larger gold profit for budgetary purposes when revaluation of gold takes place.

(b) The franc could be held with less difficulty at that level with the aid of exchange controls then imposed. He may even contemplate repeating Poincaire's move and let the franc fall below the desired limit, then raise it and catch a lot of speculators and, incidentally, make a profit for the Treasury.

(c) Exchange control would be politically more feasible within France if the franc declined still further. It would convince many of the necessity of exchange control whose support is necessary and who now either oppose exchange control or are lukewarm toward it.

2. He may have made a committment to Radical Socialists enabling him to form a Cabinet that he would not attempt to adopt exchange control at this time without securing their consent. If these were the circumstances he could not very well ask you to consult the British.

3. He may be saving the information for a crucial occasion which he expects will arise in the near future, and which will enable him to play his hand more effectively -- either with the British or with the Rightist elements.

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4. He may regard his present Cabinet as a stop-gap to a Cabinet with a broader composition The announcement of exchange control with American, and possibly British, support would be a very propitious start for such a broader based Cabinet. He may for this reason be postponing his request.

II In the light of his answer, was the sending of your message worthwhile?

Definitely yes. Although had he immediately accepted the offer the success of your move would have been more spectacular.

1. You have indicated to the French Government that it is in the interests of the United States to prefer that exchange control over capital movements be undertaken rather than see France lose more gold and/or the franc ~~to~~ decline further than its present low levels.

2. The United States is not placed in the anomalous position of implying -- by failure to make the Treasury position clear -- that you think France should continue to support the franc while at the same time tacitly withholding consent from the wherewithal to maintain the franc. ~~at the same time~~.

3. The Tripartite accord is protected against danger of disruption arising from the adoption of exchange control over capital movements.

4. It definitely puts an end to the claimed belief that the only obstacle to adoption of exchange control by France is the existence of the Tripartite accord

5. It strengthens the French Government's hands somewhat at least both against British pressure on French economic policy and against the political opponents of the French "New Deal".

6. It cannot help but convey to him the thought that, as he stated, you understand and have a keen sympathy for the French situation with all that that implies.

By strengthening France's hand at this time, with the situation as we know it, you are adding some strength to the defense of democracy and peace against Fascist aggression.

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III. Was the message sent prematurely?

I do not think so.

The only plausible reasons for holding it was sent prematurely seem to be:

(a) If the objective were not to help strengthen his hand, or

(b) If the objective were to obtain an immediate and spectacular success in international monetary policy.

It is too soon to estimate the positive contribution of the message. All that can be said now is that nothing has been lost and something has been gained. How much - only the future can tell.

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GROUP MEETING

March 15, 1938.
9:30 A. M.

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

H.M.Jr: I just want to caution everybody on what we had yesterday with the French. Keep it as confidential as possible, because Duffield seems awfully close to it today. Don't know whether you had a chance to or not.

I am going over in five minutes to see the President. I've got the answer here (indicating letter) but I think we've got to watch ourselves awfully close.

Mac, I am not going to be able to see Alexander, see, so I am going to appoint a committee of you and Guy Helvering and Oliphant to see him and go over the legislation - whatever the three of you agree on I'll accept it. You, Helvering, and Oliphant - whatever the three of you agree on it, with Alexander, I'll accept it.

McReynolds: Well, it would be ridiculous for you to spend time on it anyway.

H.M.Jr: Well, the three of you - if anybody's got anything they want to throw at me - I'll see Magill. I've got three minutes before I go to the White House.

The fellow Blaisdell is coming in at ten-fifteen so you'd better be here George (Haas).

Don't all talk at once.

Oliphant: I'm getting in touch with Jackson at noon today on that price thing you wanted the brief brought in on and brought down.

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McReynolds: That letter you signed for us yesterday morning about that controversy in the General Accounting Office on checks - Byrnes had it in the record yesterday within an hour after you signed it.

H.M.Jr: Evidently he liked it.

McReynolds: Sure he liked it.

H.M.Jr: Told him Gaston was right. That's the way to get publicity.

McReynolds: Stuck it right in in the first ten minutes of the session.

H.M.Jr: Wayne, if I am going to have to handle this Home Owners' Loan personally, I don't know who in the Treasury could help me out. It's gotten down to where I'll have to handle it. They called me yesterday. Who knows anything about it in the Treasury?

Oliphant: Who called you yesterday?

H.M.Jr: Fahey. Who knows the details about it?

Taylor: McCaskey; Murphy; Lindow; Haas knows something about it. I don't think he's followed it in very great detail. I think Herman's followed it in some detail. Foley. Over in Dan Bell's shop they are pretty familiar with it - two or three of them over there have followed it.

H.M.Jr: Cy, you better begin to follow up on it - Home Owners' Loan.

Upham: All right.

H.M.Jr: I mean I want somebody who is going to be able to sit at my elbow if I've got to do this thing. It's been kicked around the shop now for eight months, and I've got to do it myself.

Bell isn't here, is he? Well, just for the record - I'll tell Bell - I - well, I've got a record of it. I told Jones that we'd go along with him on this question of his making loans to municipalities and also on loans to business - that is capital loans, is that what you call it? And also, the President agreed that the Hopkins organization would not go into building schools

Regraded Unclassified

and that sort of work, but that they would build the sewers and give them any labor that they could, but that they would not take up the work Ickes had been doing, see? I mean, if, for instance, if a concern wanted to borrow a hundred thousand dollars from Jones to build a school and could use some unemployed labor, we'd furnish them the unemployed labor but the Hopkins organization would not take over what Ickes had been doing.

Oliphant: That didn't extend to sidewalks and housing did it - just the public ---

H.M.Jr: No.

When I come back I'll let you see this (letter).

Taylor: He's going to send up legislation?

H.M.Jr: Yes. But I want to get that to Bell.

All right - see you all later.

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RE CEMENT PROGRAM

March 15, 1938.
10:20 a.m.

Present: Mr. Haas
Mr. Blaisdell
Mr. McReynolds

H.M.Jr: At your service.

Blaisdell: We have just one matter which ought not to take very long.

H.M.Jr: All right.

Blaisdell: When we were talking here the other day, the assignment which you gave us was on two commodities, which you wanted to have suggestions on. The first was cement, the second was reinforcing bars.

H.M.Jr: That's right.

Blaisdell: Now, as we have gone through the problems that involve both of those commodities, we feel pretty sure of ourselves on cement. You agree on that, don't you, George?

Haas: (Nods yes)

Blaisdell: When we come to reinforcing bars, there are a series of complicated questions which leave us not very sure of ourselves and not ready at all to make any recommendation to you. The situation is roughly this: that reinforcing bars are one of a multitude of commodities in the steel picture; the price relationship of reinforcing bars to other steel commodities is not of a strategic character.

H.M.Jr: It isn't, for instance, like ingots.

Blaisdell: That's right.

H.M.Jr: I mean ingots is in a strategic position.

Blaisdell: Right. That's it exactly. And that if we're going to deal with steel, we would prefer to handle the thing in a way so that it really has some effect on the price structure, rather than perhaps saving ourselves a little money if we were successful in dealing with reinforcing bars. So that I wanted to say that to you just as quickly as ...

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H.M.Jr: Well, let's postpone it and just let's go - let's just go on cement.

Blaisdell: All right.

McR: We agreed to that yesterday.

Blaisdell: The committee agreed that was the wise thing to do.

H.M.Jr: But don't forget this, the President is still interested in plaster.

Blaisdell: Still interested in plaster.

H.M.Jr: But he doesn't want us to take wrong things. But I told him whatever we want to do as the first one we wanted to be as near right as possible, and he felt there were certain things in the plaster picture - you hadn't gone far enough, that you didn't want to make it the first thing.

Haas: I got a memorandum for you which I've held up since you've picked cement.

H.M.Jr: Well ....

Haas: It is not what you might call a real finished job. Got some very interesting materials in it. A chart there that is exceedingly interesting.

H.M.Jr: Well, is it in a position I could take it home and study it?

Haas: Yes, sir.

H.M.Jr: Well, give it to Mrs. Klotz.

Haas: It's not in a position where you'd want to talk about it outside.

H.M.Jr: Then I - I think if it isn't - I mean ....

Haas: Better stay on this.

H.M.Jr: My brain's a bottleneck. I mean unfortunately I've got to get in on this Home Owners Loan proposition now, so unless it is something which is ready I'd rather concentrate on the thing which is ready, which is cement. Is that right?

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Blaisdell: I think we're just about ready on that.

H.M.Jr: Are the boys going to figure how much the Government will buy?

McReynolds: They know how much the Government is buying. They know approximately. Of course, the big picture in that, outside of direct purchases, is the Public Roads picture, and of course they are - there isn't anything you can do with that except as a result of legislation. But you've got - we've got quantity. I had the Public Roads man over here yesterday.

H.M.Jr: MacDonald?

McR: Well, he's out of town.

H.M.Jr: Because MacDonald is always very cooperative.

McR: This man Curtis - he's been with MacDonald as long as he's been here - I know him very well. He knows the picture thoroughly.

H.M.Jr: I mean just - are you ready, for instance, to throw at me some cement figures?

McR: 14 million barrels that the Government buys direct. There are 14 million barrels that Public Roads used in public roads construction - as much in public roads construction as we buy direct.

H.M.Jr: So there's 14 million there and 14 million that we buy - in a calendar year or a fiscal year?

McR: Doesn't matter. In a year.

H.M.Jr: But is that a fairly ....

Haas: About a quarter.

H.M.Jr: Is that a fairly consistent figure. Does it run about that way?

McR: Yes, fairly consistent figure.

H.M.Jr: Now, what's the production of the country?

McR: 114.

Blaisdell: 114.

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H.M.Jr: How much?

McR: 114.

Blaisdell: We've got 12 or 13 percent of the production of the country that we purchase direct in the Federal Government, not counting Public Roads.

