

DIARY

Book 140 - Part I

September 15, 1938

GOVERNMENT FINANCING

SUMMARY AND INDEX

1. Aug. 29, 1938. - Seltzer's suggestions for September financing program.
2. Aug. 29, 1938. - Harris' memo containing his suggestions for September financing program.
3. Aug. 29, 1938. - Harris' review of U. S. Government security market during past six weeks.
4. Aug. 29, 1938. - Mr. Bell's memorandum stating his estimate of cash position, August 1938 to June, 1939.
5. Aug. 29, 1938. - Group meeting. On page 4, Mr. Bell elaborated upon his estimate of cash position.
6. Aug. 30, 1938. - Group meeting. On page 4, HM, Jr said in view of foreign situation, he will not give any advance publicity on whether he will do any cash in his financing.
7. Aug. 30, 1938. - Lunch with the President. On page 2, when he told President his ideas on financing, President agreed.
8. Aug. 30, 1938. - HM, Jr's telephone conversation with Governor Harrison. HM, Jr told Harrison he had put off financing until 9/8/38 and Harrison agreed that "the more leeway you've got this next ten days, the better off you'll be."
9. Aug. 30, 1938. - HM, Jr telephoned Cochran to call up a few Central Bank friends -- Holland, Belgium, Switzerland and Sweden -- and get their opinions on the general situation.
10. Aug. 30, 1938. - Cochran telephones report of his conversations with Tripp, at Amsterdam; Janssen, at Brussels; Deputy Governor Walberg at Stockholm, Governor De Witt being away; and Steidway acting for Bachmann.
11. Aug. 30, 1938. - HM, Jr phoned Hull a resume of Cochran's report of views of Central Bankers.

12. Aug. 30, 1938. - HM, Jr. phoned Knoke to inquire how he would interpret information that Germans are selling Swiss francs in Switzerland and buying Sterling. Knoke explained it was because the Germans want to go into dollars ultimately and the best market for dollars is in London.
13. Aug. 30, 1938. - HM, Jr. phoned Walter Stewart and invited him and Mr. Warren to come down and discuss foreign exchange situation.
14. Aug. 30, 1938. - HM, Jr. phoned Viner and asked him to come to Washington to discuss foreign situation.
15. Aug. 30, 1938. - HM, Jr. phoned Ronald Ransom and Ransom will be present at meeting on Thursday. HM, Jr. said he would take all the time he can get to make up his mind on the financing, and Ransom agreed, saying "Yes, it's a very stormy situation."
16. Aug. 31, 1938. - HM, Jr. phoned Mr. Moffett of State Department to inquire if Kennedy cable had come in.
17. Aug. 31, 1938. - HM, Jr. phoned Earle Bailie inviting him to come to meeting to discuss foreign situation.
18. Aug. 31, 1938. - HM, Jr.'s phone conversation with George Harrison. Harrison and Knoke will be at the supper meeting at the Secretary's house to discuss the foreign situation.
19. Aug. 31, 1938. - HM, Jr.'s phone conversation with Knoke. HM, Jr. told Knoke he will make up his mind on Wednesday; Knoke thought that was hard to do because of mechanics of getting word out to Federal Reserve Banks; HM, Jr. suggested using telegrams. HM, Jr. suggested Knoke bring Discount people down Tuesday night for supper.
20. Aug. 31, 1938. - HM, Jr. by phone invited Mr. Crane to join the group at his house for discussion of the foreign situation.
21. Sept. 1, 1938. - HM, Jr. asked Moffett to come in at 4:30 today with latest cables. Moffett phoned back in few minutes and reported he had the telegram from Kennedy recounting his talk with Halifax;

Moffett said he can't help feeling the British are playing two games, trying their best to convince the Germans that they would go in and trying to hold back the French and Czechs by giving them a little doubt.

22. Sept. 1, 1938. - Group meeting. See page 8, where HM, Jr and Mr. Bell discussed mechanics of advising the Banks. (three plans and notify the Banks by telegraph of which plan has been selected.)
23. Sept. 1, 1938. - Open Market Meeting.
24. Sept. 1, 1938. - Harris' memorandum giving two bases for several bond issues.
25. Sept. 2, 1938. - HM, Jr called Knoke and the latter was talking to London.
26. Sept. 2, 1938. - Knoke and HM, Jr on the phone. Knoke reporting his conversation with Bolton of Bank of England said news was more encouraging and as a result the market has turned rather abruptly and is very definitely on the bid side.
27. Sept. 5, 1938. - Moffett reporting latest news from abroad says Benes is still pretty worried and Benes had rather expected, however, that Hitler would not make his vital speech on Tuesday, but would make it on Friday of this week. HM, Jr said, "I hope he's right."
28. Sept. 6, 1938. - HM, Jr works out schedule with operator about phone calls he wants to place -- Cochran, Gov. Young, Mr. Ecoles, Mr. Parkinson and heads of Federal Reserve Districts and Tom K. Smith.
29. Sept. 6, 1938. - HM, Jr asked Cochran to inquire around and get consensus of best guess whether there will be any trouble the rest of this week.
30. Sept. 6, 1938. - Harris' memo in connection with the financing, giving suggested issues, market bases and estimated premiums.
31. Sept. 6, 1938. - Conference in the Secretary's office with Mr. Mills and Mr. Repp of the Discount Corporation of New York, Taylor, Burgess and Bell.

32. Sept. 6, 1938. - Conference in the Secretary's office with Mr. Devine, of Devine & Co., New York. Taylor, Burgess and Bell also present.
33. Sept. 6, 1938. - Conference in the Secretary's office with Mr. Garner of the Guaranty Trust Co. Taylor, Burgess and Bell also present.
34. Sept. 6, 1938. - HM, Jr's pencilled notes of the opinions of Mr. Devine, Mr. Garner and Discount Corporation.
35. Sept. 6, 1938. - Harris' memo to Dr. Burgess that Mr. Mr. Matteston phoned that Mr. Love of C. E. Quincy & Co. leans toward a 22-year 2-3/4% bond. Mr. Love also stated that Mr. Baker of the Travellers Insurance Company also preferred such a bond.
36. Sept. 6, 1938. - HM, Jr's personal telephone call to R. R. Gilbert, First Vice President of FRB of Texas; Walter Cummings, Chicago; Leroy A. Lincoln, President of the Metropolitan Life Insurance Co., New York; John N. Petyon, President, FRB of Minneapolis; G. J. Schnaller, President, FRB of Chicago; Earle Bailie, New York; R. A. Young, Pres., FRB of Boston; T. J. Coolidge, Boston; Gordon Rentschler and tried to reach Mr. Thomas Parkinson of the Equitable Life Assurance Company but did not reach him until the following day. HM, Jr asked each man his choice of three alternative plans.
37. Sept. 6, 1938. - Meeting at 8 pm at the Secretary's home of Treasury people and Dr. Burgess to get last minute views of Treasury staff. HM, Jr worried about announcement of financing and announcement of war. (Page 4.) Burgess said "If war is announced, you'd simply have to postpone it," but Bell said, "On the other hand, it might go with pretty bad news." Burgess added, "I think that would go with pretty bad news. I think you could still make that go." HM, Jr gave permission for telegrams to go to FRBanks so they can print the offer, but no announcement to go out until HM, Jr gives approval.

Prepared by: Lawrence H. Seltzer,
Assistant Director of
Research and Statistics;
Assisted by: Sidney G. Tickton

1. If the market gets no worse than tonight's close, and it is decided to risk such market shock as might be involved in raising as much as \$800 millions of new money, the cash offering may be divided between \$400 millions of 1 percent 4 $\frac{1}{2}$ -year notes and \$400 millions of either (a) 2- $\frac{3}{4}$ percent 22-27 year bonds (1960-65), or (b) 2- $\frac{1}{2}$ percent 12-15 year bonds (1950-53); a choice of the bonds or notes to be offered holders of the notes maturing December 15. (The reason for a 4 $\frac{1}{2}$ -year note instead of a 5-year note is that \$1,401 millions of 3- $\frac{1}{4}$ percent bonds become callable on October 15, 1943.)

The proposed note issue would fall on an open date between two outstanding issues which closed tonight to yield .82 and .83 percent, respectively. On the former yield basis, the proposed issue would command a premium of 25/32, which would fall to 21/32 if the issue declined to a .85 percent yield basis. If the market declined more extensively, it might prove desirable to offer additional amounts of the 1- $\frac{1}{8}$ percent notes sold last June instead of a new note issue.

The proposed 22-27 year bond should sell on nearly the same basis as the outstanding bonds of 1958-63 — which closed today at 102-5/32, to yield 2.61 percent. On the latter yield basis, the proposed issue would command a premium of 2-11/32. If the market were to fall to a 2.65 percent basis on such a bond, the premium would still be 1-21/32.

The proposed 12-15 year bond should sell on a yield basis somewhere between the outstanding bonds of 1949-53 and those of 1951-54. These bonds closed tonight to yield 2.28 and 2.42 percent, respectively. If the proposed bonds of 1950-53 were to sell on a 2.35 percent yield basis, the premium would be 1-18/32. The final maturity date might be lengthened by a year if the market were to improve.

2. Prior to the distinct heightening of the Czech-German crisis reported in this morning's newspapers, the market has been unusually stable for some time, and gave every indication that it would be highly receptive to another long-term Treasury bond issue in the September financing. Market observers report that the market has been expecting the Treasury to raise \$500 millions of new money by means of a 2- $\frac{3}{4}$ percent bond issue moderately longer than that of last June.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: August 29, 1938

TO Secretary Morgenthau

FROM M. A. Harris

Assuming that the September financing program will call for \$800 millions of new money and that the December 15, 1938 maturity of \$433 millions of Treasury notes will be refunded, the following program is suggested:

That a 4 1/2 year 1% Treasury note maturing March 15, 1943 and a 2 3/4% Treasury bond dated 1961/66 (23-28 years) be offered both for cash and for exchange. It is further suggested that the cash offering be split equally between the note and the bond.

A 4 1/2 year note is suggested because on October 15, 1943 the 3 1/4% of 1943/45, outstanding in the amount of \$1,401 millions, become callable. Also, a 5 year 1% note might be a bit thin, particularly if the market eases any further.

Based on today's closing prices, a 2 3/4% Treasury bond dated 1961/66 should sell at a premium of about 1 3/8 points, which seems ample. However, if the market declines from its present level the maturity and call dates can be shortened one year to 1960/65.

On the attached page is listed a number of issues that may be offered for cash and exchange. Also given is the estimated market basis for these issues and the indicated premium.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: August 29, 1938

TO Secretary Morgenthau

FROM M. A. Harris

SEPTEMBER FINANCING

<u>Suggested Issues</u>	<u>Market Bases</u>	<u>Estimated Premiums</u>
-------------------------	---------------------	---------------------------

(1) TREASURY NOTES:

1% due 3/15/43 (4 1/2 years)	0.82	25/32nds
1% due 9/15/43 (5 years)	0.87	21/32nds
1 1/8% due 9/15/43 (5 years)	0.87	1 1/4 points

(2) TREASURY BONDS without callable periods:

2 1/2% due 1952 (14 years)	2.35 - 2.32	1 3/4 pts. - 2 1/8 pts.
2 1/2% due 1953 (15 years)	2.40 - 2.36	1 1/4 pts. - 1 3/4 pts.
2 1/2% due 1954 (16 years)	2.44 - 2.40	25/32nds - 1 pt. 10/32nds

(3) TREASURY BONDS with callable periods:

2 1/2% 1950/54 (12-16 years)	2.37	1 3/8 points
2 3/4% 1960/65 (23-27 years)	2.65	1 pt. 22/32nds
2 3/4% 1961/66 (23-28 years)	2.67	1 3/8 points
2 3/4% 1962/67 (24-29 years)	2.68	1 1/4 points
2 3/4% 1963/68 (25-30 years)	2.70	29/32nds

(4) OUTSTANDING ISSUES that may be offered at a price:

<u>Issues</u>	<u>Current Bid Price</u>	<u>Suggested Offering Price</u>
1 1/8% Treas. notes 6/15/43	101.11/32nds	100 1/2
2 1/2% Treas. bonds 1949/53	102.1/32nd	101
2 3/4% Treas. bonds 1958/63	102.2/32nds	100 3/4

"RIGHTS"

	<u>Current Bid Price</u>	<u>Current Premium</u>
1 1/4s due 12/15/38	101.22	1 pt. 11/32nds * 1 pt. 20/32nds **

* Above a no-yield basis if calculated to Dec. 15, 1938.

** Above a no-yield basis if calculated to Sept. 15, 1938.

3

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: August 29, 1938

TO Secretary Morgenthau

FROM M. A. Harris

- (1) A short review of the U. S. Government security market during the past six weeks.
- (2) Dealers' portfolios.
- (3) Corporate bond market.
- (4) New issue market.
- (5) Transactions by the Federal Reserve System account.
- (6) Transactions by the Treasury in the open market for various investment accounts.

Note: This memo does not take into consideration the decline in the market today which amounted to losses of 1 to 5/32nds for Treasury bonds and 1 to 3/32nds for Treasury notes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: August 29, 1938

TO Secretary Morgenthau

FROM M. A. Harris

A short review of the U. S. Government security market during the past six weeks

The market for U. S. Government securities during the period under review can best be described in three words; firm and quiet. The trend of prices for Treasury bonds has been toward higher levels with buying concentrated in the intermediate and long issues while the trend of prices for Treasury notes has been toward slightly lower levels with the exception of the short notes or "rights" which, in recent weeks, have been in strong demand. Price changes, with the exception of two or three days, have been confined each day to 1 and 2/32nds and volume has been extremely light. Treasury bond issues of intermediate maturity advanced quietly as scattered demand came in from time to time. Some large orders for the longer issues were placed in the market by insurance companies but when these orders were filled the market would turn extremely dull. During the last two weeks in July and the first week in August buying demand for the new 2 3/4s of 1958/63, particularly by insurance companies, was especially evident. It is estimated that insurance company purchases during these weeks amounted to approximately \$90,000,000. Throughout the period, dealers' portfolios remained at a very low position as can be seen from figures given under the heading "Dealers' Portfolios".

Treasury bonds callable in 1940 and 1941 declined along with notes, these losses ranging to about 1/4 of a point. Issues maturing after 1943 have advanced since July 15th 4 to 13/32nds and the average price of those issues due or callable after 8 years has advanced about 7/32nds and the average yield has declined about 0.03 percent. Guaranteed issues have likewise been in good demand and now stand 3 to 10/32nds higher. The December 1938 notes are currently bid for at 101.24, which is a price 1 point and 12/32nds above a "no yield" basis and represents an advance of about 14/32nds for the six weeks period. Other Treasury notes, with the exception of the March 1939 issue which is up 6/32nds and the September and December 1942 issues which are off 10 and 11/32nds respectively, are 2 to 7/32nds lower. These losses can be partly accounted for by the movement of the issues toward maturity.

Dealers' Portfolios

On July 16th dealers' total holdings of U. S. Government securities amounted to \$82,500,000, declined to a low of \$51,400,000 on August 6th, and at the present time is \$90,500,000. Throughout this period, July 15th to August 27th, holdings of Treasury notes account for practically all of their total holdings. Below is listed dealers' net positions at the end of each week; also, their holding by groups as of July 15th and August 27th.

Dealers' net position

(In millions of dollars)

July 16 -	82.6	Aug. 13 -	66.4
July 23 -	77.2	Aug. 20 -	88.5
July 30 -	77.3	Aug. 27 -	90.8
Aug. 6 -	51.4		

	<u>Holdings</u> <u>July 15th</u>	<u>Holdings</u> <u>August 27</u>	<u>Change</u>
Treasury bonds	- 1.2	+ 8.3	+ 9.5
Treasury notes (1 year)	+ 36.1	+ 44.3	+ 8.2
Treasury notes (1 - 5 yrs.)	+ 42.8	+ 11.8	- 31.0
Treasury bills	+ 1.0	+ 8.5	+ 7.5
Guaranteed issues	+ 3.9	+ 17.6	+ 13.7
	<u>+ 82.6</u>	<u>+ 90.5</u>	<u>+ 7.9</u>

Corporate Bond Market

Prices advanced sharply higher from July 15th to July 24th, were irregularly lower through August 6th, then turned weak, mainly as a result of disturbing European news, moving off each day until August 15th. Since that time prices have advanced fractionally. However, it might be said that trading has given the aspect of two distinct markets. One comprising the well-protected issues which are under the influence of investment sentiment and money market conditions, and the other the credit risk group which is highly sensitive to the changing prospects of general business as well as the developments of specific import to individual issues. From July 24th until the past week speculators and investors have been unwilling to bid prices of quality bonds higher but in the last week the warm reception accorded a number of new corporate issues has stimulated the market somewhat. The average price of high grade issues now is about two points above that of July 15th but about one point off from the high of the period. Second grade issues in the average are about one point above the July 15th level but about two points off from their recent highs. Fluctuations have by far been greatest in the rail groups.

-4-

New Issue Market

During the past six weeks the following corporate issues were successfully marketed:

- \$30,000,000 Southwestern Bell Telephone Co. 3% first and refunding mortgage bonds of 1968 at 100.
- \$ 7,500,000 Industrial Rayon Corporation first mortgage sinking fund 4 1/2s of 1948 at 99.
- \$32,000,000 Indianapolis Power & Light Co. first mortgage 3 3/4s of 1968 at 100, and,
\$ 5,500,000 3s, 3 1/2s and 4% serial notes of 1939 - 1948.
- \$30,000,000 Toledo Edison Co. first mortgage 3 1/2s of 1968 at 101 1/2, and,
\$ 6,500,000 debenture 4s of 1948.
- \$10,000,000 Public Service Electric & Gas Co. first and refunding mortgage 3 1/4s of 1968 at 104 3/4.
- \$27,982,000 New York Steam Corp. first mortgage 3 1/2s of 1963 at 100.
- \$10,000,000 Crucible Steel Co. of America 4 1/2% debentures due 1948 at 99 1/4.
- \$20,000,000 Lone Star Gas Corp. 3 1/2% sinking fund debentures due 1953 at 102.
- \$33,000,000 Commonwealth Edison Co. of Chicago first mortgage 3 1/2% bonds due 1968 at 103 1/2.