McR: Of course, Public Roads is such a big picture, if you thought something could be done. Of course, Oliphant's studying the question of what could be done on the bill that is now up in Congress - legislative bill involving these allotments for Public Roads. If there were something in there that could make the Government - a Government contract available for a contractor to use, so he could buy his stuff at the Government rate, it would mean that that would throw that into the picture along with .....

H.M.Jr: Well, couldn't that - you remember when LaGuardia was here. Remember? What LaGuardia wanted, for the Mayors Conference, was that any Government contractor - say, on typewriters, that that contract should also be available to a city. I mean if we buy a typewriter at $75 - I don't know ....

McR: $70.

H.M.Jr: What? Well, that's a pretty good guess. I hadn't heard it in four years, since that fellow ... Well, all right, $70 .... - that that price should be available to municipalities. You remember LaGuardia wanted that? What?

McR: Yes. Well, we discussed that yesterday.

H.M.Jr: We weren't able to get it. But this other thing is a little different, because it's a Federal grant. It's a Federal grant involved.

Bess: Affects Government costs.

H.M.Jr: There is a Federal grant involved.

McR: At least 50 percent. And if that could be made available so that it - of course, personally I would be opposed to any requirement that the Government

Regraded Unclassified

should buy the cement for the contractor who is a contractor for a state on a Federal grant, because I don't want to see the Government brought into it that way. But if the Government price on cement could be made available to a bidder ....

H.M.Jr: That's it.

McR: ... then you'd get the price down. 20 percent of the cost of the damn thing is in the cement price.

H.M.Jr: Now, what's the going price f.o.b. mill on cement? I mean what is it? What's the going price? What do they charge a barrel?

McR: I haven't got it.

Hass: We've got some figures on it, but I don't have it here.

H.M.Jr: You don't have it. Mac knows what the typewriter is, but he doesn't know what the cement is.

McR: All I've devoted myself to ....

H.M.Jr: I know, I'm just kidding.

Blaisdell: F.o.b. mill - this is an average - $1.43.

H.M.Jr: $1.43 a barrel?

Blaisdell: Yes.

H.M.Jr: What do you men think we can get them down to? I mean have you got the cost of production and all that stuff?

Blaisdell; It was down in '31 as low as a dollar.

H.M.Jr: What's the price now, a dollar ....

Blaisdell: ... forty-three - forty-five.

H.M.Jr: Forty-five. And what was it in '31, what was it before?

Blaisdell: About a dollar.

H.M.Jr: Well, is it the Federal Trade - or who's made the study on it?

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Hass: Tariff.

Blaisdell: Tariff and Federal Trade.

H.M.Jr: Is that finished, is their cost for this finished?

Hass: They've got a draft or something that we'll get.

Blaisdell: Get that today.

H.M.Jr: Which state is that that runs its own mill?

Hass: North Dakota. And they use the same pricing system as used by the monopolistic manufacturers - I mean use exactly the same pricing mechanism.

H.M.Jr: And same price?

Hass: I think so. Isn't that the indication?

Blaisdell: Yes. Apparently one other independent plant that is not a member of the association here in Philadelphia.

Hass: Another interesting thing, Mr. Secretary, came out in the meeting.

H.M.Jr: There is an independent plant?

Blaisdell: Not a member of the association.

H.M.Jr: Is it a pretty good size plant?

Blaisdell: Apparently. Pretty good business.

H.M.Jr: Has anybody sent out a tip that these various agencies shouldn't, for instance, let any contracts right away, pending this thing? Has anybody thought of that?

Hass: No, except in connection with the roads.

H.M.Jr: No, but I mean, for instance, it will be a shame if somebody just let a big contract. Let me get hold of Peoples.

Blaisdell: He was at our meeting yesterday, so ....

H.M.Jr: (On phone) Admiral Peoples, please.

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Have you drawn up already a thing which would include this under Peoples?

Blaisdell: I think that the statement yesterday was that all that was needed is "F.D.R." at the bottom of a memo that we have drawn.

H.M.Jr: The President is tremendously interested in this thing. But if this goes - I mean, to please him, after this, let's try and do plaster next. It would be most pleasing to him, see?

Blaisdell: George, there is one thing in connection with plaster that I didn't mention to you - you may know it anyhow - but the plaster people are functioning under a consent decree.

H.M.Jr: Well, those consent decrees just make the President furious.

(On phone) Hello. - Hello, Admiral. (Conversation with Admiral Peoples follows:)

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Tuesday
March 15, 1938
10:34 a.m.

Admiral Peoples: Mr. Secretary.

HMJr: How are you?

P: Fine and dandy, sir, thank you.

HMJr: Are you in good health just now?

P: Fine, bless you, as I have been for a long while.

HMJr: Now, Admiral, we're just talking here about - about this cement, you know.

P: Yes, sir.

HMJr: And I told the boys that I very much want you to sit in on it. Now the thought that I had was that it would be rather sickening if just in advance of our getting the President to agree to it that we found that either the Army or Interior had let a big contract, see?

P: Yes.

HMJr: And I wondered if you couldn't call up these people informally, see?

P: Yes, Mr. Secretary.

HMJr: And tell them that - pending the next few days if it - would they mind holding off awarding any large contracts for cement until we have this job finished.

P: Well, you thought once, you see, Mr. Secretary...

HMJr: Because it would be rather sickening if we found that they - the Army since has let a contract for the balance of this year and that we were just maybe twenty-four hours too late.

P: Ah - that'll be done at once, sir.

HMJr: You see?

P We'll check with them at once then, Mr. Secretary.

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HMJr: And when you call them up you might find out what pending contracts they have.

P: Yes. We have that done already.

HMJr: Oh, you have. But, they might just let something today, you know.

P: Yes.

HMJr: See?

P: We'll check on them.

HMJr: Good. And you call up the fellows whoever - which Departments have the big ones, you see?

P: Yes, Mr. Secretary.

HMJr: Tell them - pending this thing that I personally would appreciate their postponing it for a couple of days.

P: It'll be done at once, Mr. Secretary.

HMJr: All right, Admiral.

P: Sure to be. Thank you, sir. Byebye.

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H.M.Jr: You know, they might just let a contract for a million barrels. Be rather sickening. What? What else?

Blaisdell: Now, did Mr. Oliphant pass on to you my conversation with him about steel?

H.M.Jr: No.

Blaisdell: Well, I think I can summarize it for you in about a minute. The strategic situation there is very difficult, the major reason tying around this agreement between Mr. Lewis and Mr. Fairless for the union in United States Steel. The exact character of the contract was never announced, but the general indication was that if the price of steel went down, wages would also be cut.

H.M.Jr: I see.

Blaisdell: I think the implication of that is perfectly clear to you. I don't need to go any further.

H.M.Jr: Yes.

Blaisdell: And apparently Mr. Lewis was led in by the fact that he's been dealing all his life with the coal industry, in which labor costs are a very important item in the cost - price of coal. The situation is entirely different in steel; labor costs are an entirely different element in the price of steel. And instead of being 90 percent of cost at the mill, we have the situation where the steel industry breaks even at about 40 percent of capacity. So that we're in a squeeze on that one, and the strategy of dealing with it I don't see clearly at all; and whether we can work anything out I don't know. I just wanted to throw that to you so you'd feel aware ....

H.M.Jr: Well, it's a nice one. But nothing like that on cement and nothing like that on plaster.

Bass: And this reinforcing bar doesn't apply in this.

H.M.Jr: Well, when we get a breathing spell, I could put that up to the President and see how he feels. After all, I called up Commissioner Stevens at Fox's suggestion - wouldn't they hurry up on this iron and steel thing?

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Stevens said this thing hasn't been cleared - that hasn't been cleared up yet. Well, we have a legitimate reason to wait until we get that report, haven't we? Then when we get that we can take a look at the whole thing. But just the fact that that is there - it will make it a little bit more difficult, but let's face it squarely. I'm glad to get it, but let's face it squarely. But after all, what they are waiting for is a formula of procedure, and that's - and cement seems to, on account of the Government being such a big buyer - seems to lend itself to this thing.

Now, let me ask you on the tariff thing, have we got the cost, for instance, of Danish cement?

Ellsdell: The Tariff Commission has got that material for us. Last night, after our meeting - I just told George about this a minute ago - I had a call indicating Commissioner Fox was a little bit jittery about that situation, in spite of what he said to us at the meeting.

H.M.Jr: Why?

Ellsdell: Feeling that Secretary Hull might not care to reopen the Belgian agreement at the stage when they are negotiating the United Kingdom agreement. Now, I just suggested to George, after sleeping on the thing, that it might be possible to throw cement into the United Kingdom agreement, in spite of the fact that the amount we import from United Kingdom is negligible; nevertheless, you could bring in in that way and by the most favored nation clause it applies all around.

H.M.Jr: I just want to ask you - this is confidential - we are very anxious to do something for Mexico. Has Mexico got any cement mills?

Ellsdell: I don't know.

H.M.Jr: Would you find out, because we're all just trying to find something that we can buy from Mexico to help them out. The State Department - I mean they're going to extremes to see if we can't make some arrangement to buy a part of the Navy oil. They're going that far, I mean, in order to find something that we can give as a sop to Mexico at this time, you see. So they might have

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cement mills. After all, they're doing a lot of big dams down there. They're doing a lot of big dams down there. Of course, I realize transportation is the big cost.

Blaisdell: Well, anything that we can do that can keep the boys on the tenterhooks ....

H.M.Jr: Well, you find the State Department just falling all over themselves, just running over here hot-foot to see if we had something we could give Mexico. I mean Mr. Sumner Welles would be just over here on the double-quick if there was something. They're building these great big dams; they're tremendous, you know, and they're all cement. So if there was a couple cement mills down in Mexico ....

What about this cement mill in Philadelphia? Independent?

Haas: National Portland is the name.

H.M.Jr: Have you got its production, who finances it, who controls it?