Besides these issues listed, there were a number of smaller issues as well as a number of issues placed privately with insurance companies and banks. Of the issues listed above, the Industrial Rayon and the Crucible Steel issues were somewhat slow in being absorbed; the others were reported sold the day they were offered.

Transactions by the Federal Reserve System Account

During the past six weeks the System account replaced \$266,474,000 maturing Treasury bills (a weekly average of about \$44,412,000) with purchases of \$244,391,000 other Treasury bills and \$22,083,000 Treasury notes of 1940.

Other transactions consisted of the following switches in the market:

<u>Sales</u>	<u>Purchases</u>
\$ 30,000,000 2 3/4% Treas. bds. 1958/63*	\$ 5,000,000 4% Treas. bds. 1944/54
500,000 2 1/2% " " 1945	3,500,000 2 3/4% " " 1948/51
10,000,000 3 3/8% " " 1940/43	10,000,000 3 3/8% " " 1941/43
18,500,000 Treasury bills	8,000,000 2 7/8% " " 1955/60
	1,000,000 3 1/4% " " 1943/45
	9,000,000 3 1/4% " " 1944/46
	1,000,000 3 1/8% " " 1946/49
	2,000,000 2 3/4% " " 1951/54
	1,000,000 3% " " 1951/55
	<u>18,500,000 Treasury bills</u>
<u>\$ 59,000,000</u>	<u>\$59,000,000</u>

* These sales reduce the System's holding of the 2 3/4s of 1958/63 to \$55,852,000.

Transactions by the Treasury in the open market for
various investment accounts

Since July 15, 1938 \$3,300,000 Treasury bonds were purchased for the account of the Government Life Insurance Fund, \$7,000,000 2 1/2% Treasury bonds of 1949/53 were sold for the account of The Secretary of the Treasury - Special Account, and \$7,505,650 Treasury bonds were sold for the account of the Civil Service Retirement and Disability Fund.

The only other transactions of importance were the issuance of \$20,000,000 and \$10,000,000 special 2% 5-year Treasury notes to the Federal Deposit Insurance Corporation and the Postal Savings System, respectively.

Details of these transactions and previous transactions for the Special Account and the Civil Service Retirement and Disability Fund follow:

Government Life Insurance Fund

Purchases:

Aug. 4 -	\$1,000,000	2 7/8%	Treasury bonds	1955/60
Aug. 8 -	1,000,000	"	"	"
Aug. 23-	800,000	2 3/4%	"	1958/63
Aug. 25-	500,000	"	"	"

\$3,300,000

Civil Service Retirement and Disability Fund

Under the authorization dated January 11, 1938 there remained to be sold \$7,505,650 Treasury bonds. In accordance with your cablegram dated August 2, 1938 the balance of the bonds were disposed of in an orderly manner. On the total amount of bonds sold, \$22,695,050, a profit of approximately \$1,819,206 was realized. Below is listed the dates of sale, amount sold, sale price and the profit realized on each transaction:

<u>Date of Sale</u>	<u>Amount Sold</u>	<u>Issue</u>	<u>Sale Price</u>	<u>Approximate Profit</u>
Jan. 13	\$ 500,000	3 1/4s 1944/46	107.18	\$ 44,375.00
" 13	500,000	3 1/4s 1943/45	107.22	45,000.00
" 14	1,000,000	3 1/4s 1944/46	107.20	89,375.00
" 18	1,000,000	2 7/8s 1955/60	102.19	39,063.00
" 19	1,000,000	2 7/8s 1955/60	102.19	39,063.00
Feb. 14	400,000	3 1/4s 1943/45	107.21	35,875.00
" 14	500,000	3 1/4s 1944/46	107.19	44,532.25
" 14	1,500,000	2 7/8s 1955/60	102.11	54,843.75
" 14	500,000	2 7/8s 1955/60	102.10	18,125.00
" 14	100,000	3 1/4s 1943/45	107.22	9,000.00
" 25	430,000	2 7/8s 1955/60	102.24	17,468.75
" 25	570,000	2 7/8s 1955/60	102.23	22,978.13
Apr. 22	300,000	3 1/4s 1943/45	109.16	21,625.00
" 22	575,000	3 1/4s 1943/45	109.17	62,351.56
" 22	225,000	3 1/4s 1943/45	109.20	24,609.38
May 4	250,000	2 7/8s 1955/60	104.4	13,593.75
" 4	250,000	2 7/8s 1955/60	104.5	13,671.88

<u>Date of Sale</u>	<u>Amount Sold</u>	<u>Issue</u>	<u>Sale Price</u>	<u>Approximate Profit</u>
May 4	\$ 500,000	2 7/8s 1955/60	• 104.2	\$ 26,875.00
May 12	310,700	2 7/8s 1955/60	• 104.2	16,700.13
" 12	500,000	2 7/8s 1955/60	• 104.3	27,031.25
May 13	955,000	2 3/4s 1945/47	• 106.3	70,729.69
" 13	345,000	2 3/4s 1945/47	• 106.4	25,659.38
" 18	1,000,000	2 3/4s 1945/47	• 106.2	73,750.00
" 18	1,000,000	2 3/4s 1945/47	• 106.3	74,062.50
" 20	1,078,700	2 3/4s 1945/47	• 106.5	80,565.41
Aug. 4	1,000,000	3 1/4s 1943/45	• 109.21	109,687.50
" 5	1,000,000	3 1/4s 1943/45	• 109.22	110,000.00
" 5	1,000,000	3 1/4s 1944/46	• 109.22	110,000.00
" 8	1,000,000	3 1/4s 1943/45	• 109.23	110,312.50
" 8	1,000,000	3 1/4s 1943/45	• 109.24	110,625.00
" 8	1,000,000	3 1/4s 1944/46	• 109.24	110,625.00
" 9	884,000	3 1/4s 1943/45	• 109.25	98,068.75
" 9	621,650	3 1/4s 1944/46	• 109.25	68,964.30
	<u>\$22,695,050</u>			<u>\$1,819,206.86</u>

The Secretary of the Treasury - Special Account

Under the authorization to sell the entire holding of \$10,000,000 2 1/2% Treasury bonds of 1949/53 there remained on July 15th \$7,000,000 to be sold. This balance was disposed of in the market from time to time as can be seen below. The average cost of these bonds was 100.25/32nds so that the profit realized amounted to \$128,437.50.

<u>Date of Sale</u>	<u>Amount Sold</u>	<u>Issue</u>	<u>Sale Price</u>	<u>Approximate Profit</u>
July 7	\$ 1,000,000	2 1/2s 1949/53	• 102.	\$ 11,875.00
" 8	2,000,000	2 1/2s 1949/53	• 102.2	25,000.00
" 27	1,000,000	2 1/2s 1949/53	• 102.2	12,500.00
" 28	1,000,000	2 1/2s 1949/53	• 102.3	12,812.50
" 29	1,000,000	2 1/2s 1949/53	• 102.4	13,125.00
" 30	1,000,000	2 1/2s 1949/53	• 102.4	13,125.00
Aug. 5	1,000,000	2 1/2s 1949/53	• 102.4	13,125.00
" 6	1,000,000	2 1/2s 1949/53	• 102.5	13,437.50
" 8	1,000,000	2 1/2s 1949/53	• 102.5	13,437.50
	<u>\$ 10,000,000</u>			<u>\$128,437.50</u>

Federal Deposit Insurance Corporation

No purchases or sales were made in the open market but on July 26, 1938 \$20,000,000 special 2% 5-year Treasury notes were issued to the account. The account now holds \$105,000,000 of these notes. At the

time of the request for the investment of \$20,000,000 the cash position had grown to about \$37,000,000 as a result of the July assessments by the corporation.

Postal Savings System

No purchases or sales were made in the open market but on August 6, 1938 a request was made of the Treasury to invest \$10,000,000 for the account. In accordance with this request, \$10,000,000 special 2½ 5-year Treasury notes were issued. The account now holds \$55,000,000 of these notes.

4

ESTIMATE OF CASH POSITION

AUGUST, 1938 - JUNE, 1939

(In millions of dollars)

	1938 AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	1939 JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
Balance at beginning of period:	1,498	1,618	2,248	1,721	1,410	2,035	1,735	1,578	1,853	1,366	1,112	1,498
REVENUES:												
General revenue	475	715	270	330	685	365	565	585	255	335	500	4,780
Unemployment Trust Fund	70	- 13	- 11	59	3	- 10	61	- 5	- 6	64	9	221
U. S. Savings Bonds	30	25	25	25	40	100	50	45	35	30	30	438
Treasury bonds and notes	-	750	-	-	750	-	-	500	-	-	500	2,500
Treasury bills	250	-	-	-	-	-	-	-	-	-	-	250
Total available	2,323	3,095	2,533	2,135	2,888	2,390	2,311	2,703	2,137	1,795	2,151	9,684
EXPENDITURES:												
General	365	355	365	360	350	365	335	385	400	375	360	3,985
Emergency	245	250	279	270	270	260	240	245	245	245	245	2,775
Interest on public debt	30	155	70	10	175	15	30	155	70	10	200	900
Special transactions	70	52	58	70	28	10	23	15	41	38	10	423
Debt redemptions	15	25	15	15	30	15	15	50	15	15	60	270
Investments	-	-	23	-	-	-	-	-	-	-	-	23
Total expenditures	705	847	811	725	853	655	633	880	771	683	875	8,408
Balance at end of period:	1,618	2,248	1,721	1,410	2,035	1,735	1,578	1,853	1,366	1,112	1,276	1,276
Issuing operations:												
Treasury bills:												
Regular	250	400	400	500	400	400	400	500	400	500	400	4,550
Special	-	16	-	-	433	-	-	942	-	-	-	2,687
Treasury notes	-	-	-	-	-	-	-	-	-	-	-	-
Total	250	416	400	500	833	400	400	1,442	400	500	1,694	7,237

NOTE: (NOT INCLUDED IN ABOVE FIGURES)

HOLC Bonds, Series F-1939, 1-1/2%, approximate amount of \$15M due June 1, 1939, will probably be refunded.
RFC Notes, Series K, 1-1/2%, approximate amount of \$300M due December 15, 1938, will probably be refunded.

ASSETS AND DEPOSITS

AUGUST 27, 1938.

Received. 1 km 7.
Aug 29, 1938

5

GROUP MEETING.

August 29, 1938.
12:15 p. m.

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

H.M.Jr: two weeks vacation with pay. The French people are just all traveling - they spend money, and you go to a small, out-of-the-way place, you just can't get in. They have wonderful co-ops, and they are in good humor, but every place you go you see soldiers, soldiers, soldiers. I don't think they will have to do very much to mobilize - soldiers every place you go. These men are all at their positions - they're at their positions at these forts all the time. They don't have to call everybody up. They are there. They live just as under war conditions, in these forts which are all modern, all under ground, all built against air bombs, and all that sort of thing. But, I guess it's anybody's guess.

Oliphant: That, of course, is the big question.

H.M.Jr: If they can get along until it begins to freeze at about ten thousand feet, to form ice on the wings, so they can't fly, they'll be all right; but I don't know how you fellows feel but I feel, certainly Italy has passed its crest, it's boom, and, generally, their stock market is, as indicated - are you (White) familiar with that new method of selling bills, their complete change on their bill method?

White: Yes, I

H.M.Jr: I have a very interesting paper on that.

White: The situation there is

H.M.Jr: This bill they are selling to the man - the contractor - he doesn't get his pay until it is complete. Well,

it's true, some talk that Sharp did it. I've got a very interesting cable on it, so I don't know. If they can keep from having a war until November or December, why, it will be a grand thing. I guess it's anybody's guess.

Mr. Bailey, head of the United Press, was on the boat and just had a motor trip through Czechoslovakia. He said all along the border everybody was German, but as soon as you get off the border, it's Czechs. But the work's all been done along the border.

Those who carried on while I was abroad, why, I thank you - and made my trip possible. I'm not going to make any speeches about coasting, Wayne, because I don't believe you did.

Taylor: Good.

H.M.Jr: Is there anything in the cables from Europe I ought to know, because that seems to be the crux of things?

Taylor: I haven't gotten any this morning; I just talked to Moffat, over at the State Department, to find out if he had anything new. He said no. There are about four possibilities in the Czech thing. One is a real compromise settlement. He's disbarred that as a possibility. Two is a settlement which would be a complete diplomatic victory for Hitler, which would involve either autonomy or this cantonal form, etc., and so on. Three would be to localize the trouble. Four would be the general difficulty.

He thinks that One can be eliminated.

H.M.Jr: Which one?

Taylor: One is the real compromise settlement. He thinks Two is probably the most likely, at the minute.

H.M.Jr: Which is that?

Taylor: Selling them down the river. He thinks Three is more of a possibility than Four.

H.M.Jr: Which is Three?

Taylor: Three is to localize it.

Oliphant: Is it your impression that Sir John Simon's speech meant all it seemed to say?

H.M.Jr: I have only seen copies of it. I haven't seen a whole copy of it. You might send me a copy of it to the house tonight. Also the President's Canadian speech. It made a great impression.

White: Then you haven't seen Geddes' report of two days ago, which is apparently official, that the German Ambassador approached the Russian Ambassador ten days ago and asked if they would remain out of it if they stepped into the Czechoslovakia thing, and the reply was that they would abide by their agreement, which was to march if Germany marched on Czechoslovakia. It was the Russian Ambassador's understanding that France had similar obligations, but speaking for himself he made a categorical statement that they would. Geddes is

H.M.Jr: How do you spell it? G-e-d-y-e, I think.

(Two or three other contributions.)

H.M.Jr: Four different kinds of spelling. All right. Better get a couple professors around here. All right, I'd like to see that.

White: I'll get a copy and show you; it's rather interesting.

Taylor: We didn't tell you about the Brazilian thing.

H.M.Jr: Pardon me?

Taylor: I don't think we told you about the Brazilian thing. They have cabled up and wish to make a credit arrangement under the terms of their shipping some gold up here, and so on, and we are in process of filling out the papers, etc.

H.M.Jr: Isn't that grand? That's fine.

Taylor: Pearson, who is down in Brazil, has a call in for me this afternoon at two o'clock. It may have some bearing on that.

H.M.Jr: I am very much interested in Brazil. I hope we can do something.

Mr. Rueff was kind enough to say that through my keeping quiet, he thought I had forced the hand of Mr. Daladier to make a speech. That information he volunteered. Theoretically - on the boat crossing - on the boat we had Rueff, by the way, and Cochran on the boat. Rueff agreed with me that there was no economic reason, excluding the Treasury needs, for further devaluation. He also agreed that if they did it, undoubtedly Belgians would have to do something, and I think France is full of Belgians and Dutch who are travelling, because it is so cheap. Switzerland, of course, is just about forty per cent more - in Switzerland - to live in than France. Fully that. It's very expensive there. The French are reaping full harvest, if they can get their increase method up.

But the one man, the French said in
the fall of '36 they had a million two hundred thousand workmen sitting in their factories. He said they came from that to this today. He also remarked that no machine was damaged and nobody was injured. The people - they are talking about the Red Communist ring. The feeling in the whole country is excellent. I don't think people sense how good it is.

Well, Mr. Bell, we always have an immediate problem. Did you get my message?

Bell: Yes sir. I am prepared.

H.M.Jr: Well, suppose you tell us.

Bell: This is my first official day back, but I came back a little while Friday and made up your statement.

H.M.Jr: I was sure you had it, but I felt you would feel hurt if you didn't hear from me.

Bell: I was glad to get your message. Well, as I understood it, you wanted to keep the balances well above a billion dollars. You didn't say what period, but I have extended it through to June, next year. We have, today - last night - a billion five hundred seventy five million dollars, of which seven hundred forty million dollars is in the Federal Reserve Banks, five hundred sixty-three million dollars in the Special Depositaries, and we have two hundred seventy-two million dollars in gold.

H.M.Jr: Which brings the working balance to what?

Bell: A billion five hundred seventy-five, including those three balances, including the gold.

H.M.Jr: Including those. You mean you include the two hundred seventy million dollars of gold?

Bell: Yes sir, but since we took it out of the Sterilization account we've always included it in the working balance, and I have included it in the working balance for the purpose of this statement. We raised two hundred fifty million dollars in August, which is for the trade program which you decided on before you went away, and this includes seven hundred fifty million dollars of new money on September 15, seven hundred fifty million on December 15, five hundred million dollars on March and June 15 each. That will give us balances for August, a billion six hundred eighteen million, two hundred forty-eight million; October, a billion seven hundred twenty-one; November, a billion four hundred ten, and in December it goes up again, to two billion thirty-five million; January a billion seven hundred thirty-five million; February a billion five hundred seventy-eight million, and in March it goes up again - a billion eight hundred fifty-three; April a billion three sixty-six, and the low point is reached on May 31, of a billion one hundred twelve, and we go out of June with a billion two hundred seventy-six million.

H.M.Jr: Well now, may I ask you, what did you figure the deficit of that now, this year?

Bell: I haven't changed the estimate any from the budget - three million ninety-five.

H.M.Jr: Four.

Bell: Practically four, yes, and these tie in with the budget figures as far as the receipts and general expenditures are concerned there is three hundred million in this picture that represents the balances of the R. F. C. and the Commodity Credit, in which the R. F. C. has used, to retire the notes held by the Treasury

H.M.Jr: Did they have on deposit with us three hundred million?

Bell: They did have, but R. F. C. has used all that money to retire notes held by us. Originally, we thought - at least we discussed the problem - of having the R. F. C. keep the notes, six hundred fifty million, at the time we discussed it, in that status, and then borrow enough money on the market to keep it going, so that they can, on that program - the R. F. C. can call on the Treasury for three hundred million dollars to bring that note issue back up to eight hundred fifty million - something like that.

H.M.Jr: I thought about it a little differently. Maybe we arrived at the same result. I was figuring we borrow two hundred fifty million for the R. F. C. in October, another two hundred fifty for them in January, and then Jesse will have his seven hundred fifty, or eight hundred million dollars that he wants.

Bell: Well, as I understood from Wayne, they are now discussing the proposition of borrowing in the market and paying off the Treasury entirely.

Taylor: It amounts to the same thing.

Bell: No, it doesn't, because when they pay it off we get that money, whereas if they draw it back up to the eight fifty you keep the eight fifty at the same figure. We've got to furnish them three million dollars between now and January 1.

H.M.Jr: Even if they go to the market? If we sell five hundred million dollars of R. F. C. notes, on their obligations, in the market

Bell: Well, that all depends, of course, on how much they loan. I thought the understanding was that the R. F. C. would run itself from April 15 on. That was the date we decided - would borrow its own money in the market from that time on.

H.M.Jr: Just to run itself?

Bell: Yes sir.

H.M.Jr: My understanding is, we will continue to borrow. The figure I carried in my mind was seven fifty - we borrow seven hundred fifty million dollars, at the lowest rate obtainable for them, and that they would cancel their obligations with us.

Taylor: Do it about once a quarter, if that figured out right.

H.M.Jr: If the market was all right in October, I had in mind borrowing two hundred fifty million for them. In other words, what I was planning to do, through this operation, I would be raising seven hundred fifty million dollars on their obligations instead of ours and it would bring in new money.

Bell: And that is right; that would reduce this borrowing program on that statement.

H.M.Jr: It would do this - let me just have that a minute. You got more than one sheet?

Bell: Uh huh. (Hands H.M.Jr. sheet of paper.)

H.M.Jr: I'd like to borrow it - unless we have a war between now and next Wednesday, I'd like to borrow - I had in mind just getting eight hundred million dollars, see? And then take ten per cent - we'd offer, most likely, two obligations - two at four hundred million each, and then give the December a chance to convert. I don't have to say what I'm going to do about Jesse. It's good! I want to take it while I can get it, and what I want to do is this. I want, until this thing settles down, until we get by March and June, with nine hundred million coming due in March and a billion two coming due in

Bell: Two.

H.M.Jr: That is, I want to borrow all the money I can while I can get it, so if I can take eight hundred million dollars, at ten per cent - cost me around eight eighty or nine hundred thousand dollars. I don't have to say anything about borrowing for Mr. Jones.

Bell: No, you don't have to say anything about that.

H.M.Jr: How much new money - this does not include Mr. Jones - how much do we have to get?

Bell: It includes three hundred million dollars.

H.M.Jr: Just the way it is here, how much new money here now until June?

Bell: It is two and a half.

H.M.Jr: And if I take

Taylor: He's got three hundred in there for Jesse he doesn't need, so you take off three hundred.

H.M.Jr: You take off three hundred or eight hundred?

Taylor: Take off eight.

H.M.Jr: I think, for our own purposes here, if we borrow for Jesse, what we need - I want to get a figure for the present - from now till the thirtieth of June - is two million dollars.

Taylor: That's on the high side.

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

Bell: See, you've got to provide Jones with money after he borrows it, and puts it in the Treasury; you've got to meet his expenditures. He might spend that five hundred million that he borrows.

H.M.Jr: If you are really going to subtract that three hundred.

Bell: Well, I assumed we'd have to furnish him the three hundred million.

H.M.Jr: After all, when we borrow the new money he is just putting that on deposit with us. There is five hundred million dollars coming in.

White: Unless he spends it. He thinks he may spend some of it.

H.M.Jr: How much?

Bell: Well, that I don't know.

H.M.Jr: Well, you've got it at two and a half million, and if I take five hundred million for Jesse, I say I need five hundred million. If we can get that - if I can get nine hundred million now, and if this thing should quiet down, I might even stretch it to a billion now. Take four fifty, depending on the thing --- Now Mr. Bell.....

Bell: You might get almost the balance in December if it continues.

H.M.Jr: I am going to make this offer on September 7, and you fellows have to find a way to do it. I am just not going to worry about it, and the answer to Mr. Burgess is, it is much more important that the price is right than it is to police them.

Taylor: That's right. I was talking to him again about that this morning. The one thing, when it comes down to it is, there might be a leak. I don't think that is a bit important. You have to get these things out in the banks; you have to have a full market day, where the things are out in the banks, and so on and so on. I don't think that makes a damn bit of difference.

H.M.Jr: Would that make me offer it on the eighth instead of the seventh?

Bell: No.

H.M.Jr: I want a market day which is Tuesday.

Bell: You have to send them out Tuesday night, the sixth, to have all day the next day to print them and get them in the mails. The Federal Reserve Banks have to have a full day to print and mail.

H.M.Jr: Well, make it the eighth.

Taylor: That's better than the seventh.

H.M.Jr: Do we have to print temporary certificates?

Bell: You might.

H.M.Jr: I am not going to sit here all next week and worry about it. If there is no war, I can price them a half point better; if there is a war, I don't know what I can do. You check?

Taylor: Absolutely.

H.M.Jr: Well, you tell them I am not going to argue with Burgess. For once I am going to tell him. Will you, between the two of you, start the machine going? Saturday is the sixth. And Herbert, I think the sooner we tell the public, the better, because it looks less But I made up my mind this is the way we are going to do it, etc., and so on.

Gaston: You propose to tell them today, perhaps, that you will make the formal announcement on the morning of the eighth? That is Thursday.

H.M.Jr: You need that extra day?

Bell: Oh yes, oh yes.

H.M.Jr: All right. Well, you fellows, and Broughton, get busy. I sent Wayne a cable on this ten days ago. It is just a question of policing or pricing, and I am for pricing. Huh?

Taylor: I think that way it really doesn't make the slightest difference, at this period.

H.M.Jr: Doesn't it, to you?

Bell: No. We have offered in the middle of the week many a time.

H.M.Jr: Will you start it now?

Bell: Yeah.

H.M.Jr: What do you do; you take care of the Feds and Bell takes care of the Treasury?

Bell: I'll talk with Dr. Burgess; I'll start the whole thing.

H.M.Jr: Just so I know who is going to take the responsibility.

Bell: I'll do it.

H.M.Jr: You carry it, entirely?

Bell: Yes.

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

Taylor: Yes.

H.M.Jr: Now, George, you fellows can get started - begin to play with this thing, see - nine hundred million - what you think looks good.

Haas: We've already done some playing. I can give you a copy of the data if you want it.

H.M.Jr: I want one sheet, and I know you've got more than that. Just tell me what you've recommended.

Haas: That's fine.

H.M.Jr: How's that?

Haas: Fine.

H.M.Jr: Does anybody else have any details? That is the most important thing I can get started.

The Paris Herald has headlines, "Magill Contemplating Increasing Taxes, But is Awaiting Morgenthau's Return." You're a pal! You're a pal!

Magill: Awaiting Congress' return.

H.M.Jr: No, just awaiting my return. Right sitting next to me was Jules Bache, and never even said hello.

Magill: That might be traceable to 1937.

Gaston: Didn't they tell about how the official spokesman denied it the next day?

Magill: This is the first I've heard of this news, but I suppose they did.

H.M.Jr: One was taxes - these decisions had to await my return, but they both were unpleasant.

Magill: You will find a lot more before you stay here very long.

H.M.Jr: What have you got?

Magill: I don't think there has been anything - my own bailiwick has been extremely quiet. Internal Revenue has been getting out the regulations on this last tax law, and are doing an excellent job - considerably ahead of what they have been during the past years. There's been nothing startling in the way of cases. Jake Viner presented me with a case for next week, and it is not necessarily to bring it to your attention, necessarily. He had a boy friend from Chicago he sent down to gossip on my door step. He was a very interesting creature; I am sorry you couldn't see him.

H.M.Jr: The gossip?

Magill: Yes, and the Chicago Daily News, I think, is the combination.

H.M.Jr: I'll get it after while, then.

Colonel McCormack sent me a radio, when I was just going in swimming and said, what did I mean "buying marble?" I said, "Marble?" Well, I got, by the time I realized what the thing was all about - did we get a report on it?

McReynolds: There isn't a thing in the world to it. The report and details are all available. I gave Nell (Chauncey) this morning a copy of the letter the Director of Procurement wrote to the Committee at their request, containing all the details, and as far as Procurement is concerned, they are not touched at all.

H.M.Jr: What do you want me to do when I get my stuff - when I get myself acclimated? What have you (Magill) got for me? Senator Tydings?

Magill: Wayne is in charge of that.

Taylor: I am just working on that boy up in New York.

H.M.Jr: What boy?

Taylor: O'Connor.

Magill: We divided the responsibilities, and the purges were assigned to Wayne.

H.M.Jr: I see. Have you got something pressing?

Magill: No, there is nothing very pressing. I'd like to tell you of my luncheon conversation with the President a week or ten days ago, that was interesting.

H.M.Jr: O. K., but nothing pressing?

Magill: No, there is nothing very pressing. The only one thing that is pressing, this last week, is something you will get from other directions. Colonel McIntyre called up about this Coast Guard-Maritime Commission Training Program, and we had a series

of conferences on that, on Monday, Tuesday, Wednesday. I guess it is in shape to (snaps fingers) ---

H.M.Jr: Mac will appreciate this. McKay was with me - and did a swell job - from the Coast Guard. A couple times he worked right through the night to get these three hundred word telegrams off. So while he was over there the Coast Guard called to let him know something had happened to his family, without it being a personal charge, and sent him the following message: "Status Radio Station, Same. Baby born, Mrs. McKay doing nicely."

Gaston: Official message.

H.M.Jr: Yes. Waesche had it sent, "Status Radio Station - baby born, Mrs. McKay doing nicely." I saw him about five minutes after he got the message; he just had the sweat rolling off him - "I didn't expect it for six weeks," he said. (Laughter.)
Herman?

Olliphant: I had a message from Eddie Greenbaum, on the Pacific Coast. He said he found a Coast Guard station out there by the name of La Push.

Gaston: That's right. La Push.

Olliphant: We've been going ahead with the later cases, as well as the first case. The first case was Federal Reserve.

H.M.Jr: How many lots have we bought altogether?

Lochhead: There hasn't been any more bought since you left.

B.L.Jr: Wasn't any offered?

Lochhead: Well, the question is just how to get it over. Now, we put it up to , and they figured it up, if they brought it over in parcel post, it might avoid some difficulties. We put it up to the Spanish as to whether they can send it parcel post. It seems they get into legal difficulties, probably, with the French Government. They have turned it over to the French Government. As long as they don't put it through officially, in France, it might be tied up. We have told them, however, if they wish, we will make them a bid on the basis of the old formula

of bringing it over on the boats, but we understand, without having definite information, that United States Lines will not deliver this time. They've got them so tied up they will be afraid to deliver. Apparently, what's happened, however, as far as commercial firms are concerned, they couldn't guarantee they can take it off. Is that right, Herman?

Oliphant: That's right. The primary statement to be made there is well within the case; the second and third cases - but United States Lines will not, from now on, take the responsibility of delivering it to us.

H.M.Jr: They are running - the Spaniards are running a submarine mail service from Barcellona to Valencia. Would that help any?

Lochhead: They are looking, themselves, into the possibilities where they have any boat they could send over themselves.

Oliphant: Well, the only - I'd like to finish the thing I started. I encountered some difficulty over in the Attorney General's office about employing some help on them. I'd like to employ them on all the cases. He is employed now on the second and third cases. The problem is the question of compensation.

H.M.Jr: You said you'd handle it.

Oliphant: That's all.

Gaston: Senator Tydings' campaign committee has gotten out a green poster announcing that Senator Tydings, in 1934, saved the Curtis Bay Coast Guard Depot for Baltimore. It was going to be transferred to the Navy, and he stopped it. All the Coast Guard knows about it, he called up and asked if it were true that the Coast Guard station was going to be transferred to the Navy and dismantled, and they told him, no, it wasn't true. Leon Pearson is going to come over this afternoon and ask you if Senator Tydings stopped them from transferring it?

H.M.Jr: Who is Pearson?

Gaston: He is Drew Pearson's brother. You can say you know nothing about it, or that he did not stop it.

H.M.Jr: I'll let him ask Colonel Waesche. Anybody want to bet on Tydings' renomination?

Gaston: Anybody want to bet?

H.M.Jr: Yeah.

Gaston: What do you think?

H.M.Jr: Well, I'll write mine down.

Gaston: Sure, I'll take a bet.

H.M.Jr: I'll write it down; I'll write my name, and put a dollar on it - or five cents - before the President speaks.

Gaston: Fine - a nickel.

H.M.Jr: George?

Haas: I have a few things here.

H.M.Jr: But the stuff to read, send it up to the house.

Haas: O. K. It all comes in that category. Before you left you asked Dan to get some estimates of expenditures, by months, from all agencies for the balance of the year. We made some nice pictures out of it - quite interesting. (Laughter)

H.M.Jr: All right.

Haas: That's all I have.

H.M.Jr: I would like, George, from you, if you could get up to the house, I wish you'd write, yourself, - give me a page tonight about how you feel about business. Just write me a letter, will you?

Haas: I have a business memo here.

H.M.Jr: Fresh?

Haas: Fresh this morning. It's more than a page, but there is a summary.

H.M.Jr: You take in the European situation?

Haas: Insofar as I think it is possible to take it into account. It's a big - it's difficult to tell.

H.M.Jr: You have that for me, George.

Haas: Yes, sir, I have that; I'll send that right out.

H.M.Jr: Wayne?

Taylor: I haven't anything other than things that you've gotten in touch with, except this Chinese business. I think we'd better give you the cables that have come in on that.

H.M.Jr: Well, I won't take that tonight. I made up my mind - I read that cable - I don't know Sing Loh Hsu - I mean, I don't know. And then I didn't particularly care about the cable Mr. Chuan Kuo sent me. You saw how I answered it; I certainly held up your right hand, didn't I? I told them when the President and Mr. Hull wants to make the Chinese a loan and the Treasury is a stumbling block, to get in touch with me.

Taylor: It's right back where I think you'd like to have it. The Department of State is investigating it.

H.M.Jr: Well, before I talk to the President about it I will talk to you and Harry. But Bullitt's the fellow that's pushing that a terribly lot.

Taylor: There is quite a letter that he wrote, which is part of all this.

H.M.Jr: Before Monday, before I was in Paris?

Taylor: No, after.

H.M.Jr: Oh, really. He told me on the phone that he had Mr. Jesse Jones for lunch, and Jones was allowed to loan any amount of money to the Chinese and take full responsibility for it, himself.

Taylor: He had a pretty good lunch.

H.M.Jr: Bullitt serves good lunches. Well, we'll have to have a chin.

Would you (Lochhead) like to take a look at the foreign exchange.

Lochhead: I'd like to. (Leaves.)

H.M.Jr: Dan?

Bell: I haven't anything, Mr. Secretary.

H.M.Jr: We've got to work on this. The Federal Reserve comes in at eleven o'clock Thursday, Wayne.

Taylor: (Nods, "Yes.")

H.M.Jr: Harry?

White: Well, I think the British situation needs a separate session. There's a lot to be said about it.

H.M.Jr: I don't know how you feel, but I hate to see that pound go through 4.86. You'd be interested in what Sir Frederick Phillips said. I said to him, "I sincerely hope the pound will not break 4.86." He said, "Why?" And then he said, "Oh, everybody thinks that way." He said, "I don't; I think it will stop around 4.80." He said, "Well, everybody agrees with you; I am by myself." I said, "I hate to see it go through 4.86."

White: There is a lot going on in the British press, and elsewhere.

H.M.Jr: I was tickled to death I made no statement over there. Daladier made a much better one than I could make, and he knew something about it, and I didn't. Incidentally, this constantly urging of the Italian situation - you know Mussolini is on record against devaluation, and on very good authority over there, I was told, if the French devalued again - it is what Mussolini is looking for, but he needs something, because he has said he would not devalue, and they are very hard up. My source was a private one.

White: Something in Butterworth's conversation

H.M.Jr: Well, I got this from somebody in Switzerland, but I kept asking everybody why, and who wants to see this other than the inside - wants to make another one. We'll get around to it.

White: Well then, tied up with that, in a sense, I'd say, is the whole question of how much gold we have been getting in the last few weeks, and why and how it relates to the world production. It's a part of the British picture.

H.M.Jr: Phillips said they have lost three or four hundred million dollars this year.

White: That's what he says, but we can't see it.

Taylor: Dollars.

H.M.Jr: Did Butterworth put that in his cable? He was so afraid and so worried - he didn't even come to the same hotel - I mean, about trying to hide his identity, and he succeeded. Nothing got in the press.

White: If you would like to know the general world picture, I can give it to you briefly. It is - on the whole though, it is at a lower level than last year; except one or two spots it is holding its own, so you can't speak of it as being a drag on our situation nor is it an uplift. It is just about the same, excepting two countries. Canada has turned down rather substantially, curiously enough, this last month, and the business picture, in general there, looks worse than than it did before, although it was very good until recently; and in Mexico, in which the situation is proceeding according to schedule. They sent it down to 50 - the dollar - and there is some talk on the market of selling ----- It won't have to go down much more before it hits the melting point of the silver peso.

H.M.Jr: How much gold has been sent up to New York?

Lochhead: They had - they have some left; they had about eighteen million dollars in gold.

H.M.Jr: Do you have a paper for me?