Haas: Edwards had some material on it, didn't he?

Blaisdell: Yes.

Haas: Federal Trade.

H.M.Jr: I mean the capacity and all that.

Haas: We can get that.

H.M.Jr: Are they absolutely independent?

Blaisdell: No, they follow the practice of the industry.

H.M.Jr: In what way are they independent?

Blaisdell: They are not a member of the Institute. The Institute is the organization that practically sets the practices in the industry, and it is against the Institute that the Federal Trade is now having its investigation.

H.M.Jr: Well, I mean, would this company, for instance, bid, and could they handle 14 million barrels?

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Blaisdell: I doubt if they could handle that much, but if we can get anybody that will break the ring.....

H.M.Jr: It is this one concern.

Blaisdell: It is probably that outfit.

H.M.Jr: I'd put somebody to work on that - who their directors are, who does their financing, and the whole business.

Haas: Uh-huh.

Blaisdell: I thought the earnings figures were not bad on a total stock basis.

Haas: I think there's another independent company.

H.M.Jr: Those aren't big. Do you think they're very big earnings?

Blaisdell: They are not huge, of course.

H.M.Jr: Depends on the size of the company.

Blaisdell: Depends on the size of the company. But the fact they have been operating in the black the last two years is an indication they are in pretty good shape.

H.M.Jr: Lone Star - where's the Lone Star?

You know, I don't know - whose payroll are you on, anyway?

Blaisdell: Well, I'm in a very peculiar situation. I am technically on the Social Security Board's payroll and I am loaned to the National Resources Committee and they reimburse the Social Security Board.

H.M.Jr: But your time ...

Blaisdell: My time is all National Resources.

H.M.Jr: I see. Would you just - I mean I like to do these things directly - would you bring over a little biography of yourself for my own personal information?

Blaisdell: Be glad to.

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H.M.Jr: I mean as long as I'm working with you, I'd much rather ask you personally than - I mean you seem to be doing such a good job. I'd like, if you would, when you come over, just hand it to me.

Blaisdell: Very glad to.

H.M.Jr: I ought to know, but I don't.

Blaisdell: That's not surprising.

H.M.Jr: And I'd much rather ask you direct than have somebody else do it. We don't do any snooping around here.

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 15, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

I called Mr. Bolton at 10:25 today. I pointed out that my call had nothing to do with his cable No. 155/26 which was received only after I had put my call in. However, I wanted him to know that I was discussing the matter with the Treasury.

The most intensive thing in Europe at present was the widespread disappointment with the type of government being formed in France, which was the subject of the most bitter criticism in Paris. Not only did one hear the usual comment about politicians playing with fire but personal criticism of practically every member of the government. There was quite a number of people ready to suggest that Blum had put his own personal prestige ahead of the interest of the country. That it should not have been possible to form a national government at the time of a great European crisis was more than the average Frenchman could understand. The general feeling was that the Blum Government could not last. As long as it was in existence, a flight of capital was bound to continue. Nevertheless, there was no sign of speculation. As a matter of fact, he knew of a number of speculative contracts that were being closed out. The reason for this was, of course, that the franc was cheap. The experience last Saturday, when the franc improved in anticipation of the formation of a national government over the week-end, had furnished ample proof that an enormous demand for francs would spring up, no matter what the European situation might be, as soon as a measure of confidence had been established in France. Today's rate of 167 was simply the measure of disappointment of the public and the feeling that the Blum Government could not last.

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 15, 1933.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

The gold market in London today had been fairly active, with the price after fixing ruling half a penny to a penny above fixing. A moderate amount was going to be shipped to New York, the Chase, and possibly the Bankers and Guaranty, having engaged some. Yesterday, he had sold over a million pounds worth of gold in the market but, on the other hand, had taken large amounts from the Belgians and the French, with the result that probably, on balance, he ended up about square. Today, he had again put about a million pounds worth into the market, the greatest part of which, by far, had gone into hoarding. His sales of dollars today had reached the figure of 3 1/4 million, part of which had gone to the Belgians.

Referring to the Austrian situation, Bolton said that Kienboeck, the President of the Austrian National Bank, had been dismissed yesterday and that Schacht was in Vienna today. The Austrian schilling had ceased to be quoted in the London market yesterday. Budapest and Prague were relatively quiet and taking things calmly, he thought. In Switzerland, where they had been very uncomfortable all this time, there was a certain amount of panic and a good deal of "hot" money was leaving the country. That fact, he thought, was one of the reasons for the demand for dollars.

In London, the stock market had been very weak today all the way through from the gilt-edge to the mining issues. There was a feeling of intense depression in England without the slightest likelihood of any

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 15, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

improvement in the Central European relations. Anglo-German conversations would not be recommenced. The odds were also against there being any successful outcome of the Anglo-Italian negotiations as it was generally feared that Mussolini would increase his demands. That, of course, was all a matter of guessing. Actually Ciano and Perth had commenced their conversations in Rome today. Meanwhile, everybody seemed to be looking for a pretty disorderly sort of market, with a demand every now and then for dollars.

I referred again to his cable No. 135/38 and assured him that I would do my best to get an early answer. At the present moment, Bolton replied, he was short about $3,500,000.

LWK:KMC

Regraded Unclassified

Tuesday
March 15, 1938
11:00 a.m.

HMJr: Hello.

H. M. Cochran: Hello.

HMJr: Yes. Cochran?

C: Yes. Hello.

HMJr: Hello, Cochran. I got the cable.

C: Yes.

HMJr: And I've sent you a message of congratulations on it.

C: You think I did it all right?

HMJr: Yes. You'll get a formal telegram of approval through the State Department.

C: Fine. Thank you so much.

HMJr: Now, my thought is, just let it rest for the time being.

C: Yes. Absolutely. I think that's just right.

HMJr: Yes. Just let it rest.

C: Surely.

HMJr: Now, what can you contribute today?

C: They're having a very nervous day here.

HMJr: Yes.

C: This morning it opened at a hundred and sixty-four francs for the sterling and it shot up to a hundred and sixty-seven...

HMJr: Yes.

C: I was out there at eleven o'clock...

HMJr: Yes.

C: a few minutes to eleven, and they had lost a hundred and fifty thousand pounds.

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HMJr: Uh huh.

C: Then, just about noon time there was the rumor that Le Brun, the President, was calling in the leaders of these minority parties,..

HMJr: Yes.

C: which had refused a few days ago to go in for a National government.

HMJr: Yes.

C: And was still going to try to get them to go in for a Popular Front movement.

HMJr: Yes.

C: So the franc improved on that.

HMJr: I see.

C: Now, it's gotten a little worse but it's not too bad.

HMJr: Uh huh.

C: And there's all manner of logic that this Government may go before Parliament on Thursday.

HMJr: Yes.

C: But the general opinion is that it will not last.

HMJr: I see.

C: Hello.

HMJr: I hear you.

C: There's some belief that Blum will try to expand it into a National Government and he continue on as the head.

HMJr: I see.

C: And the other belief that Herriot would have to head it.

HMJr: Yes.

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C: And then there's another belief that they may still try to get a cabinet of former prime ministers.

HMJr: Of what?

C: Of former prime ministers; get some of the big men.

HMJr: I see.

C: I mean perhaps Laval and get all of them in if they can.

HMJr: What are they going to have, a game of pinocle?

C: (Laughs) I think so, if they get them all in.

HMJr: Yes.

C: But anyway, it's just the day's rumor, you see. They're getting together and talking things over in preparation for a cabinet meeting tomorrow. And this morning at nine-thirty I was called to the Bank of France - the Governor -

HMJr: Yes.

C: But I sent you a cablegram at eleven o'clock reporting that.

HMJr: I see.

C: And I think I'd better not give that over the ...

HMJr: No, no - no, no.

C: Because there's nothing urgent about it.

HMJr: All right.

C: And Wilson has an appointment with our friend for four o'clock, he just left.

HMJr: I see.

C: You see, he put in a request for - just on general business...

HMJr: Yes.

C: Before you telephoned yesterday.

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HMJr: Yes.

C: So he's over there now.

HMJr: Uh huh.

C: Then, the Belga was a little weak but I just got the report that the Bank of England has put ten million dollars at its disposal.

HMJr: Wait a minute, wait a minute. Say that again, I didn't get that.

C: I say I just got the news from the market that the Bank of England has put ten million dollars at the disposal of the National Bank of Belgium.

HMJr: Ten million dollars?

C: That's right.

HMJr: Yes.

C: And that the Guaranty Trust is now in touch with the National Bank of Belgium with the view to shipping gold to New York.

HMJr: What bank?

C: The Guaranty.

HMJr: I see.

C: That is their confidential word to me, as I say, they just told me.

HMJr: Good.

C: That's about the only thing on the market that's unusual.

HMJr: Well, of course, your mission yesterday, we're keeping that very quiet.

C: Oh, absolutely.

HMJr: Tell me, when you saw - I'll try this and see if works now - when you saw number five...

C: Yes.

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HMJr: Have you got it?

C: Yes.

HMJr: How did you find him? I mean, as to his condition, temperament and so forth; I mean, was he nervous or was he in a...?

C: He's a little nervous. He was very cordial but he's a man who needs a rest I think.

HMJr: I see.

C: I'm afraid he does.

HMJr: Uh huh.

C: And he told me, he said, "You know, I had planned to make a trip within the next month."

HMJr: Yes, I only heard about that the other day.

C: Is that so?

HMJr: Yes.

C: Well, I didn't hear about it for a long time afterwards. And he said, "I may still get permission."

HMJr: Well...

C: That was his last word.

HMJr: I see.

C: And when I read him that first part, you know?

HMJr: Yes.

C: And, he said, "Oh, I understand," he said, "that's my good friend who approaches me very - who understands this..."

HMJr: What's that, I didn't understand?

C: He said, "Oh, my friend," you know?

HMJr: What?