White: I can get it to you.

H.M.Jr: Better write it down. But this 4.86 - you don't like that?

White: I think it would be very serious.

H.M.Jr: Wayne?

Taylor: I do too. I think it all entirely depends on what happens to the Central European thing. If that turns out badly there is nothing in God's world that will hold it there, but ruling that out, I feel the same way.

White: However, I think they were a little responsible for that French thing. I think their operations of sterling was in some substantial part responsible to the depression, which accord attributed to the whole factor of the French situation the last few weeks. Would you like to know the status of the British trade agreement, or are you up to that?

H.M.Jr: Phillips told me. He said he kept asking him, and the answer he gets, he said it will be cleaned up in two or three weeks; it is in the two-to-three-weeks stage. As a matter of fact, I am sick and tired of answering.

White: Apparently now, it is within a few days, although they have been playing along, postponing it over the election, and the last I heard was that they may expect consummation within the next few days.

H.M.Jr: Over what election?

White: Over the fall election, in October.

H.M.Jr: Their elections?

Taylor: Ours in November.

H.M.Jr: Are they interested in November?

White: I think they are, here. They

H.M.Jr: Well, Phillips was perfectly disgusted with it; he's anxious to see it go through.

White: They have been holding it up there, in the sense they haven't been willing to accede to some of the demands.

H.M.Jr: He was very frank with us. Very. He'd like to see it go through. He'd answer anything you asked him.

Upham: I just returned the middle of the week. There seems to be no more than the usual amount of intrigue.

H.M.Jr: Did they ever get out the bank regulations?

Upham: Federal Reserve have sent their's out, and I believe the Comptroller's office have sent theirs; the F. D. I. C. has not gone out yet, but it is just about ready.

H.M.Jr: Is Crowley still just about to get a job and resign?

Upham: Well, he told Mr. Diggs yesterday - he said he understood I had been out to the Chicago Reserve Bank trying to get a job.

H.M.Jr: Had you?

Upham: No.

Gaston: That was the job that Leo was jealously watching.

H.M.Jr: Have you been out where the tall corn grows, or not?

Upham: Yes.

Bell: Believe me it's tall out there this year, too.

H.M.Jr: How is it on our place?

Klotz: Fine.

Lochhead: (Returning) The market is holding up at 4.87 6/10. That is where it left off at London. No signs of weakening. It will be their purchase of sterling, made from the gold, which will be holding it up, but we never get the excitement over here that they have on the other side.

H.M.Jr: Did you see Knoke when he was down?

Lochhead: They are all coming down. I have had a couple talks with him but not complete.

Taylor: They are all coming down on the same day.

H.M.Jr: Mac? Thank you for a nice rug; it's very pretty.

McReynolds: I have nothing.

White: Left?

Oliphant: Did you see Kieley's room, too?

H.M.Jr: Yeah.

Oliphant: Handsome.

H.M.Jr: That looks slippery-sleezy to me; this looks like it has a little more wear. I like this. I like this. This is very nice - has age. The other thing, it will take two or three years to wear that stuff off.

I've seen it. I like this one.

Well, Mac, when are you going away? Friday night?

McReynolds: I'll try to get away sometime in the next few days.

H.M.Jr: Are you going to take a good month?

McReynolds: I've got to get my kid back to school on the nineteenth.

H.M.Jr: How's your golf?

McReynolds: Not so good; not so bad.

H.M.Jr: What I am going to try to do is try to ease myself into this thing. I'm not acclimated yet. I'll read, tonight, any memoranda that come up to the house. I want to work on, I guess the European thing, and this other thing. I personally came back feeling - how I feel about the United States, and this is just inside of this room. I am mildly bullish about the United States, and the longer this thing goes, the more I am convinced it has the earmarks of a real recovery. I like the way things come out. That, always exclusive of a war, but unfortunately, I suppose if we had a war we'd benefit, at least temporarily. But I am mildly bullish on the domestic situation.

Those boys come down one point, up on the Federal Reserve, each month; they were a little off, weren't they?

Haas: Yeah, but they might average out all right by the end of the year.

H.M.Jr: What did they say we had in December?

Haas: Ninety - ninety-five.

H.M.Jr: Did they? Oh no. Well, you've got a record?

Haas: I think that's right.

White: Well, a point a month is what they said.

Haas: Well, it was seventy-seven, Mr. Secretary, when they were here.

H.M.Jr: What's August going in to?

Haas: About eighty-five, right now; eighty-three in July, and in August we will work about eighty-five. I had in mind they said ninety-five, but I may be wrong.

H.M.Jr: Just check, will you. And if this thing - Goldenweiser had a letter from some fellow, and he said a hundred by the end of the year, against the Federal Reserve. I don't know who the man is, but he had a name, and he said it would be a hundred by the end of the year. But certainly eighty-five for this month, or eighty-four, is very nice, isn't it?

Haas: That's nice. It looks as though September will be up. Automobiles have moved their new models one full month earlier.

H.M.Jr: Well, I'm glad to be back, and again, thanks for everything while I was gone.

6

GROUP MEETING

August 30, 1938.
10:00 A. M.

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

H.M.Jr: Well, things look worse this morning in Europe. We had an interrupted call, Bank of England talking to Knoke, and they are calling him back. And Hitler has called out additional reserves, and he's done a large sum of money this morning in gold. And sterling broke through its old parity, and so we'll see what we'll see.

I just talked to Cochran and asked him to call up three or four central bankers in Europe and call me back, and see how they felt. I told Cochran I was lunching with the President at one. I'll see you (Magill) at eleven, and we'll just see if the Russians are - I don't know.

(Telephone) Hello. All right. Yeah.

And I don't, because we'll have a repercussion here just as long as that war scare continues.

Taylor: They were in complete agreement but they didn't say what it was about.

Haas: Things look bad.

H.M.Jr: I talked to Mr. Hull for forty-five minutes this morning and he handed me a memorandum, which is to go back to him. Mr. Hull would like us to mitigate the fine against the Danish Steamship Anna Maersk. He says it's owned by a very fine man; it's the first time it's ever happened, and he said he thinks thirty thousand dollars for the first time is too heavy. He said the State Department would like to see it, the first time, mitigated.

(Telephone conversation with Governor George Harrison at 10:05 A. M., attached.)

August 30, 1938.
10:05 a.m.

H.M.Jr: Hello.

Operator: Governor Harrison.

H.M.Jr: Hello.

Governor Harrison: Oh! Hello, Henry?

H.M.Jr: Yes, George.

H: Knoke was here with me when I first put in the call, and he's gone to his other room so I'll get him on the line in a minute.

H.M.Jr: Right.

H: But while I've got you, I had another matter I wanted to talk to you, if I may?

H.M.Jr: Please.

H: And I'm talking to you very privately, because I'm the only one that knows, and I'm violating a confidence, but I think you ought to know.

H.M.Jr: Please.

H: Burgess is going to the National City.

H.M.Jr: Oh, really.

H: And that's pretty well settled but he's not free to say so yet, because they haven't taken it up with their directors.

H.M.Jr: I see.

H: Their present plan had been to take it up at the meeting on September 6.

H.M.Jr: Yes.

H: Although they might have put it off until September the 13th.

H.M.Jr: Yes.

H: From my own standpoint I'd rather have him wait until the 13th.

H.M.Jr: Yes.

H: On the other hand I didn't want him to go through this period with you.

H.M.Jr: Pardon me.

H: I did not want him to go through this period -

H.M.Jr: Yes.

H: With you.

H.M.Jr: Yes.

H: Without your knowing his future affiliation.

H.M.Jr: I see.

H: And he didn't either.

H.M.Jr: Yes.

H: I had planned to speak to you anyway on Thursday, when he was down there. He doesn't know that I'm talking to you now.

H.M.Jr: I see.

H: But I wanted to tell you, formally, myself what the set-up is so that you would know perfectly well and there wouldn't be any deception anywhere.

H.M.Jr: No, well that's a big loss to me.

H: Oh well, it is to us.

H.M.Jr: Yes, that's too bad.

H: He's going down - he'll be Vice-Chairman with Perkins and Rentschler. I suppose he'll be third man.

H.M.Jr: Oh, that's what it is, uh.

H: What?

H.M.Jr: They're giving him that much, uh.

H: Yes. Oh well, he couldn't very well - I think he couldn't very well refuse it. I mean, from the point of view of his family and everything, you see. He's getting quite a promotion in salary.

H.M.Jr: What - what will they pay him?

H: Well, I'm not quite sure, but they talk about doubling his present salary.

H.M.Jr: I see. I see. Well, that's a big loss to me.

H: Well, it will be to all of us.

H.M.Jr: Yes.

H: But, you understand why I wanted you to know.

H.M.Jr: I understand.

H: Now, may I switch you to Knoke, or shall I have him call you?

H.M.Jr: No, if you'll put me over to Knoke.

H: All right.

Operator: Operator.

H: Transfer the Secretary to Mr. Knoke, please.

O: Yes, Governor. Hello, hello, hello.

H.M.Jr: Yes.

O: Secretary Morgenthau, can I call you back? Mr. Knoke is talking with Canada.

H.M.Jr: Uh- All right.

O: Did you wish anybody else?

H.M.Jr: Yes. Fine.

O: All right.

H.M.Jr: (Writes note to Mrs. Klotz.)

Klotz: (Reads note - whistles - surprised.)

H.M.Jr: Well, Knoke's going to call me back.
What have you got, Mac?

McReynolds: Nothing new. Magruder called up this morning.

H.M.Jr: Tell him I paid my bill.

McReynolds: Magruder wanted to come over and see me; I told him he could if he wanted to.

H.M.Jr: Which one? Oh, I thought you were talking about the grocer.

McReynolds: He's coming over. I told Herbert I'd probably call him when he comes this afternoon.

H.M.Jr: I don't think anything has happened which is quite as humorous as, "Morgenthau is defending the collecting of funds for the Democratic party." I am waiting for Jim Farley to call me up any minute. Or what's-his-name - the fellow that died, that used to be with us in Farm Credit - Forbes.

McReynolds: Poor old Forbes would turn over in his grave.

H.M.Jr: Here I am - defender of funds. I thought, incidentally, I might write a letter, and say, "My dear Senator: Inasmuch as you seem to be interested in the Treasury rules and regulations, I am enclosing herewith a complete set of the rules and regulations which we got out in 1934. Yours truly." And send it up to him. I'll sign it.

Oliphant: I was working on the legal question which he raised.

H.M.Jr: I'd let this thing go; I'd like to get that up because he seems to hold two press conferences a day.

McReynolds: Steve showed me, a week ago, a statement that Magruder prepared, in writing, as a matter of record, which was a pretty ethical statement, that he had made to his deputies. He told them they couldn't collect money. He said, "I am going to vote for

Lewis. You fellows can vote for anybody you want to, but you mustn't collect any funds; you mustn't be unusually active."

H.M.Jr: O. K. I am not - I mean, it's just a matter - I am not going to get into the thing deeply. Who's going to handle this Anna Maersk? Who handles that?

Taylor: That's already in the mill, waiting.

H.M.Jr: Well, this - just send that back to Mr. Hull with no comment. Just return it. Who will? Do I sign a

McReynolds: Ordinarily it is signed by an Acting Secretary.

H.M.Jr: Well, just let me see it when you people arrive at whatever recommendation you want to make.

McReynolds: There were two or three State Department requests on that same thing.

Oliphant: If you applied the ordinary rule, you would not mitigate. These are the early cases of diplomatic rings.

H.M.Jr: I'd like to have a report as full as possible of the Narcotic Division investigation, and your recommendations. Do you want to mitigate? Let's look into it.

Taylor: It's a very interesting case.

H.M.Jr: I'd like to have the facts; I'd like to pass on it personally.

McReynolds: O. K. I think Wayne has it.

Taylor: No, it's being reinvestigated now.

McReynolds: Well, Hampton offered me annual passage/two years to his track ago, but I refused to take it.

(Telephone conversation with Mr. L. W. Knoke, at 10:14 A. M., attached.

August 30, 1938.
10:14 a.m.

H.M.Jr: Hello.

Operator: Mr. Knoke.

H.M.Jr: All right.

O: Go ahead.

Knoke: Hello.

H.M.Jr: Hello.

K: Good morning Mr. Secretary.

H.M.Jr: Hello Knoke.

K: Here is what London said. They were - they are - they have had a terrible time this morning. They've done over twenty five million dollars - seventeen million of that in one and a half hours.

H.M.Jr: Yes.

K: At the moment the market are steadier at 4.85 and 7/8ths and they would carry on and use all their efforts to hold the rates.

H.M.Jr: Yes.

K: The demand is - the demand for gold has disappeared. The demand for hoarding has disappeared. He said all they did in gold was about eight hundred thousand pounds which was arbitrage. The movement was distinctly and definitely one into - away from Europe into cash in a country that was distant to Europe.

H.M.Jr: Yes.

K: In other words it was entirely a war scare - the war scare that prompted the movements.

H.M.Jr: Yes.

K: It was - he didn't see any evidence of - of speculation, it was legitimate efforts to get out of sterling into another currency. He mentioned

for instance, that American firms were withhold - were withdrawing their balances from London. He mentioned Paramount and Ford and others who had been carrying sterling balance, and they think it's better to carry dollar balances at the moment. I mentioned - oh, he said Stockholm, the Reichs Bank -- Stockholm are taking two and a half million dollars.

H.M.Jr: Yes.

K: I mentioned what we had done last night.

H.M.Jr: Yes.

K: He said, well he hadn't even figured it out - He had noticed it, but he said, "Glad to see support from anywhere."

H.M.Jr: Uh-huh.

K: Any support that sterling can get under present circumstances is welcome.

H.M.Jr: Good.

K: I told him why we did it last night, and he thought that, for him, during the day, to try and lift the sterling rate was probably more than could be handled. All he could hope to do was to hold the rates.

H.M.Jr: Yes.

K: But he thought that possibly late in the afternoon we - we might have a chance to do a little pushing up here before we closed.

H.M.Jr: Yes. I - I agree. Now, what was this about the Germans calling out additional reserves?

K: ^{he said}
The - the news from Prague and Berlin/were more depressing than yesterday. They were rumored - There were rumors to the effect that the Germans were calling out additional reserves.

H.M.Jr: Yes. Rumors?

K: Rumors, yes.

H.M.Jr: I see. And there are no facts?

K: No, no.

H.M.Jr: I see. I see. Well, -

K: How does the news strike you today, Mr. Secretary?

H.M.Jr: Well, it - it - I can't see any - anything hopeful or cheerful in it.

K: Well, no, but I - I - I'd like to say this that as - as compared with yesterday I'm a little less disturbed today than I was yesterday because I think it's becoming more obvious that the whole thing is the act of a show man. When I read in the paper that Hitler travels from Beichtesgaden to look at the fortifications and sees to it that that appears in every front paper - every foreign paper, I think that's done for a purpose. That is the work of a show man.

H.M.Jr: Well, I hope you're right, -

K: Well, I - I may have to eat my words tomorrow, but that is my feeling at the moment.

H.M.Jr: Well at least - I - I can't - with the thing - with the foreign exchange acting the way it is I don't see anything cheerful, but let's see as the day goes tomorrow.

K: Oh, no, I didn't mean I'm a little less disturbed today than I was yesterday. I'm not cheerful by a long shot.

H.M.Jr: I see that our - that Industrials are up a point for the first hour.

K: Oh they are.

H.M.Jr: And our commodities are up a third of a point.

K: The London stock market is weaker. I was told, in Paris the market was idle that French were being supported.

H.M.Jr: I talked to Cochran, and he said they're not under great pressure in Paris.

K: Well, that checks with what Bowlton said.
Idle in Paris.

H.M.Jr: Well, if you hear anything more, we'll talk to each other.

K: All right, sir.

H.M.Jr: Thank you.

H.M.Jr: You have taken care of the race tracks.

McReynolds: -- taken care of the race tracks.

H.M.Jr: And taking care of Mr. Magruder when he comes, and Mr. Gaston will write a letter for me, within the hour, to Senator Sheppard.

Gaston: Yes sir.

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

Upham: Nothing important.

H.M.Jr: Harry?

White: (Nods, "Nothing.")

H.M.Jr: Wayne?

Taylor: (Nods, "Nothing.")

H.M.Jr: My feeling is, Wayne, I am, as far as publicity is concerned, I am not going to say anything more about financing until next Tuesday. I am going to sit tight.

Taylor: That checks very much with what Randolph Burgess feels.

H.M.Jr: I haven't

Taylor: Well, that's fine. He says in view of the situation it is probably better not to give any advance notices whether you are going to do cash, but just to keep perfectly free.

H.M.Jr: I talked to George Harrison and I said I thought I should keep absolutely quiet.

White: Tuesday is the earliest possible day you can say anything. Under the circumstances it would seem that every day might make a difference, so that if it were possible

H.M.Jr: I don't have to do anything until Wednesday night.

White: I mean, the other way around, pushing it closer. That is the closest date you can push it?

H.M.Jr: Closest to the fifteenth?

White: No - pushing it closer to the present time.

H.M.Jr: No.

White: No possibility?

Haas: Then you get caught in the middle of the thing.

Lochhead: Hitler's making a speech on the sixth.

H.M.Jr: Even if I could, Harry, do it tomorrow, I wouldn't.

White: Well, my thought was a simple one. The way the situation is, it is best to get it over with as soon as possible.

H.M.Jr: Well, I just don't happen to agree with that.

Wayne?

Taylor: No, I am absolutely - don't say anything until Tuesday.

H.M.Jr: Check. George?

Haas: Yesterday your reaction of what these men - these economists said on the business situation was very good. There was only, according to our records, only one who said it might get to ninety in December. That was Roberts, of the National City Bank. The rest didn't express, in terms for December, but they gave an average for the year of about eighty-five. You mentioned about that chart, some of the data is not up to date. I think, if it is satisfactory to you, we'll put a slip on as to why they are behind.