C: He said, "he understands this." And when I added the last sentence...

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HMJr: Yes.

C: You know, he said, "Oh, I've heard that before." "But," he said, "if I should do something about it," he said, "my other friend over there would behave like the devil himself."

HMJr: He'd do what? We don't get that. Do that again.

C: All right, but it's not worth it perhaps.

HMJr: It's not worth it? All right.

C: I'm afraid not.

HMJr: All right. All right.

C: He was in a good spirit and appreciated this approach.

HMJr: Well, if there's any personal side remarks write them to me in a letter today.

C: Good. All right, I'll do that.

HMJr: Will you do that?

C: Yes, because this thing might just as well be.

HMJr: All right.

C: Certainly.

HMJr: All right.

C: Right. And watch for that 405 of eleven a.m.

HMJr: All right.

C: You'll receive it today.

HMJr: All right.

C: Fine. This other I'll not mention to anyone - we'll just let it rest.

HMJr: That's right.

C: Goodbye.

HMJr: Goodbye. Thank you.

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March 15, 1938

Mt dear Mr. Secretary:

I would appreciate it if you would have the following cable transmitted to Mr. H. Merle Cochran as soon as possible:

"Wish to congratulate you on the excellent manner in which you carried out your special mission of March 14th. Secretary of Treasury."

Sincerely yours,

The Honorable

The Secretary of State.

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 15, 1938, 11 a.m.

NO.: 405

RUSH

FROM COCHRAN.

STRICTLY CONFIDENTIAL.

I called at the Bank of France at 9:45 this morning at the request of the Governor. Governor Fournier talked with me alone. He stated that five had spoken with him earlier this morning, and had stated that he was sure he could count on American cooperation following my visit to him last evening. I was asked by Fournier what concrete cooperation we could give them now. I told Fournier that five had asked no cooperation from us, but had intimated that he might seek some possible assistance in stopping six. Fournier had evidently not got from five any details of our conversation last evening, and I did not disclose anything about it.

The Governor told me that concrete assistance would help him on the following: (1) a loan; (2) purchases by the American stabilization fund of French francs without converting into gold immediately; (3) technical supervision of the market in the United States in order to check franc speculation. Governor Fournier said he thought our reply on the first two points would be unfavorable, as it has been on previous occasions. With regard

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regard to the last point, he said he is sure we will do what we can to cooperate as we are already doing under the Tripartite. He thinks if anything under number three were now requested we would give a sympathetic answer.

At 10:15 a.m. Governor Fournier left to keep an appointment which he had with five. Fournier told me that he would telephone me if after their conversation they had any request to make of us for concrete cooperation.

END SECTION ONE.

WILSON.

EA:LWW

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Section two of telegram No. 405, March 15, from Paris

According to Fournier, five had been contemplating the possibility of closing the Paris market entirely this morning. At five's request, the Bank of France had phoned the Governor of the Belgian Bank to see whether the latter, who had had a severe day yesterday, was planning any such step, or if he would be moved to close the Belgian market if the French market should be closed. While I was with Fournier, Jansen answered that there was no consideration being given in Brussels to closing the market and I inferred that even though the Paris market closed, the Brussels market would not. The Bank of France in its talk with the Bank of England found a willingness on the part of the British to sound out various banks in London with a view to checking speculation against the franc, although the Bank of England was definitely of the opinion that there was little of this going on, the movement being a six plus the demand resulting from a serious deficit of trade. After having these responses, I believe it was decided not to sound out New York or Geneva or Zurich or Basel, on the point of closing, as had been suggested originally. I was told by Fournier that he was against closing; that any move in this direction would arouse suspicion that seven was being prepared.

Upon my call at the Bank at ten forty-five, I found the

franc

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franc had moved from the opening rate of 164 to 165.50 to the pound and that 150,000 pounds had been given by the control.

END OF MESSAGE

WILSON

EA:DJW

Regraded Unclassified

MBo

GRAY

London

Dated March 15, 1938

Rec'd 11:15 a.m.

Secretary of State,

Washington.

URGENT.

216, March 15, 2 p.m.

FOR TREASURY FROM BUTTERWORTH.

This afternoon British security markets were again somewhat weak and British Government's securities continued to decline. War loan which closed last night at 101 15/16 having dropped 9/16th yesterday is now quoted at 100½. Although the excuse of foreign selling is nearly always given this time it is true that the sales of war loan come mainly from the continent.

Two parts of the Prime Minister's statement of last evening to the House of Commons have provoked considerable discussion in the city today:

One "The immediate result (i.e. of Germany's seizure of Austria) must be to intensify the sense of uncertainty and insecurity in Europe; unfortunately while the policy of appeasement would lead to a relaxation of the economic pressure under which many countries are suffering today, what

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2- No. 216, March 15, from London.

what has just occurred must inevitably retard economic recovery and indeed increased care will be required to ensure that marked deterioration does not set in."

Two. "As regards our defense programs we have always made it clear that they were flexible and that they would have to be reviewed from time to time in the light of any developments in the international situation. It would be idle to pretend that recent events do not constitute a change of the kind we had in mind. Accordingly we have decided to make a fresh review and in due course we shall announce what further steps we may think it necessary to take."

While the city is fully prepared for an acceleration and extension of the British armament program the Prime Minister's speech is not generally regarded in the city as supplying a policy behind which to rally and consequently the city approves the state of mind reflected by Churchill's speech.

Criticism of the inadequacy of the Blum Government continues unabated and although the franc is regarded as over-valued at the current figure the expectation is general that the line of least resistance will be followed and further depreciation will ensue. The figure commonly mentioned is 175 to the pound. After showing marked

weakness

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3- No. 216, March 15, from London.

weakness throughout the morning the French fund forced the rate from 165½ to 163½. A further raid on the gold profit is also generally expected.

The dollar continues bid and gold fixing at 138.8 and one pence was at absolute par; most of the 342 bars were supplied by the British fund.

KENNEDY

CSB:

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TELEGRAM SENT

JR

GRAY

March 15, 1938

2 p.m.

AMEMBASSY

PARIS (FRANCE)

150.

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

QUOTE. Wish to congratulate you on the excellent manner in which you carried out your special mission of March fourteenth. END QUOTE.

HULL
(HF)

EA:HF:LWW

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MBo

GRAY

Paris

Dated March 15, 1938

Rec'd 2:19 p.m.

Secretary of State,

Washington.

RUSH.

406, March 15, 5 p.m.

FROM COCHRAN.

Reference final paragraph my 405, March 15, 11 a.m. After the franc-sterling rate had reached 167 with the French control giving sterling, a turn came and on the Bourse the rate went back as far as 162½. This turn took place as a result of market gossip to the effect that President Lebrun had called in leaders of minority parties seeking their cooperation toward joining in a National Government. There was a weakening of the franc shortly thereafter on word of disturbances in a town which the market thought was in Czechoslovakia until one of their geographic experts found it was in Belgium. While rentes were steady and the atmosphere was a little better around mid-afternoon, there was the general feeling that more changes must come, it being the Bourse conviction that the present Government cannot last. Paris firm of

Dreyfus

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2- No. 406, March 15, from Paris.

Dreyfus was a big buyer of sterling today. I believe the control acquired a fair amount of sterling around noon.

END SECTION ONE.

WILSON

SMS:HPD:

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PARAPHRASE OF SECTION TWO OF NO. 408 OF MARCH 15, 1938
FROM PARIS

I have been confidentially informed by Guaranty trader that the Bank of England put at the disposal of the National Bank of Belgium $10,000,000. The National Bank of Belgium, it was said, is negotiating with Guaranty for a shipment to New York of gold from Belgium.

Today I had lunch with the General Manager of the Societe Generale and with the Foreign Business Manager of that concern. Also present at the luncheon were Georges de Castellane of the Bankers Trust, and the British Financial Counsellor Rowedutton. It was the conviction of the three Frenchmen that the present Government would not be able to hold out. They did not think that full powers or any unusual monetary authority would be given by the Senate to a Government which Blum headed. Emphasis was laid by one of them on the difficulty of having a plea for a national defense loan made by a Government whose head has, for the past ten years, been one of the most active in opposing expenditures for national defense. It is the opinion of Rowedutton that the franc is undervalued. However, he admitted that this reasoning would be only valid if measures were actually taken by France to remedy their entire economic and social affairs.

END MESSAGE.

WILSON.

EA:LWW

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Tuesday
March 15, 1938
3:21 p.m.

HMJr: Hello.

T.O.: Stewart McDonald.

HMJr: Hello.

Stewart McDonald: Hello, Mr. Secretary.

HMJr: Say, I'm beginning to get worried about F.H.A.

McD: Why?

HMJr: I don't know whether there's going to be enough money to take care of you.

McD: We're making our own money.

HMJr: Oh, you're making your own money?

McD: We - a fellow came down here from New York yesterday with thirty thousand dollars in fees for low-cost housing projects.

HMJr: Thirty thous....

McD: Collection fees; we charge them for - for doing our business.

HMJr: Well, I'll think I'll have to put another shift over in the Bureau of Engraving.

McD: (Laughs)

HMJr: You're going like a house a fire.

McD: Oh, we're going fine. I was over to see Jimmy Roosevelt this morning but he didn't seem to think we were doing very well.

HMJr: Oh, for Christ's sake.

HMJ He said, "Why, there's still unemployment."

McD: What?

McD: He said there was still unemployment.

HMJr: Well, maybe he was joking.

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McD: No, no, he wasn't, either.

HMJr: Well, what does he expect you to do?

McD: I don't know. He expects these things to go from a blue print to employment in twenty-four hours. You can't do that you know; there's a lag there.

HMJr: Well, I don't want to compare what you are doing with what Straus is doing.

McD: (Laughs) No. Well, I know, but he don't understand that this business that is reported back this way - twenty million dollars last week - why that - those houses won't be done, you know, for three or four months.

HMJr: Well, of course not, if they were done sooner you couldn't live in them.