H.M.Jr: George, there can't be any reason why the public debt is behind.

Haas: They are waiting for Danny to come back; they wouldn't give us a break-down to make that chart. They said they could make the decisions themselves, but they wanted him to do it.

H.M.Jr: Well for God's sake, let them get busy, will you? That, of all things.

Haas: Well, I knew there'd have to be a whole new chart there.

H.M.Jr: And if I am not mistaken, on American imports and exports, one of those - imports, I think - I think the figures are '37, not '38. One of those charts in there - look them over and have whoever does it check them. There is one there a year behind. One group is a year behind.

Haas: I have a fellow that does it every time.

Here is this sheet on the purchase of surplus commodities. I thought you may want to look at it. It may be well to send Miss Lonigan out to see about it. It may be that they are holding purchases back to pay for this wheat, because it doesn't look very strong.

H.M.Jr: I want to know, where is Wallace going to get the money to pay for a hundred million bushels of wheat?

Taylor: I know.

H.M.Jr: Where?

Taylor: He's going to borrow - Surplus Feed Commodity - borrow thirty million dollars from the R. F. C. The Secretary of Agriculture will indemnify feed surplus commodities against loss through Section 32. They figure it will take seven or eight million dollars.

H.M.Jr: Is that legal?

Taylor: I think so.

H.M.Jr: Sounds absolutely crooked to me. He isn't permitted to spend one dollar beyond one quarter of the Customs receipts.

Taylor: He's only using seven or eight million dollars, and the Comptroller-General has passed on it. That is my understanding.

H.M.Jr: Doesn't he submit a thing like that to the Director of the Budget? He's going to borrow thirty million; has he the authority to borrow?

Taylor: The Federal Surplus Commodities has the authority to borrow.

H.M.Jr: Sounds absolutely crooked to me. Could you write me a memo, when you go back, on what he is proposing to do, so I could submit it to Bell and Oliphant? Because it sounds absolutely crooked. I couldn't understand where he was getting the money. I mean, how can he commit - why, he's making commitment out of Section 32 over and beyond what Congress has authorized. If it is one dollar - you say, how much? A million?

Taylor: Seven million.

H.M.Jr: Even if it's a dollar. Last year's cotton program - he has committed half of this year's, under Section 32, a year ago, and then the rest of it was all committed. It is all ear-marked.

Haast: You might cut down this bill of expenditures for the people on relief.

H.M.Jr: Well, anyway, I'd like to get in on it, because I had a long talk with Hull and Hull is very much upset and very much opposed to it. I mean, we are right back to McNary-Hogan days, and we just keep going. I mean, we have about five agricultural programs; one after another fails. Now he's going to commit us to money we haven't got.

White: Are you interested in the chief reason they advanced their - submitted their

H.M.Jr: Who submitted?

White: The agricultural representatives advanced the chief reason why they wanted to embark on this program, which they said was their only hope to get some kind of a world agreement for restriction of wheat, was to demonstrate to Argentine, particularly, and Canada, that the United States will go into the market to sell wheat if there is no agreement, even if necessary to subsidize it. And unless they embark upon some such program the others will not believe them and will continue to produce as much wheat as they wish.

H.M.Jr: I have seen a lot of stupid, infantile, asinine things done, but I think this is the most stupid

of anything I have seen since I've been in Washington. Of all the stupid, asinine, childish things I've ever heard of, this takes the cake. I mean, I don't know anything as bad. You give Wallace a million dollars and he doesn't know how to use it.

(Over telephone:) Mr. Bell, please.

I mean, he's just drunk with money, and floating ideas. I think he's one of the stupidest men I know.

(Telephone conversation with Mr. Daniel W. Bell, at 10:29 A. M., attached.)

August 30, 1938.
10:29 a.m.

H.M.Jr: Taylor tells me that in order to buy a hundred million dollars of wheat to dump on the world's market, the surplus commodity corporation is going to borrow from the RFC thirty million dollars, and then eventually indemnify them against future section thirty two money. Hello -

B: Yes.

H.M.Jr: I claim it's absolutely illegal, besides being about the most stupid and asinine performance I've yet witnessed. Now - I don't know whether it went through your shop or not, but I wish you'd get, I've asked Eliphant to get on it legally.

B: Uh-huh. Well, I don't know, the day that I was back, late that evening, they called me from the White House and said that the President was advising the Commodity Credit that it approved corn and wheat loans of some kind. I think that must be different.

H.M.Jr: This is to buy a hundred million bushels of wheat and dump it on the world's market, and -

B: And the loss would be -

H.M.Jr: And the loss would be taken by the surplus commodity corporation.

B: By section thirty-two

H.M.Jr: Well, Taylor says they're going to commit themselves in excess of seven million dollars, or whatever it is.

B: Yes.

H.M.Jr: And you and I know that - my figures are rough, I can't - last year as I remember it they committed themselves to sixty or sixty two million dollars on this year's cotton program out of this year's section thirty two money.

B: Sixty five million.

H.M.Jr: Sixty five million.

B: Yes.

H.M.Jr: And all the rest - that when you and I went in and tried to get them to get money to buy this food to give these starving people, everything was committed.

B: Yes, they've only got, as I recall, the beginning of the first year about seventeen million dollars to play with.

H.M.Jr: Well, I wish you'd put your best man on it, because you and I are here to protect the President against this kind of thing.

B: All right, I'll get a memorandum on it right away.

H.M.Jr: I mean - there's - they say the Comptroller has approved of it, but that doesn't mean anything to me. I mean you - you and I have got to protect the President.

B: Yes, I'll look right into it. Right away.

H.M.Jr: What?

B: Yes, I'll do it right away.

H.M.Jr: Thanks.

B: Right.

H.M.Jr: I don't know how you feel about it, Wayne, but I told you how I feel about it.

White: They've got a very tough problem.

McReynolds: Customs receipts are down pretty bad.

H.M.Jr: Granted, Harry; they have got a tough problem, but we just make ourselves a laughing stock; the Argentine and the others just sit back and laugh at us. We've lost the world market through this stuff. We sit here, and Wallace uses method after method, each one a complete failure. I don't know of anyone whose methods of handling the thing have been one failure after another.

I want you, George, to start back - I'd start back - go back when the Farm Board was first started, see, and give me the dates and techniques which have been used, right straight through, by different commodities to control. I want you to put your best research man on it. Take cotton. Let's go right on down through; let's take wheat; let's take tobacco.

My mind is - I have seen Wallace take one method after another, and just lay them on top of each other, and after each method fails, he takes another one, and besides completely upsetting the economy here, while Mr. Hull goes ahead with his trade treaties, and Wallace does this without even consulting Hull; never told him. Mr. Hull never knew anything about it until he read it in the papers. He just does one thing right on top of another. If it did the farmers any good, fine, but it doesn't do them any good. It takes one billion to a billion and a half dollars. If I got my money's worth, I'd say, fine - three cheers. It's just superimposing each technique, but each one is a failure.

Now he's going to dump this stuff on the world market. We've got this program of taking care of our own people and feed them. We're not going to do that. If Mr. Ickes wants to build houses and get fine houses and low rents, fine; at least we are getting something for our money. This other thing is just in a rat hole. This is just money down a rat hole. Wallace is just a scatter-brained

person. He gets rattled; he just tries one thing after another - not only the Treasury and the Director of the Budget.

Haas: Mr. Secretary, do you recall the President gave you a memorandum on this subject a few months ago, along with others - a very good memorandum, upholding it. I thought it came from Agriculture. That was some months ago.

H.M.Jr: I want to take absolutely analytically, cold-blooded things that have been done by Commodity announcements, tax exhibits - going back to whenever this thing first started, to the official announcement. How much it cost, what it did, just the succession, one right after another. I'd like to take corn, wheat, cotton, and tobacco. Do you think of any other?

Taylor: Dairy products would be one.

Oliphant: Pigs.

Haas: There are a whole raft of them.

H.M.Jr: Well, take not to exceed six, and be fair, but I don't want the editorial interpretation.

Haas: Oh no. Just what they did.

H.M.Jr: I just want what they did.

Taylor: On this particular one, there is quite a long story attached to it I can give. It will take a little time.

H.M.Jr: Well, give it, but I'd like this thing.

White: I think, Mr. Secretary, you ought to hear a little more about the pros and cons.

H.M.Jr: Well, what I am saying is in the room. We had a committee on this thing. You see, this is the first year we haven't had a drought in five years.

Gaston: Of course, if we get a war, they'll make money on their investment of a few - a hundred million bushels.

Taylor: They want to get it in the market before the Canadians, the Argentines, and so on, can get it in there. May not use all their hundred million

bushels; partly for relief, partly for support, and so on.

H.M.Jr: I don't suppose Brazil, in what they have done in coffee means anything to anybody. We just haven't got money enough to do these kind of childish performances. There isn't money enough. You can't give Wallace money enough to go against mother nature. There isn't money enough in the world.

Haas: Sometime when you get a few minutes, I'd like to have you take a look at these figures on estimates of expenditures.

Oliphant: I'd like to check on the fact that he didn't mention it to Mr. Hull, which is unbelievable.

Taylor: Well, there is a little misunderstanding there.

Oliphant: It's Hull's committee you are talking about - Hull's Policy Committee?

Taylor: What happened was that there was a leak which was, I would say, an unfortunate leak.

Oliphant: I suppose Agriculture did take it up with the State Department.

Taylor: It isn't a pretty story at all.

H.M.Jr: Mr. Hull, who is as truthful a person I know, told me this morning he didn't know a thing about it until he read about it in the paper, and when he was asked in his press conference what he thought about this, he was surprised. And then Wallace came running over to see him and he rewrote Wallace's Canadian speech for him, after Wallace had spoken to him about it.

Taylor: Well, the milk was spilled, really, before that.

H.M.Jr: But again, I needn't say, I've got to have a place to blow off, and this is the place, and that's that. We'll get to some of this stuff.

Well, George, that's a nice research job there. He's got to go right back to the beginning.

Gaston: I think it might load him down too much if he takes on too many commodities.

Haas: We'll have to go back to Mr. Wallace, Sr.

H.M.Jr: I thought you'd have to go back to - who was the fellow in the Bible?

Taylor: Joseph.

H.M.Jr: Joseph. They tell me in 700 B. C. there was a China
Wallace has read it.

Gaston: The Samaritans read it, a little ahead of Joseph.

H.M.Jr: All right.

Gaston: I was going to suggest that you limit this thing to wheat, because if you get into half a dozen commodities you are going to make this complicated and a long job.

H.M.Jr: Try wheat, and please try cotton too. Wheat and cotton. Start it on wheat and cotton.

What else, Herbert?

Gaston: Nothing. I've another matter I guess I'll mention to you when I bring in that Sheppard letter.

H.M.Jr: Where is that pretty picture, taken of Magill and the rest of you yesterday? I didn't see that.

Gaston: Oh, that's for the files.

H.M.Jr: I see.

Klotz: For the trash basket.

Magill: That was a very big disappointment.

H.M.Jr: Herman?

Oliphant: Well, the biggest thing that's hit my shop since I've been in the Treasury is the Executive Order which puts all lawyers under Civil Service unless the President specifically exempts them.

H.M.Jr: Who drew that up?

Oliphant: Civil Service Commission.

H.M.Jr: Mac trying to put one over on you?

McReynolds: No; they didn't even show it to me.

H.M.Jr: Have any of your men qualified?

(Laughter)

Oliphant: They are not that good! They are all in. I am not worried about the men that already have the job; it's a matter of recruiting new lawyers.

H.M.Jr: Why don't the lawyers' unions get busy and fight it?

Oliphant: I understood that the New York Lawyers' Guild are opposed to exempting any lawyers from Civil Service. I just wanted to advise you that it's a serious matter and the Solicitor General had all the legal departments together, and a committee was appointed, with Huntington Cairns chairman, to work out a program.

H.M.Jr: Would this cover the monopolies? I think this is good, Herman. It may be the hardest thing that's hit you, but it's the first laugh I've had today. I'll bet you everybody in the room is for it.

Oliphant: For the Executive Order?

H.M.Jr: Yeah.

Oliphant: Sure.

H.M.Jr: Why should a man, an expert on smut, be the Chairman of this committee?

Oliphant: He's become an expert on a lot of other things. Incidentally, this committee was appointed, and unanimously adopted the program we worked out, the suggestion that we favored bringing them in under Civil Service when they are selected.

McReynolds: I took what you prepared, as far as lawyers are concerned, and sent it along as a part of that letter.

H.M.Jr: Well, I'm upholding the hand of the President.

Oliphant: I want this man to have a talk with the President.

H.M.Jr: Why should he argue? He's no lawyer.

Oliphant: He's an expert on Civil Service.

Upham: Mr. Secretary, they have somewhat complicated the bank examiners service too, by putting bank examiners in the F. D. I. C. under Civil Service and leaving out those in the Comptroller's Office, and Federal Reserve. There are some complications under that, that will have to be looked in to, too.

H.M.Jr: Put them, and all these deputy collectors under Civil Service too?

Taylor: Yes sir.

McReynolds: The Deputy Collectors of Internal Revenue can only be put under by law. It's all done by Executive Order and the President can undo any of it by Executive Order, so if we get into any trouble

H.M.Jr: Well, we won't worry about that today.
What else, Herman?

Oliphant: Nothing. I've one matter I want to report to you on a little later.

H.M.Jr: Are you (Magill) coming in at eleven?

Magill: (Nods "Yes.")

I said, "Are you aware of the fact that Arthur Krock and Martha Blair are very close to Sissy Patterson and that Sissy Patterson is the headquarters in Washington for boosting Kennedy for President". He said he didn't know it but it was interesting.

I pointed out to him the fact that since last June or July the German stock market had been dropping very rapidly and asked him if he was aware of it and he said he was not. I asked him, if it was agreeable to Cordell Hull, whether he would let me send Royal Tyler to Germany at once to make a study of economic conditions for us. He said, "Fine"

I asked him if he knew where I could get hold of a copy of the report of this Marine Captain in China - Captain Evans Carlson. He said I could have the report.

I told him that we need about 2½ billion dollars new money from now till July 1st next year and that I was planning to raise 500 million of this by selling RFC securities; that I didn't propose to make any further announcements as to my financing plans until Thursday morning, September 8th, as I wanted to see what happened in Europe. He said, "That's fine". I said, "I hope to be able to raise 8 or 9 hundred million dollars now and possibly the same amount in December". He said, "That would be wonderful and, he said, if you need any more money for the balance of the year, raise it through bills". He said, "If you didn't have to go in the market I think the psychological effect would be fine".

He said he would return to Washington Monday night and that he would be available either then or at Hyde Park or the telephone to consult with.

He is very much interested in the report I gave him of my telephone conversation with Cochrane about conditions as they were in Europe to-day. He seemed to think that the Germans might be selling their Swiss francs because they might be contemplating marching through Switzerland.

He said, "Don't upset the apple cart in Maryland". I said, "Don't worry, we won't". I said, "But don't you love my defending the rights of the employees to contribute voluntarily to Democratic campaign funds". He said, "I think it's a scream". He said, "Whats the matter with Sheppard anyway" and I said, "I don't know. If Sheppard really wanted to find something there is plenty to find outside of the Treasury". He said, "I don't really think Sheppard does want to find anything".

8

August 30, 1938.
9:34 a.m.

Operator: Go ahead.
George Harrison: Hello.
H.M.Jr: Hello.
H: Henry?
H.M.Jr: Good morning.
H: I wanted to call you and just say "hello" and welcome you back.
H.M.Jr: I thank you. I asked for you yesterday, and they said you weren't in.
H: And I wanted to get you - I tried yesterday morning hoping I might get you for lunch, but you - I wasn't even early enough to get you for breakfast apparently.
H.M.Jr: Where are you now?
H: I'm in New York. I meant when you landed yesterday.
H.M.Jr: Oh, you would have had to get up earlier. When are you coming down?
H: Well, we're having a meeting with you Thursday, I understand.
H.M.Jr: Yes, that's a long way off. Are you coming down before?
H: Well, I can come down, so I can come down - get there tomorrow afternoon.
H.M.Jr: You could?
H: Yes.
H.M.Jr: Well, I may want to talk sterling to you and I'll see how the thing goes today, see?
H: All right.

H.M.Jr: And you know I've put off the financing until September 8th.

H: Yes. Well, that makes it close but we can do it all right.

H.M.Jr: Well, the way I told Burgess, or at least I haven't talked to Burgess - Madison, I think it's more important to price it right than the policing.

H: Yes, that's right.

H.M.Jr: I wanted police but I want it priced.

H: Yes, that's quite right.

H.M.Jr: And with things the way they are now, I need every hour.

H: Yes, well I - I think that's right, you may - if things bust loose, you may have to decide just to do nothing.

H.M.Jr: Well, fortunately I am in that position that I can do nothing.

H: Yes, surely. And your statement to the press will permit of your ~~now~~ ^{getting out} if you wanted to.

H.M.Jr: Well I doubt if I'll say anything more to the press until next Tuesday.

H: Well, I was going to suggest Henry, I wouldn't say another word to them now.

H.M.Jr: No, no.

H: I think you've said enough. I wouldn't say another word at all.

H.M.Jr: Yes.

H: And that'll give you - because the more leeway you've got this next ten days the better off you'll be.

H.M.Jr: Well, that's the way I feel.

H: Yes, well I'm glad you do, because I feel it very strongly, so does Burgess.

H.M.Jr: Well, I thought I'd just sit tight until Tuesday. We'd talk things over and we'd have two or three alternate plans.

H: Yes.

H.M.Jr: But, that - we'd wait and see what happens in Europe.

H: Yes. That's right. Knoke is in the process of talking to Bowlton now.