McD: That's right.

HMJr: Well I think it's wonderful. Win Riefler is sitting here and he's smiling all over.

McD: Well, I'm glad he is. There's nobody I like more than Win Riefler; I think that his ability and his soundness and his judgment and his support is worth a whole lot, it's been an inspiration to me.

HMJr: Well...

McD: And yours too.

HMJr: Thank you. You never talk like that about me.

McD: Well, I do too when you're not here.

HMJr: All right. Well, that's fair enough, that sounds like a warning.

McD: (Laughs) All right, Mr. Secretary.

HMJr: Goodbye.

McD: Goodbye.

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MBo

GRAY

London

Dated March 15, 1938

Rec'd 3:30 p.m.

Secretary of State,

Washington.

218, March 15, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

British security markets strengthened somewhat after this morning's decline (my No. 216, February 15, 2 p.m.).

The franc likewise strengthened on report from Paris that the President of France had called a meeting with the leaders of the minority groups and that the Blum Government would probably be supplanted either tomorrow or Thursday by a more broadly based government.

The British control seems to have sold dollars when the rate reached 4.97½.

Gold is being shipped to the United States on the QUEEN MARY sailing tomorrow.

KENNEDY

CSB:

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Tuesday
March 15, 1938
3:30 p.m.

HMJr: Hello.

T.O.: Dr. Splawn

HMJr: Thank you.

T.O.: Go ahead.

HMJr: Hello.

Walter Splawn: This is Walter Splawn , Mr. Secretary.

HMJr: Yes, Dr. Splawn.

S: I sent over a copy of those figures which I had at our meeting this noon.

HMJr: Yes.

S: I hope they have gotten through to you.

HMJr: Well, I haven't had a chance to see my mail, I'm just doing it now.

S: Uh huh.

HMJr: But thank you so much for sending it.

S: I wonder if you have any suggestion - what did you think of our meeting this morning?

HMJr: I thought it was very constructive.

S: Uh huh.

HMJr: I was very much pleased.

S: I was very happy. It seemed to me that out of it I could see emerging...

HMJr: Yes.

S: something practical, didn't you?

HMJr: It was the most encouraging meeting on railroads I've attended.

S: Well, that's fine to hear you say that, Mr. Secretary.

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HMJr: And I was quite cheered.

S: Well, that is fine.

HMJr: (Laughs) All right.

S: Well, goodbye.

HMJr: Goodbye.

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RE NEW LEGISLATION FOR
FEDERAL HOME LOAN BANKS

March 15, 1938.
3:30 P. M.

Present: Mr. Fahey
Mr. Upham
Mr. Oliphant
Mr. Taylor
Mr. Foley

H.M.Jr: Well, Mr. Fahey, the floor is yours. Can you ask for anything more?

Fahey: I don't know - I don't know whether I want the floor or whether this is .....

H.M.Jr: I didn't say the Treasury, I said the floor. There is a difference.

Fahey: Well, there is a great difference between that and the Treasury.

H.M.Jr: Well, go ahead.

Fahey: Why, the only thing I am interested in, as you know - we have had under discussion this question of legislation affecting the Federal Home Loan Bank system, and so forth, with which all these gentlemen here are familiar.

H.M.Jr: Come in, Mr. Upham. You're invited this morning. You know Mr. Fahey?

Upham: Yes indeed.

Fahey: Yes indeed. And we have had some talk with your folks about it over here and we are simply anxious to get it moving or set.

H.M.Jr: Well, in general terms - not legal, I mean - what is your problem? Why aren't you all right the way you are now, and what do you want to do in the future? See? Can you do it that way, John?

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Fahey: Yes. Well briefly, the problem is this: There are two phases of it, particularly, that are involved in this legislation. First, this Federal Home Loan Bank system, as you know, has seen a fine growth. At the beginning of '33, having come too late, it amounted to nothing. It didn't move until after the bank holiday was out of the way and with a very little encouragement - practically no promotion at all; the only work that was done on it was in speeches from time to time by members of the Board - it has grown steadily until it is now up to about four thousand members.

H.M.Jr: Four thousand members?

Fahey: Member institutions in the twelve banks .....

H.M.Jr: That means - member institution is what? Describe it.

Fahey: Is a building and loan association. Savings banks are also eligible - life insurance companies. The conception of the system, as you know, was a mortgage reserve system in the urban home field.

H.M.Jr: That may mean a so-called Federalized or wholly owned - amongst the four thousand - would you own one of those units entirely?

Fahey: Oh no. No.

H.M.Jr: No?

Fahey: Of course the Government owns the Bank system. You remember that under the original legislation, to get it started the United States Government subscribed capital of $125,000,000 for these twelve banks, to be made available as needed. The rest of it was to be subscribed by the member institutions. There is a right under the law for member institutions in the course of years to retire the Government stock. And the member institutions own the Bank system. None of it, of course, has ever been retired. In my judgment it never will be. In other words, it is almost certain that it is going to continue a

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Government-owned system. I don't think there is any getting away from it. All these twelve banks have gotten on their feet; they are all making profits; they are all declaring dividends. You receive dividends on the stock which the Government owns?

H.M.Jr: You don't mind my asking questions?

Fahey: Go ahead please.

H.M.Jr: I have not prepared myself for this meeting - I couldn't.

Fahey: I understand.

H.M.Jr: Do we contribute to the running expenses of these twelve banks?

Fahey: No, not a cent.

H.M.Jr: We do not?

Fahey: They pay themselves. They earn enough on the loans they make, and they now have outstanding about $188,000,000 of loans and the interest which these banks receive on those loans pay their running expenses and the dividend besides.

H.M.Jr: The Federal Government contributes nothing?

Fahey: Contributes nothing.

H.M.Jr: To the twelve banks?

Fahey: That is right. It owns the Bank system, and the Bank system pays all of its running expenses and a profit besides.

Now most of these members are of the mutual thrift type - building and loan associations - cooperative banks, as they call them in Massachusetts; homestead associations, they call them in Louisiana; savings and loan associations and the Federal Savings and Loan Associations, which, by the legislation ..... And for the first time - in 1933 - Congress provided for Federal charters and Federal regulation of institutions of this type.

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Now, as you know, the great bulk of the mortgage lending of the country, for decades, has been by the savings institutions. The savings banks which are largely confined - the mutual savings banks, largely confined to the northeast. There are about five hundred twenty-five mutual savings banks, I think. And they hold some two billions of farm mortgages, of home mortgages. There are practically no savings banks outside of the northeast, and the great majority of them are in three states - New York, Massachusetts, and Connecticut. In the rest of the United States these building and loan associations - also mutual; that is, the savings banks are - serve the same purpose. The only difference in effect in their method is that they issue shares to their members who have to make regular payments on those shares, in most cases, and can borrow against their shares or can borrow from the institution for a mortgage in order to construct or to buy a home.

The life insurance companies have been the other great mortgage lenders of the country - outside of these building and loan associations.

The building and loan associations, covering so large a part of the country have, for many years, represented approximately forty to forty-three per cent of all the lending on home mortgages. And, incidentally, they were the only type of institutions up to this depression which loaned on an amortized mortgage basis or for more than sixty per cent of value.

The savings banks invariably were limited by state law to the first mortgages; generally not to a greater extent than sixty per cent, although in some states it was sixty-six and two-thirds per cent - and by law, generally limited to making loans for not more than five years.

Now when this legislation was conceived, Congress provided for membership in the system of the life insurance companies, the mutual savings banks, and - without using the different names - the building and loan - mutual institutions.

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The building and loan institutions were those which first came into the membership. There are only a handful of mutual savings banks, and I think there are now some twenty-eight life insurance companies. As I have said, the building and loan associations have taken advantage of their opportunities from the membership and it continues to grow.

Now another conception of the system was .....

Oliphant: In dollar volume how is the business distributed among those three types?

Fahey: I can tell you very closely.

Oliphant: Of the stuff they have discounted with the banks?

Fahey: I can give you pretty nearly an up-to-date division of it by classes of institutions.

(Looks through his papers.)

Right down a bit now, and spot this. At the end of 1937 the total of home mortgage debt on one to four family, non-farm dwellings, was approximately seventeen billion, three hundred eight millions of dollars. Incidentally, that is the largest block of private debt in the balance sheet of the country. You can see it is about twice the farm debt, and aside - and it is the greatest single item of debt we have, next to Government, state, and municipal debt.

Of that sum at the end of '37 the holdings were as follows: Commercial banks, one billion four hundred million; life insurance companies, one billion three hundred thirty million; mutual savings banks, two billion seven hundred million; savings and loan associations, of the several types, three billion four hundred eighty million; Home Owners' Loan Corporation, two billion three hundred ninety-eight million. That is of mortgages still outstanding. Individuals and other lenders have out six billion. Total, seventeen billion three hundred eight millions of dollars.

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Now the conception of the operation of this system under the law was that money needed for lending to its members and to provide home mortgage resources, would be raised by the issue of debentures sold to the public - consolidated debentures of the Bank system.

H.M.Jr: Of the twelve banks?

Fahey: Of the twelve banks.

H.M.Jr: With what as collateral?

Fahey: With their loans and the notes, of course, of the institutions - protected by the loans.

H.M.Jr: Guaranteed or not guaranteed by the Government?

Fahey: No, not guaranteed by the Government. These debentures are not guaranteed by the Government. There have been sold so far - there are several issues of debentures out - a total of seventy-seven million seven hundred thousands of dollars.

H.M.Jr: Those are the ones - sold last six months?

Taylor: There have been three issues - another one contemplated shortly.

Fahey: That is right.

Taylor: Which will refund, as I understand it, the first one.