H.M.Jr: Oh!

H: And his call was cut off, they had bad static or something.

H.M.Jr: Well, tell him as soon as he's through to call me, will you?

H: He'd only talked a minute but they're having a terrible time there, they've sold over twenty-five million dollars already.

H.M.Jr: Twenty-five million dollars.

H: And - Bowlton also said that the news from Prague and Berlin is more depressing.

H.M.Jr: Good heavens.

H: Than yesterday, due in large part apparently to the fact that Berlin has called out more reserves.

H.M.Jr: Uh-huh. Well -

H: Well, I'll - we'll call you as soon as he's finished his talk.

H.M.Jr: You know I went the limit last night. I gave up - I shaded that quarter you know. Did they tell you about that?

H: No.

H.M.Jr: Well at four-thirty, on Knoke's suggestion, we operated on one-eighth.

H: Yes.

H.M.Jr: And we bought everything at 4.87.

H: Yes.

H.M.Jr: We took everything last night at 4.87.

H: Yes.

H.M.Jr: Just as a gesture.

H: Yes.

H.M.Jr: And - we didn't get much, but we got a hundred and fifty thousand pounds.

H: Yes.

H.M.Jr: Took everything that they had.

H: Yes.

H.M.Jr: Just as a gesture.

H: Uh-huh.

H.M.Jr: So, if you've got any more suggestions down there, I'd be delighted to receive them.

H: All right. Well, we may have after we get Bowlton's call.

H.M.Jr: But - you say Hitler has called out more?

H: Well, as Knoke understood it, he said the news from Prague and Berlin is more depressing owing to the fact that Berlin has called out more reserves.

H.M.Jr: Uh-huh. I see. Well, as soon as he's through, have him call me.

H: Yes, I will.

H.M.Jr: Thank you.

H: Fine.

August 30, 1938.
9:49 a.m.

Cochran: Good morning, Mr. Secretary.

H.M.Jr: How are you?

C: Fine. I hope you had a good trip?

H.M.Jr: Very good trip.

C: Fine.

H.M.Jr: Cochran.

C: Yes, sir.

H.M.Jr: I'd like you to do is, call up a few of your Central Bank friends.

C: I'm sorry, I didn't hear you.

H.M.Jr: I want you to call up a few of your Central Bank friends - Holland - Hello?

C: Hello.

H.M.Jr: Can you hear me, Cochran?

C: Hello.

H.M.Jr: Hello.

C: Hello.

H.M.Jr: Do you hear me now?

C: But I didn't get any of what you first said.

H.M.Jr: I want you to call up a few of your Central Bank friends.

C: Yes, all right.

H.M.Jr: Holland, Belgium -

C: Holland -

H.M.Jr: Belgium

C: Which was the second, Belgium?

H.M.Jr: Belgium.

C: Yes.

H.M.Jr: Switzerland.

C: Yes.

H.M.Jr: Say Sweden. Hello.

C: Yes.

H.M.Jr: And ask them what they think of the general situation.

C: Yes.

H.M.Jr: Also what they think of the possibilities of there being a war.

C: Yes.

H.M.Jr: And after you've talked to them, call me back.

C: All right.

H.M.Jr: I mean I want to get their estimate of what they think the chances are that there's going to be trouble in Czecho.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: Do you get the idea?

C: Yes, sir.

H.M.Jr: Also how they feel about sterling having broken through the old par.

C: Yes.

H.M.Jr: And what they think is going to happen to sterling.

C: Yes.

H.M.Jr: Now, I'd do it in a discreet manner, but I'd like to get three or four Central bankers scattered around - get their opinion.

C: Get their opinion - three or four scattered around.

H.M.Jr: Yes.

C: You mentioned Holland, Belgium and Switzerland. Did you mentioned a fourth or not?

H.M.Jr: Yes, Sweden.

C: Sweden.

H.M.Jr: Yes.

C: I didn't get the fourth. I have it.

H.M.Jr: Good. And just see how they feel as to the present situation.

C: Yes.

H.M.Jr: And get a composite viewpoint and then call me back.

C: All right.

H.M.Jr: Because they're having a particular bad day today in London.

C: Yes, yes, I assumed that they had broken through to 4.85 and 7/8ths.

H.M.Jr: Yes. How - is the pressure very heavy on - in Paris?

C: No, it's not so heavy here today.

H.M.Jr: Good.

C: I haven't the figures yet, but they're holding it at 178.32 without much evidence of - of much of a rush.

H.M.Jr: Good.

C: But the whole thing is - is London today.

H.M.Jr: Well, you do this telephoning and then - I'm -
I'd particularly like to have the reaction before
one o'clock our time.

C: So you want it back this evening yet.

H.M.Jr: I want it before one o'clock, Washington time.

C: All right, sir.

H.M.Jr: And we're on standard time, six hours
difference.

C: Six hours difference.

H.M.Jr: It's ten o'clock here.

C: Yes.

H.M.Jr: So make every effort to - whatever you've got,
call me by twelve-thirty - see, call me within
two and a half hours.

C: All right, sir.

H.M.Jr: Or better, call me by - call me within two
hours.

C: Within two hours.

H.M.Jr: Yes, call -

C: I'll get busy right away.

H.M.Jr: Call me within two hours.

C: All right. It's just four o'clock now so I
should call you by - before six o'clock.

H.M.Jr: That's right.

C: Good.

H.M.Jr: All right.

C: All right, sir.

H.M.Jr: Fine.

C: Goodbye.

10

August 30, 1938.
11:46 a. m.

H.M.Jr: Hello.

Operator: Mr. Cochran.

H.M.Jr: Hello.

H. Merle

Cochran: Hello, Mr. Secretary.

H.M.Jr: Go ahead.

C: I talked with Tripp at Amsterdam.

H.M.Jr: Yeah.

C: He thought the decline in sterling below 4.86 was purely temporary, resulting from a flight of continental capital, frightened by the Czech situation.

H.M.Jr: Uh huh.

C: He thought flight bonds were principally those held in London on continental account.

H.M.Jr: Uh huh.

C: He thinks the holders do not want gold.

H.M.Jr: The what?

C: But are seeking dollars; ^{he} /is convinced that this is a flight out of Hague.

H.M.Jr: Ah - repeat that.

C: I say, since the people do not want gold

H.M.Jr: Yeah.

C: as much as dollars

H.M.Jr: Yeah.

C: he feels that this is evidence that a real flight of capital away from Europe is involved.

H.M.Jr: I see.

C: He felt that the British authorities were opposed to this drop and were doing their utmost to check it.

H.M.Jr: Uh huh.

C: When he talked by telephone with his friend in London earlier in the day

H.M.Jr: Yeah.

C: he was informed that they had already spent twenty-two million dollars.

H.M.Jr: Yeah.

C: Ah - then consequently gold will be shipped to you people by the Bank of England, rather than go into the hands of brokers or private arbitrauers.

H.M.Jr: That's right.

C: Then Tripp said the Dutch Board was strong today and required no support.

H.M.Jr: Yeah.

C: People in Amsterdam were naturally following the Czech crisis intently...

H.M.Jr: Yeah.

C: there was no

H.M.Jr: No what?

C: We convinced him, in spite of all the talking, no one wants to start a war, not even Hitler.

H.M.Jr: Yeah.

C: He is convinced that there will be no war. He says this crisis in international politics has developed just like crises developed in international conferences....

H.M.Jr: Yeah.

C: and they get over them.

H.M.Jr: I see.

C: The people were calmly looking forward to a celebration of the fortieth anniversary next week.

H.M.Jr: Say that again.

C: I said, he said the Dutch people were calmly looking forward to celebrating next week the fortieth anniversary of their Queen's reign.

H.M.Jr: I see.

C: At 4:45 I talked with Janssen, the Governor of the National Bank of Belgium, at Brussels.

H.M.Jr: I see.

C: He says that the monetary authorities in London are very practical people, and deal with their problems in the most practical manner.

H.M.Jr: Talk a little slower.

C: He thinks the monetary authorities in London ...

H.M.Jr: Yeah.

C: are very practical people.....

H.M.Jr: Yeah.

C: ... who deal with their problems, as they come up, in the most practical manner

H.M.Jr: Yeah.

C: and they buy and sell at the best possible price.

H.M.Jr: Yes.

C: He said that the mere fact that trade treaty negotiations are still going on between the United States and Great Britain

H.M.Jr: Yeah.

C: convinces him that neither party has any plan in mind for altering its currency.

H.M.Jr: Yeah.

C: He said that if the British had such a plan either he or ourselves ought to know something about it.

L.V.Jr: Yes.

C: He said he knew absolutely nothing of such a plan....

L.W.Jr: Yeah.

C: though he's in constant contact, with the British.

L.V.Jr: He was?

C: Yes.

L.W.Jr: In contact with them?

C: That's right.

L.V.Jr: Yeah.

C: Ah - he said that the international situation was difficult; he definitely is not pessimistic, and thinks that his Government is not pessimistic.

L.W.Jr: I see.

C: Ah - he referred to his own experiences in the war....

L.W.Jr: Yeah.

C: Incidentally he was one of their first aviators.

L.W.Jr: Yeah.

C: And he said that he hoped there were still enough people in Germany, Great Britain, and France, who are mindful of their own experiences of twenty years ago, to use their good sense and avoid any conflict now.

L.W.Jr: Yes.

C: He said his bank had gained a little gold yesterday just to let them see that the situation was not imperative. To-day it isn't quite so good but still nothing to be upset about.

L.W.Jr: Yes.

C: He referred to a statement which he had made at their meeting of his Directors yesterday to the effect that no negotiations are being carried on by Belgium to any country modification of any sources on the monetary status of Belgium.

H.M.Jr: Yes.

C: You have heard these rumors, probably, that Belgium was negotiating with Great Britain toward attaching the belga to the pound.

H.M.Jr: Yes.

C: But this denies that and I understand confidentially from him that he certainly wouldn't consider any such idea at present just to give reason for more fears about currency.

H.M.Jr: Yes.

C: Then I got Stockholm at four-thirty; De Witt was away. I talked with the Deputy Governor, Walberg. He said that they had been quite anxious there to-day; opinion was very nervous this morning. This afternoon it is easier on news from London and Paris to the effect that the Czech situation was not quite so pressing. He said that he understood the pressure on sterling had been very heavy and he had the word that both the Swiss and the Dutch have been selling sterling for dollars. He admitted that his own bank, that is, the had also been selling sterling against dollars.....

H.M.Jr: That's right.

C:and he said part of this resulted from the fact that he had had to take in so much sterling from his own people.....

H.M.Jr: I see.

C:so he turned it on into dollars.

H.M.Jr: Ah-ha.

C: And he started to ask me questions. He wanted to know what would happen to the tri-partite agreement if sterling should go much lower than 486.....

H.M.Jr: Ah-ha.

C:as he had frequently heard in the past it was going to do.

H.M.Jr: Yes.

C: He heard that gossip and I said well it's just crossed out for one day. I said, that question hasn't arisen.

H.M.Jr: Yes.

C: Then I talked with Bachmann at.....

H.M.Jr: Wait a minute - wait a minute - ah - Sweden gave us an order to sell a million dollars worth of sterling at the market.

C: Who did?

H.M.Jr: Sweden.

C: They're the most nervous of any.

H.M.Jr: Well we took care of it.

C: Yes.

H.M.Jr: We bought it.

C: Is that so.

H.M.Jr: Yes.

C: They're the most nervous I talked to.

H.M.Jr: Yes. Go ahead - Bachmann.

C: I talked with Steidway; he said the pound had been very weak this morning and that the Swiss had sold sterling for dollars.

H.M.Jr: Yes.

D: This afternoon sterling is better in Switzerland with orders coming on from abroad to buy sterling.

H.M.Jr: Really?

C: And I asked him - I said who wants to buy sterling? He said Germany and I said, "What are the Germans paying for sterling with".....

H.M.Jr: Now wait a minute - hold the wire - just a minute - ah - yes, go ahead.

C: I asked him what the Germans were using to pay for the sterling that they were buying this afternoon. He said that they had fairly good sized Swiss franc account yet - that they were converting the Swiss francs into sterling.....

H.M.Jr: Ah-ha.

C:which I thought very significant.

H.M.Jr: Very.

C: And as for the political situation, is quite blue.

H.M.Jr: Just a moment - wait a minute.

C: He said he was not very hopeful on the political situation, he wanted me to come up and see him the first day I could.

H.M.Jr: Ah-ha, well now what - how do you interpret the Germans selling Swiss francs and buying sterling. How do you interpret that,

C: I think this thing is still bluff, that there's nothing going to happen and I think some of those German bankers or even officials might be on the inside and proceed to purchase/sterling at this rate. some

H.M.Jr: Yes, well that's very interesting.

C: From Bachmann. Then I checked with Cariguel just a little while ago.....

H.M.Jr: Yes.

C:and he had just talked with London at quarter past five and they over there thought that the total losses for the day would reach ten million pounds.

H.M.Jr: In England?

C: Yes.

H.M.Jr: Yes.

C: That much.

H.M.Jr: Ah-ha.

C: And he said that the whole thing was people wanting to get away from London, particularly since they feared/air raids.
the

H.M.Jr: Yes.

C: And he said the Scandinavian Central Banks were withdrawing ear-marked gold from London rapidly.

H.M.Jr: Yes.

C: I referred to withdrawing of the gold. He said, "No, it has speeded up to-day".

H.M.Jr: Yes.

C: And he said that Stockholm had even communicated with him here in Paris, asking that one thousand pounds of gold which they had here be shipped out.

H.M.Jr: One thousand.

C: One thousand pounds.

H.M.Jr: My gosh.

C: Can you beat that?

H.M.Jr: No.

C: And he said that his bullion department was being swamped with orders. I mean to get ear-marked gold out of here.

H.M.Jr: Out of France.

C: Yes. And that London is having the same proposition.

H.M.Jr: Uh huh.

C: And for his operations to date he had only lost
seven hundred thousand pounds.

H.M.Jr: Well, that's not bad.

C: That's not bad. So he's kept his same rate against sterling, of course, while it's very weak.

H.M.Jr: Yeah.

C: Then ah - I think that gives a pretty fair picture of the

H.M.Jr: Ah - that's a good job, Cochran; I'm very much pleased. Are you going to put this in a cable.

C: I have it - part of it in form so I can cable it on.

H.M.Jr: Yes, I would.

C: And I can get that one little paragraph. So on Saturday I spent a few hours with Jacobson

H.M.Jr: Yes.

C: The Swedish economist of the B. I. S.

H.M.Jr: Yes.

C: He had just come back from Helsingfors...

H.M.Jr: Yeah.

C: where they had a several-day conference of Scandinavian central bankers and economists.

H.M.Jr: Yeah.

C: And he said that those countries were growing closer and tighter together, as a block to resist Germany.

H.M.Jr: Uh huh.

C: He said that the general feeling up there was that Hitler was bluffing and would not resort to war.

H.M.Jr: Uh huh.

C: And he said the German situation has become worse; that business men there were losing confidence

H.M.Jr: Yeah.

C: and dumping securities

H.M.Jr: Yeah.

C: ... and that labor was unhappy....

H.M.Jr: Yeah.

C: over the high cost of living.....

H.M.Jr: Yeah.

C: ... that over being withdrawn from their normal employment, to go into military construction, or military duty.

H.M.Jr: Yeah.

C: And he had two or three more items that I can put in a cable.

H.M.Jr: Good.

C: But that gives about the general idea, I think.

H.M.Jr: Well, that's very good; I'm very much pleased. Now let me ask you a question.

C: Yes sir.

H.M.Jr: Did the Paris papers carry anything about what I said when I arrived?

C: Yes, yes, and one or two papers played up, quite a bit, your statement about - the one paper carried ah - ah - a big statement on your reference to prosperity in the provinces here.

H.M.Jr: Yes.

C: And, ah, the financial papers, this morning, carried the story of - ah - improved outlook here, since 1936, and so on. It was a good story.

H.M.Jr: Well, you might send me those clippings, will you?

C: Surely, I - I'll send you the clippings.

H.M.Jr: I don't think I did any harm.

C: Oh no, no, not at all.

H.M.Jr: No.

C: And right now, when, when these people needs to put up a bold front, that helps.

H.M.Jr: Well, I knew what I was doing.

C: Surely.

H.M.Jr: And I believe it.

C: And I put my continued story clear up to South Hampton in the pouch which left today.

H.M.Jr: Good.

C: And you'll have everything on the fifth.

H.M.Jr: Fine.

C: I've heard nothing from these people except the day after you got back I talked with the red-head who said that - ah -

H.M.Jr: Wait

C: --- across the channel - had been doing anything that the Central Banks thought should be done.

H.M.Jr: Is your red-head a male or a female?

C: (Laughs) This is a male.

H.M.Jr: This is a male; I couldn't remember.

C: The one who was down with us.

H.M.Jr: Well, that makes it a male.

C: Ha, yes. Anyway, ah, they - they have some other worries right now.

H.M.Jr: All right.

C: Well, you - you'll have the whole story on the fifth.

H.M.Jr: Yeah. Well, we're going to - well, all right, and you get this all into a cable.

C: It'll go out yet this evening.

H.M.Jr: Fine.

C: Goodbye.

H.M.Jr: Goodbye.

August 30, 1938.
12:03 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull coming on. Secretary Morgenthau is on the line.

H.M.Jr: Hello.

Cordell
Hull: Hello. Mr. Secretary?

H.M.Jr: Yes.

H: Just one moment, sir.

H.M.Jr: Hello.

H: Hello.

H.M.Jr: Cordell?

H: Yes, sir.

H.M.Jr: I had Cochran call up the Central Bank in Holland.

H: Yes.

H.M.Jr: Belgium, Sweden and Switzerland.

H: Yes.

H.M.Jr: And the foreign exchange thing is a shade better now.