Fahey: Yes, that is right. It refunds an issue of twenty-four million seven hundred thousand of April 1, 1937. These debentures have found a very ready acceptance in the market and at low rates. All three of them have been absorbed within a few hours after they were offered, and largely over-subscribed. I think the largest was over-subscribed about fifteen times. I think the least offering they have had is something like eleven times, or something of that sort. Now one of the things behind the ready acceptance of these debentures has been the fact that although there was no Government guarantee here the law provided that a Home Owners' Loan Corporation bond, up to three hundred millions of dollars - any part of those might be employed to take up debentures of the Bank system if and when needed. That have never been needed. However, that safety margin

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has been declining, of course, steadily as a result of H. O. L. C. investments in several directions, and the shares of Federals, and the shares of others, under the law, and we are beginning to find a certain attitude of uncertainty on the part of the banking groups as that safety device there declines, and a feeling that something ought to be provided to represent a greater factor of safety behind this Bank system.

As you can readily see, if one of these issues of debentures matured at a time of disturbance and you couldn't take care of it, it would undoubtedly precipitate a serious situation, not only for the Bank system, but it would have a certain reaction on our whole financial system, for here is a banking system wholly owned by the Government, and if the Government is in no position to protect it and can't protect it, you certainly would have a difficult time on your hands.

.J.Jr: Well John, what is your margin now?

[illegible]y: Well - margin in what respect?

[illegible].Jr: Well, you say you've got out seventy-five million dollars worth of these debentures.

[illegible]y: Yep.

[illegible].Jr: For twelve banks.

[illegible]y: That's right.

[illegible].Jr: How many, under the law, can you issue?

[illegible]y: Oh, there is no limit to what you can issue, provided the collateral .....

[illegible].Jr: What are you worrying about?

[illegible]y: The question is whether you can market your debentures in a particular time.

[illegible].Jr: Well that is true of the Treasury too.

[illegible]y: Well, but the Treasury is in a very different position because the Treasury has the United States Government behind it.

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H.M.Jr: Well, true, but Christ, when I came in here it was difficult enough. I mean, I think - what was it - thirteen months' note was the best I could sell. The first thing I sold was for thirteen months - paid three and a quarter per cent - something like that.

Fahey: Yes, but .....

H.M.Jr: What is it you are worrying about - you worrying about selling these things?

Fahey: Certainly, and we are worrying - not only that, but what you confront is this: You take the savings banks .....

H.M.Jr: What do you want to do? Just these debentures which you sell is to supply the twelve banks of the Home Owners' Land ..... What do you call it?

Fahey: Federal Home Loan Banks.

H.M.Jr: ....Federal Home Loan Banks with working cash, isn't that what it is?

Fahey: When they need it.

H.M.Jr: What?

Fahey: When they need it.

H.M.Jr: And you are unlimited - how many you can sell?

Fahey: Yes, but hold on - you've got to be able to sell them for one thing, and you've got to be able to sell them as necessary - reasonable a rate as you can; otherwise you raise the cost of money to these member institutions and they can't lend it at the cost.

H.M.Jr: Is that all you are worrying about? Is that all you are worrying about?

Fahey: Yes, sure - on that particular proposition. Now remember that this is the only - this is the only financial institution in the group that the Treasury is not in a position to protect any time. You have the right to take R. F. C. debentures; the Farm Credit Administration has a revolving fund of two billions of dollars behind your Farm Loan Banks. You can take the debentures of

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F. D. I. C. You are in position to protect every one in this group except this particular group of institutions - and that you can't do. In an emergency, as it stands right now - not only the fact - in the face of the fact that you've got a hundred and twelve millions of Government capital in it, and indirectly, through the system, and through the insurance corporation, we've got a stake of close to five hundreds of millions of dollars here.

H.M.Jr: What do you want to do?

Fahey: There are one or two things that can be done, that are very simple, about it. One is to amend this Act so the Treasury can at any time take any of these debentures if and when it wants to. Then the option rests entirely with you, whether you exercise it or not depending on what the character of the emergency is. The other thing you can do is to guarantee these debentures so far as the Government is concerned, just as the Government has, by amendment of the Act, guaranteed the debentures of F. H. A. I mean, you'd put it on exactly the same basis as the F. H. A. debentures.

H.M.Jr: Do one of two things.

Fahey: Now, what you confront is this: Savings banks, for example - great bulk .....

H.M.Jr: Will you excuse me? That is proposition one. Without getting into details, you want these things - you want these twelve banks - you want the Treasury in a position - that if in case of some emergency we can step in there and .....

Fahey: And take the debentures - take any that had to be taken for the time.

H.M.Jr: Without getting into the details, that is one thing.

Fahey: Without getting into the details, that is one thing.

H.M.Jr: I don't expect to get - I just want to let this soak in - see?

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Fahey: I see.

H.M.Jr: What else you got?

Fahey: That would solve the problem. The other solution that would be equally effective would be to have the Government guarantee these debentures.

H.M.Jr: Well, that is all the same thing.

Fahey: Well .....

H.M.Jr: I mean, what you want is .....

Fahey: In that case you could market them, ah, and you wouldn't have to turn to the Treasury.

H.M.Jr: It all adds up to the same - you've got a worry - that some day you can't sell your own debentures, and you want to be in a position if that time comes the Treasury should hold the bag.

Fahey: Exactly.

H.M.Jr: Now, a number of ways that could be done.....

Fahey: That's right.

H.M.Jr: ...And all I am trying to get today is what the things are, without getting down - which is the best way of doing, or what do you want to do with it all. But that is one proposition. Now I got that.

Fahey: Yes.

H.M.Jr: Now you got anything else?

Fahey: Now the second - there are a number of minor and technical amendments to the law that don't amount to anything particularly, but the only other two really important things .....

H.M.Jr: All right.

Fahey: The second one applies to the insurance corporations. The present rate being charged these member institutions .....

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H.M.Jr: These are the same institutions?

Fahey: Yes. Well, no, because they don't have to be - all of the Federals have to be insured, but .....

H.M.Jr: This is a part of the four thousand?

Fahey: Yes. Yes.

Taylor: But not the twelve.

H.M.Jr: But not the twelve.

Fahey: But a part of the four thousand.

H.M.Jr: Not the banks.

Fahey: This is the four thousand members, and there are now about thirteen hundred of them insured, representing roughly about a billion two hundred million of assets. That insurance has proven very effective in stimulating savings in these institutions.

H.M.Jr: You insure their deposits?

Fahey: Insure against loss up to five thousand dollars. We have, so far - they have - I think there's been one loss of - oh, I don't recall - fourteen, fifteen hundred dollars - something like that - but no others. On the other hand, the influence of the insurance, just as in the case of F. D. I. C. has been very great in stimulating increased savings in all of these institutions and that has been particularly true of these Federals, which have shown a greater increase in proportion to their size than any other class of institutions in the country.

H.M.Jr: Now, may I interrupt you?

Fahey: Uh huh.

H.M.Jr: Now what is your worry there, John?

Fahey: That we can now, and we ought to reduce that rate from one-quarter to one-twelfth, to the same rate as F. D. I. C., and it can safely be done. It would result in a very substantial increase in the number of institutions which would employ insurance.

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And another thing about it is this: It is important in connection with the new housing legislation and the development of the whole housing program that these thousands of institutions should take an active part in it and should lend their share of this money.

H.M.Jr: You are not talking about F. H. A. now?

Fahey: Yes, sure I am talking about .....

H.M.Jr: These institutions .....

Fahey: That they should take hold of the F. H. A. insured program, bring these rates down to five per cent and lend money freely where it is needed all over the country.

H.M.Jr: Now in this insurance - what do you call the corporation that runs the insurance fund?

Fahey: Federal Savings and Loan Insurance Corporation.

H.M.Jr: Now is that self supporting?

Fahey: Yes, that is self supporting and has accumulated a surplus now of better than three millions of dollars.

H.M.Jr: And the Federal Government doesn't contribute anything to that?

Fahey: The Federal Government put up the original capital of a hundred million dollars, but contributes nothing to the maintenance - doesn't cost the Treasury a cent - pays its own way.

H.M.Jr: Of the hundred million how much have you paid out?

Fahey: We haven't paid .....

H.M.Jr: I mean, of capital.

Fahey: Well, that capital is intact.

H.M.Jr: I mean, how much have you invested?

Fahey: That capital was a hundred million dollars of H. O. L. C. bonds. See? So we just hold bonds. That is the capital of the corporation.

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H.M.Jr: That is the capital, is it?

Fahey: That's right.

H.M.Jr: I mean, you can't reduce it from one-quarter to one-twelfth without legislation?

Fahey: No. No, we have no right to do that. The one-quarter was fixed in the Act.

H.M.Jr: The F. D. I. C. - they can change that.

Upham: No, theirs is fixed at one-twelfth.

H.M.Jr: Oh. By the law?

Fahey: Was from the beginning. Our risk is less because we are not obliged to pay out in cash as they are.

H.M.Jr: And further reducing that one-quarter to a twelfth reduces their expenses and therefore they can charge less.

Fahey: See, here's the point. With most of these institutions .....

H.M.Jr: How many you got, thirteen hundred?

Fahey: Yes.

H.M.Jr: And you've got to get a bill on that?

Fahey: We got to amend the Act.

H.M.Jr: Now that's your second principal worry.

Fahey: That's right.

H.M.Jr: And you got a third one?

Fahey: Now the only third one - I'm talking now of primary things.

H.M.Jr: I understand.

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Fahey: ..... Is an amendment of the Act so that these institutions may be free of local taxation in all of the states. They are in most of them.

H.M.Jr: How do you do that?

Fahey: Do it by amending our Act.

H.M.Jr: Make it free from taxation locally?

Fahey: Sure. Certainly. You did in the F. H. A. Act - made the debentures of F. H. A. - of the National Mortgage Associations are also free from all state taxes.

H.M.Jr: State taxes but not Federal.

Fahey: Yes, they are free of all Federal taxes too, except the inheritance tax.

H.M.Jr: Now what is it you want to make free from taxes - which piece of paper?

Fahey: The shares of these associations in the states - doesn't affect the Federal Government in any way.

Oliphant: That is not limited to the Federal associations - all associations?

Fahey: Yes, ought to be all of them. You see, most of these institutions as well as the commercial banks, in lending .....

H.M.Jr: Well why - well, wouldn't the depositor then in a - well, a shareholder in a savings bank want the same thing?

Fahey: Well, the share - in the case of the savings banks - in most instances they are free from taxation. I don't know any of them that are taxed. It has been a long settled policy in most of the states, but in some of these states now there are movements to try to assess these fellows, don't you know.

H.M.Jr: I see.

Fahey: And that raises difficulties because every reduction in income of that character hampers their ability to get down to a five per cent mortgage

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rate which is what we are trying to get going all over the country.

H.M.Jr: But those are the three principal things?

Fahey: That's right.

H.M.Jr: Just excuse me one minute please. (Leaves the room.)

Taylor: I can't ever remember the figure of the ownership in the shares of your twelve banks by the members.

Fahey: By the members?

Taylor: Yes. It is - I got somewhere in mind it is something over eighty per cent by the Government.

Foley: Twenty per cent by the .....

Fahey: It is eighty-five per cent.

Taylor: That's the figure I have - eighty-five - in my mind.

Fahey: I think it is approximately that. Maybe you (Foley) can - you have the exact figure there. But I think the holdings of shares by the private institutions is about twenty-eight millions of dollars. Do you (Foley) have the figures?

Foley: I - no, I don't have the exact figure. I thought you had eighty per cent.

Fahey: It is roughly that. I don't happen to have that figure with me but that is as I remember.

Taylor: Now the investment of both the Treasury and the H. O. L. C. in the shares of the Federal associations represents what percentage of the total assets of the Federals?

Fahey: Oh, roughly it may be - I can give you that exactly. Originally, under the first law the Treasury - it was provided that the Treasury would subscribe up to one hundred millions of dollars in shares of Federal associations to get them started. Fifty millions of that was appropriated.

(Secretary returns.)

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The other fifty was not, and it was decided not to issue that second fifty, but instead of that to authorize H. O. L. C. to take those shares. Now the .....

H.M.Jr: Some question?

Fahey: The total - there is - H. O. L. C. owns in shares of the Federals a hundred sixty-nine million, four hundred fifty thousand, eight hundred dollars in Federal associations; it holds thirty-eight million, five hundred twenty-four thousand, two hundred seventy in state-chartered institutions. That, as you see, is a total of a little over two hundred millions in both, and .....

H.M.Jr: May I .....

Fahey: And we receive dividends on those which are paid to the Treasury. The average dividend which the Treasury has received on them is a little in excess of three per cent - I think approximately three and a half per cent. Of course the money has cost us on the average about 2.6, so that there is a very comfortable little profit in that, and all of them are earning and paying dividends. That is true of the Treasury holdings of forty-seven million which was under the original fifty million appropriation. Let's see, we got a total of about two hundred sixty millions, all told.

H.M.Jr: I don't want to stop anybody, but may I do this in order to clear my own self. I've got the three things that you want.

Fahey: Right. Those are the main things, you understand.

H.M.Jr: Give me a reasonable time. I want to talk it over with my own people, see? If I want anything additional Mr. Upham will get in touch with your office, see? I'll try my best to arrange to meet with you again this week if I possibly can. I'll do the very best I can. I want these people to assimilate it. I want to talk it over; I want to hear the other side of the story.

Fahey: Uh huh.

H.M.Jr: See? But I'll do the best I can. When we have another meeting we'll do it together, just this way, see?

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But - and then we can tell you - a lot of things on the fire, but I've promised not to delay it a minute longer than necessary. As to the other things they can get in touch with you, but let's do the first three things first.

Fahey: Oh well, the minor things - the folks - your folks and ours can thrash out, on any differences.

H.M.Jr: Well, let me get the three things, and the boys will work on it, and I'll try to get together with you between now and Saturday.

Fahey: Well, it will be very helpful if you can do that, because we are under some pressure at the present time.

H.M.Jr: I won't hold up your - it is just a question of soaking it up - that's all.

Fahey: I understand. Here's the situation: That when the F. H. A. legislation was under consideration there was some of these institutions that wanted to have amendments of this sort considered at the same time. The Banking and Currency declined to do that but gave them assurances that in the regular session they would take this legislation up and they would go forward with it and, as a matter of fact, Senator Bulkley drafted a bill which he was going to put in at the beginning of the session, and he sent it to us to look at, and I immediately saw him and told him that legislation of this sort was under consideration and we would have to take it up with the Budget and Treasury and get clearance on something of this sort, and I asked him to hold up any action.

Senator Wagner and some of the others gave some assurances to these people, and so they have been pressing for an answer as to when we were going to move.

H.M.Jr: Well, that is Washington.

Fahey: Sure, but .....

H.M.Jr: Well, you give me a chance to talk it over with our own people. If we don't understand it Upham will get in touch with your office and ask for

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whatever additional information, and I promise you if it's possible - physically possible - I'll do it this week.

Fahey: All right. Another thing about it, I think, is that if we can, that the President would like to know about it before he gets away.

H.M.Jr: I know. It is a wonderful dead-line.

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FEDERAL HOUSING ADMINISTRATION
WASHINGTON

STEWART McDONALD
ADMINISTRATOR

March 15, 1938

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

Dear Mr. Secretary:

The attached is more or less self-explanatory.

It shows the mortgages selected for appraisal for the week ending March 12th -- or a new high of $20,331,411.

You will also note the new figure of $6,824,000 for large scale rental housing projects, which are the commitments that have been made this year. We have, in addition, a very large volume of applications for this class of business under survey, and which will be commited for or rejected as soon as processed.

Sincerely yours,

Stewart McDonald
Administrator

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WEEKLY VOLUME OF FHA INSURING OPERATIONS

For 1938 and corresponding period of 1937

HOME MORTGAGES SELECTED FOR APPRAISAL

BY WEEKS	1938 No.	1938 Amt.	1937 No.	1937 Amt.
Jan 8	1,256	$ 5,483,184	1,967	$ 8,565,550
15	1,504	6,531,200	2,286	9,556,860
22	1,711	7,299,975	2,167	9,447,127
29	1,888	8,150,840	2,272	10,091,713
Feb 5	1,982	8,571,895	2,306	9,721,165
12	1,988	8,787,105	2,701	11,068,008
19	2,219	10,025,800	2,765	11,764,089
26	2,775	13,100,250	2,835	11,747,954
Mar 5	3,874	17,529,602	3,244	13,683,500
✓12	4,455	20,331,411	3,405	14,176,560

HOME MORTGAGES ACCEPTED FOR INSURANCE

1938 No.	1938 Amt.	1937 No.	1937 Amt.
943	$ 4,035,500	1,462	$ 5,821,275
1,101	4,542,900	1,756	7,241,815
1,058	4,455,500	1,767	7,438,500
1,329	5,501,500	1,880	7,860,250
1,099	4,431,000	1,811	7,424,100
1,172	4,649,900	1,778	7,410,850
1,194	4,837,100	1,869	7,702,650
1,033	4,350,200	1,867	7,524,500
1,413	6,215,300	2,291	9,092,500
1,697	7,557,500	2,135	8,947,600

RENTAL HOUSING PROJECTS COMMITTED

1938 to Date	18	$ 6,824,000
Corresponding Period 1937	3	2,515,000

10% MODERNIZATION NOTES INSURED

March - 1938	1,723	$ 793,706

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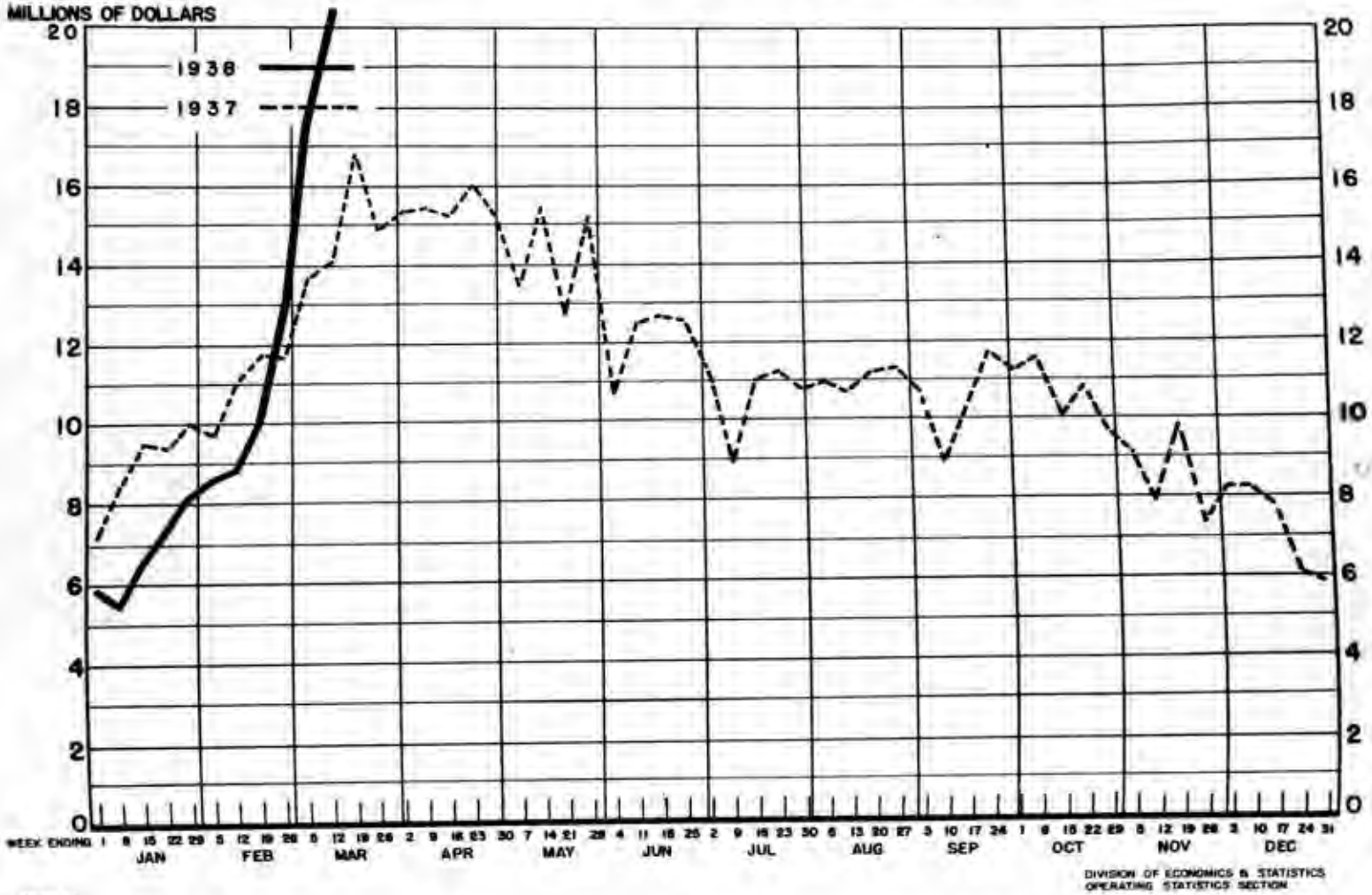
WEEKLY VOLUME OF HOME MORTGAGES SELECTED FOR APPRAISAL