H: Oh, it's improving.

H.M.Jr: A shade.

H: Yes.

H.M.Jr: The most interesting thing is, Holland and Belgium are not as worried as some of the others.

H: I see.

H.M.Jr: Holland is convinced that there will be no war.

H: Yes.

H.M.Jr: Belgium not so pessimistic.

H: Yes.

H.M.Jr: And Sweden very anxious. And a few minutes ago sold us a million dollars worth of sterling.

H: Yes, I see.

H.M.Jr: Here's the most interesting thing of all.

H: Yes.

H.M.Jr: Switzerland - they have - an order ... for sterling.

H: Yes.

H.M.Jr: And it's coming from Germany.

H: I see.

H.M.Jr: And I thought that that was important enough to give it to you.

H: Yes, sir.

H.M.Jr: The Germans, in Switzerland, are selling their Swiss francs and buying pound sterling.

H: I see.

H.M.Jr: So it's just a straw in the wind.

H: Yes.

H.M.Jr: So -

H: Well, that's very interesting.

H.M.Jr: And I give it to you for what it's worth.

H: Yes.

H.M.Jr: I told Cochran to put it in a cable, but things are moving so fast I wanted to tell you.

H: Yes. Well thank you very much Henry.

- 3 -

H.M.Jr:

All right.

H:

Thank you very much.

August 30, 1938.
12:13 p.m.

H.M.Jr: Hello.

Operator: Mr. Knoke. Go ahead.

H.M.Jr: Knoke?

Knoke: Yes, sir.

H.M.Jr: Were you talking to Archie?

K: Yes.

H.M.Jr: I just want to interrupt a minute. How would you interpret that the Germans are selling Swiss francs in Switzerland and buying pound sterling? Hello.

K: Yes - they are selling Swiss francs and buying -

H.M.Jr: Pound sterling.

K: Pound sterling - the most generous interpretation would be that they want to go into dollars and the best dollar market is in London, and they -

H.M.Jr: But why should they go from Swiss francs to sterling?

K: Because that's where they may have there some funds.

H.M.Jr: Oh!

K: That they are trying to get their funds out of Europe, as everybody else, and they are doing it via London.

H.M.Jr: But no, this is - this is - this operation is with Bachmann - they're doing this in Switzerland.

K: Yes, but you said they are taking -

H.M.Jr: They're selling - Bachmann told us that the Germans are selling Swiss francs.

K: Yes.

H.M.Jr: And buying sterling.

K: Yes.

H.M.Jr: In Switzerland.

K: Yes. Why that's all right Mr. Secretary, then they wanted - my thought is that they want to go into dollars ultimately.

H.M.Jr: I see.

K: And the best market for dollars is in London.

H.M.Jr: I see.

K: And they - there is a good market for sterling in Switzerland, therefore they operate in sterling in Switzerland and then use the sterling in London to go into dollars.

H.M.Jr: I see. Now, was Archie through with you?

K: No, I'm calling him back.

H.M.Jr: Oh! Well -

K: May I just say to - to you what I said to him? I called Bolton two minutes ago.

H.M.Jr: Oh please.

K: And the total done so far as - for a total amount of dollars sold by him is twenty eight million, hence he spoke to me this morning - the pressure has lessened very considerably.

H.M.Jr: Yes.

K: There's only one statement out of the Cabinet Meeting to the effect that England was acting as mediator between Czecho-Slovakia and Germany.

H.M.Jr: Uh -

K: That is the only thing that had come out of the meeting.

H.M.Jr: But the pressure is less.

K: The pressure has considerably lessened. Those were his words.

H.M.Jr: Well, maybe three - four o'clock this afternoon, we can move in there a little bit.

K: He will need - he asked could he expect to get an increase in the gold order, because he has exhausted that today.

H.M.Jr: What do you mean?

K: Well, the - the usual order we give him - seven hundred thousand ounces of gold a week.

H.M.Jr: Oh!

K: Well, he - he has used that up today.

H.M.Jr: Oh!

K: So I just discussed it with Lochhead and Lochhead feels that it should be renewed - should be increased.

H.M.Jr: Well, tell - finish talking with Archie and tell Archie to come in to see me.

K: All right, sir.

H.M.Jr: See.

K: Thank you.

13

August 30, 1938.
3:03 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Walter Stewart: Hello.

H.M.Jr: Walter Stewart?

S: Yes, hello Mr. Secretary.

H.M.Jr: How are you?

S: Very good.

H.M.Jr: Fine. Mr. Stewart, the reason I'm calling you is this. As you can see by the papers -

S: Just - I can't quite hear you.

H.M.Jr: You can see by the papers that there's a great excitement in the foreign exchange market, see?

S: Yes.

H.M.Jr: And if this thing continues for another day or so, I'd very much like if you and Mr. Warren could come down and talk things over with me.

S: Yes.

H.M.Jr: Would - can - will that be possible?

S: We'll do that at your convenience.

H.M.Jr: Well, now how much notice do you want?

S: Well, today is Tuesday.

H.M.Jr: Yes.

S: Just time enough - would you like us to come down for an evening or for some morning talk?

H.M.Jr: Well, which is easier for you.

S: Either one, that suits you. We can make an afternoon train and spend the evening with you, or we make a night train and spend the morning with you.

H.M.Jr: Well, let's say - how about Thursday evening?
S: Thursday?
H.M.Jr: Yes.
S: Yes.
H.M.Jr: How about Thursday evening at -
S: Thursday?
H.M.Jr: At my house, say -
S: Thursday, at your house, in the evening?
H.M.Jr: Seven thirty, yes.
S: Seven thirty, yes.
H.M.Jr: Now, you know where I live?
S: Same place?
H.M.Jr: 2211 - 30th Street.
S: 2211 -
H.M.Jr: 30th.
S: 30th?
H.M.Jr: Yes.
S: That's right.
H.M.Jr: And tell the taxi it's off Massachusetts Avenue.
S: Yes.
H.M.Jr: So that he doesn't take you to Georgetown.
S: Right.
H.M.Jr: Now, I - I'm going to put this up to you. I don't know how Wynn Riefler feels or where he is, but you know he's severed his connections with the Treasury.
S: Yes.

H.M.Jr: But he did say any time the Government wanted him, he'd be glad to come.

S: Yes.

H.M.Jr: Now, if he was available, and I know his relationship to you I'd be delighted to have him come down.

S: Right.

H.M.Jr: But I don't - I mean - I - sort of like to do it through you, if you'd be willing to serve as a sort of intermediary.

S: Well he's - I think he's on Cape Cod.

H.M.Jr: Uh-

S: Just where I'm not sure.

H.M.Jr: Well, it isn't important enough for that, although it may be very important by Thursday if this thing continues.

S: Right. Well, why don't I make certain where he is.

H.M.Jr: Yes.

S: And then get word to him, if you'd like to have us.

H.M.Jr: Well I would, because - well - I mean I looked up his letter, and he did say anytime the Government wanted him he was at it - at their disposal.

S: Yes.

H.M.Jr: And I do need the benefit of talking with people and talking this whole thing over.

S: Right.

H.M.Jr: Because the proportions of the movement is simply stupendous.

S: Yes.

H.M.Jr: And - so if you would get in touch with him -
S: I'll get in touch - I'll at least find out
where he is, and whether he'd be available for
Thursday if wanted.
H.M.Jr: And I'll expect you and Mr. Warren at my house,
Thursday night at seven-thirty.
S: That's very good.
H.M.Jr: Thank you.
S: All right, Mr. Secretary, thank you.

14

August 30, 1938.
3:09 p.m.

H.M.Jr: Hello, Jake.
Jake
Viner: Oh, are you back from your junket.
H.M.Jr: No, I'm talking to you from Russia.
V: Oh, from Russia.
H.M.Jr: Yes.
V: I don't notice the Bolshevik accent.
H.M.Jr: Well, I can do with a little accent for you.
V: Thank you.
H.M.Jr: Where are you my boy?
V: How am I?
H.M.Jr: Where are you?
V: At home.
H.M.Jr: What's 'at home'? Chicago? Hello.
V: In Chicago.
H.M.Jr: Oh, I see.
V: In the house.
H.M.Jr: Oh, I see.
: Well, I'm calling you up for this. I've invited
Walter Stewart and a couple of others to come
down to talk over this European situation.
V: Yes.
H.M.Jr: And they're all coming, and I'd like to invite
you.
V: Well, I'm afraid - what date is it?
H.M.Jr: Thursday.
V: I can't do it.

H.M.Jr: Why?

V: I have a speaking engagement in St. Paul on Saturday and conferences in Minneapolis on Sunday, Monday and Tuesday.

H.M.Jr: I see. Well -

V: You see, if I were there - you mean Thursday morning?

H.M.Jr: Well, they were coming Thursday night.

V: Thursday night. You see, - I couldn't do it - Thursday night - let's see - I couldn't make it.

H.M.Jr: Uh-huh. Well, supposing I change the time - put it earlier.

V: Earlier than Thursday?

H.M.Jr: Yes. .

V: I hate to say no. I - you see, I've got to get ready for that Minneapolis business, I've been putting all off, and I have to plug at it the next three days.

H.M.Jr: Well, let's be frank with one another. Do you want to come down ever? At the request of your Government?

V: Why, sure.

H.M.Jr: What?

V: I'll tell you - to show you that that's so, I'll say that I'll come down - this is my program - you see, this is short notice. I'll tell you this is my situation.

H.M.Jr: Well -

V: I have this - this series up in Minneapolis, until the day after Labor Day.

H.M.Jr: Yes.

V: And then I had promised my boy a week or ten day fishing trip.

H.M.Jr: Yes.

V: Now, that I may cancel and if it's something important I'd cancel it. The second half of September I'm free.

H.M.Jr: I see. Well, what I - well, that certainly shows your good faith to cancel your trip with your boy.

V: Yes.

H.M.Jr: What I've got, Jake, is this, the movement into the dollar is simply stupendous, the last two days. Hello.

V: Yes, I'm listening.

H.M.Jr: And - it isn't into gold, it's into the dollar, see?

V: Yes.

H.M.Jr: I mean, that's for the last two days.

V: Yes.

H.M.Jr: And - what - after all, there are only three or four people in the United States who - whose advice is worth anything or who understand it.

V: Yes.

H.M.Jr: And when these emergencies come - I mean it's a great comfort to me to be able to sit back and talk these things over.

V: Well, I'll tell you - I'm still a citizen of the United States.

H.M.Jr: Yes.

V: And I'm still a friend of Henry Morgenthau.

H.M.Jr: Right. Well, and I'm still an admirer of Jake Viner.

V: Thanks.

H.M.Jr: Now, let's leave it - if this thing gets much worse or if - whether - if we - if the Germans jump, see?

V: Yes.

H.M.Jr: And do something, then I'm going to ask you - no matter what it is - if you'd come, you see?

V: And I wouldn't - I wouldn't know how to refuse.

H.M.Jr: I mean - but if the thing goes along, and they don't jump -

V: Yes.

H.M.Jr: Why then you fill your engagements, and - when would you be available?

V: Why, as far as I know now, from the 15th of September to the first of October, I'll be perfectly free and at loose end.

H.M.Jr: But, that -

V: I not only would be free to come, but I'd like to come.

H.M.Jr: But that would be the time you were going with your boy, won't you?

V: No, no you see I hope to go with my boy the 7th to the 15th.

H.M.Jr: Oh! Well now, would you do this? Would you send me a telegram collect?

V: Yes.

H.M.Jr: Letting me know where you are going to be so that - you - reach you by telephone any place.

V: I'll - well I'll - tell you - I'll send you my itinerary until - I'm here until Friday night.

H.M.Jr: Here until Friday night.

V: I leave for - I'll be in St. Paul on Saturday.

H.M.Jr: H'm.

V: But Saturday night I'm going over to Minneapolis and I'll be at the Hotel Nickolet.

H.M.Jr: Well, I see, Hotel Nickolet.

V: Minneapolis - until Monday or Tuesday.

H.M.Jr: I see.

V: Then I go right back home.

H.M.Jr: Yes.

V: And pick up my boy unless I hear from you, you see?

H.M.Jr: Well, I'm not going to ask you to give up going with your boy, unless this thing gets very much worse.

V: Yes.

H.M.Jr: But the movement is just unbelievable, Jake.

V: Uh-huh.

H.M.Jr: I mean - the flight of capital.

V: Yes.

H.M.Jr: We can handle it - I mean there's nothing to get worried, but you - a fellow likes to talk about it.

V: Yes.

H.M.Jr: And try to think the thing through.

V: Well, I - I think there may be critical times of course, and I - don't hesitate to call on me.

H.M.Jr: And Walter Stewart, of course said, "Just tell me when you to come and I'll be there in a couple of hours."

V: Yes.

H.M.Jr: Uh -

V: Well had you asked - I mean, I know you had just got back, but - I've been free all summer, I've been resting most of the time and I would have been free, but it just happens that everything had concentrated now.

H.M.Jr: Yes. Well, the way - I mean this thing really only began yesterday.

V: Yes.

H.M.Jr: I mean -

V: I know how these things crop up.

H.M.Jr: I mean they've had the movement in the gold hoarding but that's another thing, but this is something entirely new and the pound broke the old parity today.

V: Oh, did it?

H.M.Jr: Oh, yes. It went below 4.86.

V: Uh-huh. And did the equalization fund operate?

H.M.Jr: They operated and we've operated.

V: Uh-huh.

H.M.Jr: I mean they gave us a margin so we could operate.

V: Was the margin below parity?

H.M.Jr: Yes.

V: Uh-huh.

H.M.Jr: Yes, and I saw - Phillips came secretly to to spend a day with me, Sir Frederick Phillips.

V: Uh-huh.

H.M.Jr: And we talked on that, but - so - I mean that's the whole thing and then these sterling countries like Sweden today have been terribly nervous, they've been selling right at the market.

V: Uh-huh.

H.M.Jr: So I mean, it - it's something -

V: Yes.

H.M.Jr: Different than we've ever had before.

V: Uh-huh.

H.M.Jr: And it's - it's a frightening responsibility that I have.

V: Yes.

H.M.Jr: Because I mean what we do is - we're the - we're the last bulwark for any country.

V: Yes.

H.M.Jr: We're the refuge that they're seeking and I want to handle it as well as I humanly can.

V: Yes.

H.M.Jr: I mean -

V: Well, listen Henry.

H.M.Jr: Yes.

V: Whether or not this thing ripens into a real crisis, I'll come down some time in September just to have a look at the situation, as a whole, and talk things over with you.

H.M.Jr: Good. But if this thing -

V: serious way, you call me and no matter what else I have on hand I'll come.

H.M.Jr: Sure. But if the Germans jump in on Czecho-Slovakia I want you down here.

V: All right, I'll be down there.

H.M.Jr: O.K.

V: All right, and I'll let you know of my - of any change in my plans.

H.M.Jr: Thank you.

V: All right. How are you?

H.M.Jr: I'm fine.

V: Did - how much of your family was with you?

H.M.Jr: All of them.

V: And did they have a good time?

H.M.Jr: Very good time.

V: Well, that's fine.

H.M.Jr: Fine. Your family well?

V: They're flourishing.

H.M.Jr: Good. All right.

V: Goodbye Henry.

H.M.Jr: Goodbye.

V: And Good luck.

H.M.Jr: Thank you.

15

August 30, 1938.
4:42 p.m.

H.M.Jr: Hello.
Ronald
Ransom: I just want to say I'm glad you're back. Hope you had a nice trip.

H.M.Jr: Thank you. How are you Ransom?
R: I'm feeling fine, thank you.
H.M.Jr: That's good.
R: Hope they didn't work you too hard and that you really got a vacation?
H.M.Jr: Oh, I had a grand time.
R: Well, that's just fine.
H.M.Jr: Did a little work, on the side, at night, when they'd phone from London and Paris and Washington, but outside of that, why, I enjoyed myself.
R: Well, I didn't want you to come home without saying hello to you,
H.M.Jr: That's very nice. Are we going to see each other Thursday?
R: Thursday morning at eleven I believe.
H.M.Jr: Yes.
R: That's fine, we'll be over.
H.M.Jr: Well, I'm going to take all the time I can get to make up my mind on this one.
R: I should think so. You want as much room to turn around in as you can get.
H.M.Jr: Yes, with the things the way they are, they look bad.
R: Yes, it's a very stormy situation.
H.M.Jr: Yes.

- 2 -

R: I tell you I'm here, if I can do anything
for you, let me know.

H.M.Jr: Thank you so much.

R: O.K.

H.M.Jr: Goodnight.

16

August 31, 1938.
9:04 a.m.

H.M.Jr: Hello.

Operator: Mr. Moffat. Go ahead.

H.M.Jr: Hello.

Moffat: Good morning, sir.

H.M.Jr: Moffat - Good morning.

M: Good morning.

H.M.Jr: I wondered if by any chance that Kennedy cable came in?

M: It has, and I think you would find it extremely interesting. So what I suggest is that I send it over by hand, by one of our fellows, to your office, so that you and Wayne can read it and then he can bring it back.

H.M.Jr: Thank you, sir.

M: And that way we can save time, won't have to paraphrase it. I'll send it right over.

H.M.Jr: And would you mind, when you come over this afternoon, just so I could have for my files, a copy of the message you sent to Leland Harrison?

M: Oh yes, I will too.

H.M.Jr: If you would.

M: Yes.

H.M.Jr: Thank you.

17

August 31, 1938.
10:16 a.m.

H.M.Jr: Hello.

Operator: Mr. Baillie.

H.M.Jr: Hello.

Earle
Baillie: Hello Henry, how are you?

H.M.Jr: I'm fine, how are you?

B: I'm all right. I'd have called you yesterday if I hadn't been out in Cleveland. I just got back a few minutes ago and I was going to try and get a hold of you tonight. I'm terribly pleased to hear from you.