AMOUNT REPORTED BY INSURING OFFICES AT END OF EACH WEEK



DIVISION OF ECONOMICS & STATISTICS
OPERATING STATISTICS SECTION

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March 15, 1938.

To: The Secretary

From: Mr. Shoup

Subject: Summary of Suggestions for Reorganization of Tax Section and Revenue-Estimating Section of Division of Research and Statistics, Treasury Department.

These suggestions assume no increase in the total salary roll of the tax section.

1. Give the tax section a $9,000 director (preferably, two co-directors at $3,000 each, to relieve each other periodically) who will report directly to the Under Secretary or Assistant Secretary in charge of tax matters.

2. Divide the work of the section between:

(a) Handling specific requests for information made by the Under Secretary (or Assistant Secretary) for his own use (thus not including replies to correspondence addressed to him) - including research projects that are matters of hours or days as well as those that require weeks or months; and

(b) handling (i) requests from all other sources, including correspondence and personal calls; (ii) the preparation of the tax sections of the Secretary's Annual Report; (iii) the checking of tax matters in memoranda prepared by other branches of the government.

3. Assign the handling of the Under Secretary's requests to the director (or two co-directors); assign the handling of requests from other sources to an assistant director at about $6,500.

4. Build up the rest of the staff chiefly with fewer but more experienced analysts than at present.

5. Move extremely carefully in the selection of new personnel. Much of the present difficulty may have arisen from selecting staff members under pressure of time.

6. Give special opportunity for staff members to grow in research ability and interest by insisting that from time to time they write (partly on government time) and publish technical, non-policy studies in taxation in scholarly journals, or in book form; and try to arrange for some formal training of junior members.

7. Study the possibility of making the revenue-estimating section a subsection in the Tax Section.

The full report on which these paragraphs are based is being typed and will be available tomorrow.

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Not for Publication

12802

Weekly WPA Employment
Series - Table 1

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending March 12 and March 5, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed: Week Ending March 12	Week Ending March 5	Increase or Decrease (-)
GRAND TOTAL	2,243,865	2,166,705 A/	+77,160
CONTINENTAL UNITED STATES	2,241,329	2,164,213 A/	+77,116
Alabama	33,025	31,591	+ 1,434
Arizona	8,206	7,964	+ 242
Arkansas	29,551	27,491 A/	+ 2,060
California - Total	89,186	87,858 A/	+ 1,328
Northern	48,556	47,934 A/	+ 622
Southern	40,630	39,924	+ 706
Colorado	26,474	26,029	+ 445
Connecticut	21,006	21,111	- 105
Delaware	2,781	2,581	+ 200
District of Columbia	7,568	7,319	+ 249
Florida	30,023	28,561	+ 1,462
Georgia	35,597	34,226	+ 1,371
Idaho	11,228	11,093	+ 135
Illinois	166,800	159,450	+ 7,350
Indiana	81,535	79,765	+ 1,770
Iowa	27,555	27,193	+ 362
Kansas	35,254	35,171	+ 83
Kentucky	47,394	44,247	+ 3,147
Louisiana	31,001	30,866	+ 135
Maine	7,382	7,939	- 557
Maryland	11,784	11,607	+ 177
Massachusetts	94,422	89,437	+ 4,985
Michigan	104,472	101,050	+ 3,422
Minnesota	58,004	55,872	+ 2,132
Mississippi	28,187	26,504	+ 1,683
Missouri	77,040	71,172	+ 5,868
Montana	17,734	17,117	+ 617
Nebraska	28,550	28,560	- 10
Nevada	2,626	2,613	+ 13
New Hampshire	7,605	7,320	+ 285
New Jersey	74,716	73,567	+ 1,149
New Mexico	9,031	8,491	+ 540
New York City	145,990	144,853	+ 1,137
New York (Excl. N.Y.C.)	52,503	52,444 A/	+ 59
North Carolina	29,883	29,548	+ 335
North Dakota	14,886	14,873	+ 13
Ohio	172,853	163,088	+ 9,765
Oklahoma	57,466	54,332	+ 3,134
Oregon	16,244	16,220	+ 24
Pennsylvania	200,775	195,329	+ 5,446
Rhode Island	12,216	12,186	+ 30
South Carolina	28,194	26,925	+ 1,269
South Dakota	17,646	17,475	+ 171
Tennessee	29,994	29,051	+ 943
Texas	73,383	72,147	+ 1,236
Utah	9,318	9,240	+ 78
Vermont	4,884	4,916	- 32
Virginia	22,447	22,034	+ 413
Washington	43,628	39,633	+ 3,995
West Virginia	39,456	36,498	+ 2,958
Wisconsin	59,417	55,932	+ 3,485
Wyoming	4,389	4,044	+ 345
Hawaii	2,536	2,492	+ 44

A/ Revised.

WORKS PROGRESS ADMINISTRATION
Division of
Research, Statistics and Records
March 15, 1938

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 15, 1938, 8 p.m.

NO.: 409

STRICTLY CONFIDENTIAL.

Today I had a conversation with Blum; he was greatly agitated and still deeply under the influence of the shock of the death of his wife.

The news from Spain, he said, was of the worst; for 36 hours Negrin had been in Paris secretly and this morning he went back. Blum said that from what Negrin said and from a report which he received this morning by telephone from Ambassador Labonne at Barcelona it seemed possible that a sudden collapse of the Government forces might take place. The dictators therefore will have another victory. In Central Europe Hitler has been triumphant and Mussolini has been installed on the Pyrenees mountains.

During the conversation I asked Blum what he thought of the declaration in the Commons yesterday by Chamberlain. Blum told me that he had found it a rather weak statement. Chamberlain had however said just what he had been asked to say by the Czechoslovak Government; Blum said he knew this was actually true. Under instructions from his Government Masaryk had asked Chamberlain to take note of and to stress the assurances which Goering gave on the eleventh of March to the Czechoslovak Minister in

Berlin

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Berlin and which were renewed by Goering in Hitler's behalf. Chamberlain had only been asked to do this by the Czechoslovak Government. Probably the latter, Blum said, had realized that this was all that they could expect at the present stage from Great Britain.

Yesterday, Blum told me, Paul Boncour and he had received Osusky and had given him the most categorical assurance that if Germany attacked Czechoslovakia, France would fulfill her obligations to that country. I told Blum that information had come to me that the Superior Council of National Defense was meeting today to discuss details of application of the French pledge of military assistance to the Czechs. I was told by Blum that the the general staff had constantly been studying the matter of giving assistance to the Czechoslovak Government in case of an attack on that country. He said that this meeting of the Council for National Defense had been planned ~~xxx~~ some days ago and probably the public would attach more importance to it than it actually merited.

I asked Blum how France could effectively give assistance to the Czechs in case of an attack. He replied that an attack would be made on the German defenses in the Rhineland which would draw the major part of the German army from Czechoslovakia; I also asked whether, if France helped

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Czechoslovakia, Russia would also come to its aid. He sincerely believed so, he said. Then I asked whether he thought that any effective assistance could be given by Russia, and he replied he did not know to what extent the efficiency of the Russian Army may have been weakened by executions of leaders in the military. However, he was convinced that aviation in Russia was the most powerful in the world and would play a most important role in aiding the Czechoslovak Government. Should circumstances force France to aid this country, he said that Great Britain would have to do the same.

I was told by Blum that he was greatly disappointed over the failure of the Center groups to support his appeal for forming a National Union Government; such a government was essential today for France and he would do everything in his power to aid its formation. From his talk I gathered that he did not feel the present government would last very long. Another member of the government told me at luncheon today, incidentally, that it could not last long and that the most useful thing it would do would be to pave the way for forming a National Union Government.

Cochran's visit of last night - see his telegram No. 404 - was mentioned by Blum. He expressed great appreciation

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ation for the sympathetic understanding of the problems of his country which the Secretary's message showed. He added that he did not see any immediate need which would lead him to ask that an official question of this nature be put to him. He had just had a telephone call from Rueff that the pressure on the franc had been eased, and that today had not been as bad as yesterday. However, it was necessary that France should not dissipate her gold reserves or her credit in view of the immediate threat of war. Should there be a change of circumstances with regard to this question he will at once telephone to Cochran and ask that he come to see him.

END OF MESSAGE.

WILSON.

EA:LWW

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