H.M.Jr: Well, I buried my pride and called you first.

B: (laughs)

H.M.Jr: But I felt the interest of the country required my calling you.

B: Righto.

H.M.Jr: What I'm calling you for is this, Earl. I'm asking a few people, confidentially, to come down and have supper with me, tomorrow night, at seven-thirty. Some friends of yours are coming, to talk over this world situation, particularly on the foreign exchange, the gold and the money.

B: Right.

H.M.Jr: And I'd like to have you come, if you could.

B: I think I can, Henry. I - I'll say yes unless you hear from me.

H.M.Jr: It's seven-thirty at my house.

B: Right.

H.M.Jr: And if you come in earlier and you want to lie down, wash, etc., we still have soap and water and towels.

B: Grand, Henry, and the idea is that I get back on the midnight.

H.M.Jr: That's right.

B: O.K. Well, I think it'll be very nice to have three nights on the train one - in one week.

H.M.Jr: Well -

B: I - I'm sure I can do it, and I'm crazy to see you.

H.M.Jr: Well, the thing - I don't - what I want to do is to talk about - in case this thing should blow up in our face, what will we do.

B: That's right.

H.M.Jr: And I don't want to wait until it blows up.

B: I agree with you, just a hundred per cent.

H.M.Jr: And -

B: Is Gordon coming down?

H.M.Jr: Yes, he is.

B: Right, because I - I'll probably try to get on the train with him.

H.M.Jr: Yes, he is coming.

B: He is coming.

H.M.Jr: And Leffingwell is coming from New Hampshire.

B: Right.

H.M.Jr: And Walter Stewart.

B: Well, that's all right. I just didn't want to call up and speak to Gordon unless -

H.M.Jr: Yes.

B: All right. Find out he wasn't coming.

H.M.Jr: Yes, he is coming.

B: Right, Well - well, I'll arrange to come down with him.

H.M.Jr: Right.

B: All right, Henry. Look forward to seeing you and thanks ever so much.

H.M.Jr: Goodbye.

B: How - how's the family?

H.M.Jr: Oh, fine.

B: It was a good vacation.

H.M.Jr: Very good. And yours - your family?

B: We're fine.

H.M.Jr: Good.

B: Just as good as could be.

H.M.Jr: All right.

B: Be seeing you tomorrow.

H.M.Jr: Right.

B: Goodbye.

18

August 31, 1938.
10:19 a.m.

H.M.Jr: Hello.
George Harrison: Hello, Henry.
H.M.Jr: Hello, George. George, I'm asking a few people to come to my house, confidentially, tomorrow night for supper, to discuss this world situation, see?
H: Yes.
H.M.Jr: And I'd like very much if you and Knoke could come.
H: Well, I - I'd like very much to be there. I had planned to bring Knoke down, and then he and I thought it was probably a mistake for him to come, but if you want him then it's a different thing.
H.M.Jr: No, I want him on this foreign thing.
H: I see.
H.M.Jr: Because I want to talk about ways and means in case we really do have something blow up.
H: Yes.
H.M.Jr: I don't want to wait until it does. It's serious enough that we ought to talk.
H: Yes, all right. That's all right, Henry, as long as you understand that he won't be here too.
H.M.Jr: Well -
H: I'll get him to come down in the afternoon.
H.M.Jr: Yes, let him use a plane.
H: Yes.
H.M.Jr: Then he won't be on the road so long.
H: Yes.
H.M.Jr: That is, if he flies.

H: Well he - we'll arrange that all right.

H.M.Jr: Well, I -

H: About what time, Henry?

H.M.Jr: Seven-thirty at the house.

H: Seven-thirty?

H.M.Jr: Yes.

H: Are you going to dress.

H.M.Jr: No.

H: All right. First rate.

H.M.Jr: There will be people there that you know. It will be all right.

H: All right. First rate.

H.M.Jr: Thank you.

August 31, 1938.
10:24 a.m.

Burgess: Hello, Henry. Well how are you?

H.M.Jr: I decided to sink my pride and call you for the second time.

B: Well, I'm sorry I wasn't here when you called Monday.

H.M.Jr: Well, didn't you get my message? I mean -

B: That you - that you wanted to talk to the Governor and me.

H.M.Jr: Yes.

B: The Governor called you and I assumed that that did the job.

H.M.Jr: Well, I wanted to talk -

B: I'm sorry Henry.

H.M.Jr: Well, I'm sinking my pride and I'll talk to you. I'll call you three times, if necessary.

B: Well, no, I thought that his - he and I talked it all over. He put in a call while I was there and then I had to leave.

H.M.Jr: Well, what I wanted - in the first place I want to say hello, and in the second place I thought that, seriously, you'd be calling me about bringing people down.

B: Yes.

H.M.Jr: But I - I think in view of what's happened, we'll have them here next Tuesday and Wednesday.

B: All right.

H.M.Jr: And why not let's have - figure on having the discount boys, say Tuesday night for supper?

B: Yes.

H.M.Jr: What do you think?

B: Well -

H.M.Jr: Well, don't you - well, think it over and talk -

B: It's getting awfully late then, Henry.

H.M.Jr: Well talk - well then we'll have to do it all Tuesday.

B: Yes.

H.M.Jr: Why don't we talk it over tomorrow?

B: All right.

H.M.Jr: And then you might have a list, but then we'll have to do it all on Tuesday. I'm not going to make up my mind until Wednesday so we might just as well have them Tuesday night. Have somebody else -

B: Hard to do.

H.M.Jr: What?

B: The mechanics - that's going to be awfully difficult.

H.M.Jr: Well, you fellows have just got to be a little smarter than you've been before.

B: (Laughs)

H.M.Jr: I'm not going to make up my mind until five o'clock Wednesday night, unless - unless the European thing should clear up, but - but in the meantime -

B: I don't know how we're going to get forms out - to these banks and things like that.

H.M.Jr: Well, they'll have to use the telephone and telegrams.

B: Well, we can discuss that tomorrow.

H.M.Jr: Well, they've just got - they've just got to develop a new technique. They can use telegraphic forms.

B: Yes.

H.M.Jr: They can use night letters.

B: Of course, what you can do perfectly well is to have your forms and things all set up, and to have the whole thing ready to mail.

H.M.Jr: Or they can use night letters - filling in with forms. Send out the forms - send them out - well, we can talk - I'm not going to worry about the mechanics. I'm going to let you and Bell worry about them.

B: Yes. Well, we'll go over that tomorrow.

H.M.Jr: The point is, I've got to have, up to the last minute, depending upon Mr. Hitler.

B: Yes.

H.M.Jr: And I've just got to be a little smarter than he is.

B: That's right, yes. Yes.

H.M.Jr: And it's a question of pricing, first and last this time.

B: Yes. Yes. Well, I say - with Mr. Hitler it's a question of yes or no. By that I mean is -

H.M.Jr: Well -

B: Whether you go ahead with an issue or whether you postpone it.

H.M.Jr: Yes, and right now it's - it's anybody's guess.

B: Well, I've got a notion of - I've got a notion of how we can work it out.

H.M.Jr: All right. Well, I - frankly I'm not going to worry about it. I'm going to leave that to you and Bell.

B: Yes.

H.M.Jr: But, I mean - you fellows have got to work it out to give me all the time I can have up to the last minute.

B: Yes. Yes.

H.M.Jr: Because this fellow makes - he opens his Nurmberg Conference on the 6th, and I've got as good information as anybody has in the Government as to what may happen, and I've got nothing.

B: Yes.

H.M.Jr: I mean I've checked every single source of information the Government has got, and it's anybody's guess.

B: Yes.

H.M.Jr: I've seen the cable, Chamberkin's interview with Kennedy, and - I - I've got everything that the Government has got.

B: Yes. Yes.

H.M.Jr: And you can flip a coin.

B: Well, we'll work out something Henry. I'll be there in the morning. I was coming in the first thing to see Dan a minute. Would you have a minute between nine and ten at all?

H.M.Jr: Between nine and ten?

B: Yes, I'd like to come in and shake hands before -

H.M.Jr: I - I'll see you at 9.15 to the dot.

B: That'll be very nice.

H.M.Jr: Swell.

B: Be very nice, Henry.

H.M.Jr: Why don't you see Dan, and then you and Dan come down together. Do you want to do it that way?

B: Oh, Good, yes.

H.M.Jr: Or come in alone.

B: Either way. Either way you like.

H.M.Jr: Well, come - better come in alone.

B: All right.

H.M.Jr: Nine-fifteen.

B: Yes. That'll be fine.

H.M.Jr: O.K.

B: Good.

H.M.Jr: Goodbye.

B: Goodbye.

20

August 31, 1938.
10:28 a.m.

C.E. Crane: Hello Mr. Secretary, how are you?

H.M.Jr: Oh I'm fine, how are you?

C: I'm fine. I'm over in Nantucket.

H.M.Jr: Are you?

C: Yes, I left Maine yesterday, and I came over here, and that's why I didn't call you before, I just got here.

H.M.Jr: Oh! Well, I tell you what I had in mind. I didn't know where you were, but I wanted to tell you what I - I've asked a number of people, quite a few of your friends to come down here, quietly, tomorrow night, to my house for supper, and I wanted to discuss this international situation, and Win Riefler, who is on Nantucket, is coming down amongst others.

C: Yes.

H.M.Jr: I don't know whether you can come or not, but I - I did want to extend you the invitation.

C: That's Thursday night.

H.M.Jr: Thursday night, at my house, at seven-thirty.

C: Yes. Well, I'd love to come, Mr. Secretary, but I'm over here in Nantucket and I couldn't get out of here very well until tomorrow by boat, I'm afraid I couldn't make it.

H.M.Jr: Well, if you really want to come I'll send for you.

C: All right.

H.M.Jr: I'll send a plane over for you.

C: Uh-

H.M.Jr: I'll send a plane for you if you really want to come.

C: Well I - I don't know whether my wife would want me to fly, that's the trouble.

H.M.Jr: All right. All right. Well, I - I told them as long as - to get the message that I called and I don't want to urge it, it's just that - if you'd been in New York or closer by, I would have liked to have had you.

C: Yes. Well, I'm awfully sorry. I left Harvey yesterday. I had lunch with your father the other day.

H.M.Jr: Oh, good.

C: They had a lunch in there for ^{Thurman} ~~ELSON~~ Arnold.

H.M.Jr: Oh, yes.

C: And he was there, and he told me you were just getting back from Europe.

H.M.Jr: Where is this man that you keep in England? Where is he now?

C: He's in London.

H.M.Jr: Is he?

C: Yes.

H.M.Jr: Do you get any messages from him?

C: Well I've been - we do from time to time, but I've been away for about ten days, but - I - we can get in touch with him if you - I think he's in London now. He may possibly be on his holiday, but I'm really not sure about that.

H.M.Jr: I'd love to get a message from him to what he thinks of the situation.

C: I see, Well, what are the -

H.M.Jr: Well, it's whether - what I want to know - what - how he feels whether we're going to have a war or not.

C: Yes, I see. The political side of it.

H.M.Jr: Yes.

C: Yes. Well, I'd like awfully to come tomorrow night, I don't know what to say.

H.M.Jr: No, don't. You're over there, you'd better stay there and let's hope that we can still discuss it next week.

C: The only way I could get out would be to fly.

H.M.Jr: Yes.

C: And my wife is pretty much agin that.

H.M.Jr: Well, then you'd better not do it.

C: Did you have a nice trip in Europe?

H.M.Jr: Fine.

C: Well, now, I'll see whether I can get some word from Fournier.

H.M.Jr: Yes.

C: And just get his slant on it. If he's - if he's in London then I'll talk to him and of course if he's on his holiday I may not be able to reach him.

H.M.Jr: No.

C: Who - who are you going to have tomorrow?

H.M.Jr: Well, I don't - there's a lot of people that you know. Walter Stewart amongst others.

C: Oh, are you?

H.M.Jr: What?

C: Yes, I see.

H.M.Jr: And people of that caliber.

C: Yes, I see. Well, it's awfully nice of you to think of me.

H.M.Jr: Yes.

C: And I'll think it over, and if I want you to send the plane I'll call you again.

H.M.Jr: Well if you want - if you'll let us know, we'll
send a coastguard plane for you.

C: But I think my wife will object to that.

H.M.Jr: All right.

C: Thank you very much.

H.M.Jr: O.K.

C: Goodbye.

September 1, 1938.
9 a.m.

H.M.Jr: Hello.

Moffatt: Good morning, sir. How are you?

H.M.Jr: Good morning Moffatt, how are you?

M: Fine.

H.M.Jr: Moffatt, I'm sorry I couldn't see you yesterday.

M: That's quite all right, sir.

H.M.Jr: I wonder what, if anything, was in on your desk this morning.

M: My telegrams haven't come down, that's the embarrassing thing. I'm afraid I'll have to call you back in twenty minutes or so. Fifteen minutes.

H.M.Jr: Would you do that?

M: With pleasure, yes.

H.M.Jr: And - I'd appreciate it.

M: All right, sir.

H.M.Jr: How about four-thirty this afternoon?

M: Four-thirty?

H.M.Jr: Yes.

M: Well and good.

H.M.Jr: Is that all right?

M: Yes, indeed.

H.M.Jr: Thank you so much.

M: All right.

September 1, 1938.
9:12 a.m.

H.M.Jr: Hello.

Operator: Mr. Moffatt.

H.M.Jr: Please.

O: Go ahead.

H.M.Jr: Hello.

Moffatt: Oh, hello, sir. This a good time?
Because I've got my telegrams in.

H.M.Jr: Oh, yes.

M: Yes. Well, there's - the main one is a telegram
from Kennedy.

H.M.Jr: Yes.

M: Recounting his talk with Halifax.

H.M.Jr: Oh yes.

M: It does not follow the lines that the morning
press indicate.

H.M.Jr: It does not.

M: Which was that we would have to commit ourselves
what we would do if they went.

H.M.Jr: Yes.

M: He did ask what would be American reaction in a
whole series of contingencies but not in the last
one, which is the one the press featured.

H.M.Jr: Good.

M: He also indicated that Bennes was being a
bit stubborn.

H.M.Jr: Uh-huh.

M: And that the British were now giving him a push.

H.M.Jr: Uh-huh.

M: He didn't think that the German declarations were all bluff, but he still thought that Germany was counting on getting what she could without having to fight.

H.M.Jr: I see.

M: He said the British had definitely made up their mind to - not to make any more speeches to ease up on the situation and rather expressed the hope that the same thing would be followed here.

H.M.Jr: Uh-huh.

M: Bullitt is somewhat more encouraged today.

H.M.Jr: Good.

M: Though his account of what the British instructions are certainly differs considerably with Kennedy's.

H.M.Jr: I see.

M: They always have differed, you know, those two - partly I think it's the way the French story looks in British eyes than from French eyes.

H.M.Jr: Yes.

M: But the emphasis is very differently placed.

H.M.Jr: Good.

M: I can't help feeling the British are - are playing two games trying their best to convince the Germans that they would go in and trying to hold back the others by giving them a little doubt.

H.M.Jr: You mean to the French?

M: Well, the French and Czechs, yes.

H.M.Jr: I see.

M: It looks that way. From Rome also, things look a little better. Charno feels that the German army is still a powerful factor and that the army is still against war.

H.M.Jr: Uh-huh.

M: And the military attache there, which I think reports that Italy is not only not calling up fresh recruits but she is actually granting furloughs.

H.M.Jr: That's our -

M: Our Military, Mr. Secretary.

H.M.Jr: I see. Well, that's important.

M: Yes.

H.M.Jr: And I saw in the papers that the Italians more or less said they were going to stay on the sidelines.

M: Well, I saw that, but I can't - I can't put my finger on it as being official at all.

H.M.Jr: No.

M: And Phillips hasn't gotten it.

H.M.Jr: No.

M: It looks to me as if it were a type of press guidance that somebody eased out.

H.M.Jr: Of course that's the plan they followed in '14, wasn't it?

M: Yes.

H.M.Jr: To stand by and try to pick the winner.

M: Exactly.

H.M.Jr: Yes. Well to sum up - can you see any - any change one way or the other?

M: No. I can see certainly a postponement of the thing coming to a head, a considerable maneuvering until - the Sudetens and other people get guidance from Hitler's speech next Tuesday. I think it'll blow a little hot and a little cold for the next three or four days.

H.M.Jr: Until Tuesday.

M: Yes.

H.M.Jr: Well I - I can't - I can't see anything that - better or worse in the last twenty four hours.

M: Yes, that's about my way - the thing certainly has not - the temperature has not risen further but that there's no rift in the clouds yet indicating any solution.

H.M.Jr: And the foreign exchange market in London is no better.

M: No better.

H.M.Jr: Uh-huh. Well, of course, as it approaches the week-end it'll get more nervous.

M: Yes.

H.M.Jr: But - but there's no sign of any improvement in the foreign exchange market.

M: Uh-huh.

H.M.Jr: I mean it's just as nervous as it was.

M: Jumpy - I see.

H.M.Jr: So there you are.

M: Here we are.

H.M.Jr: Well, thanks so much.

M: All right, Mr. Secretary. Then four-thirty.

H.M.Jr: That's right.

GROUP MEETING

September 1, 1938.
9:45 A. M.

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

(Telephone conversation with Mr. Ronald Ransom,
at 9:48 A. M., attached.)

September 1, 1938.
9:48 a.m.

H.M.Jr: Hello.

Operator: Governor Ransom.

H.M.Jr: Hello.

O: Go ahead.

Gov. Ransom: Hello.

H.M.Jr: Yes.

R: Good morning, Mr. Secretary.

H.M.Jr: How are you?

R: Fine, thank you.

H.M.Jr: Ransom - two things. Taylor and I have to go to the White House at eleven.

R: Yes.

H.M.Jr: And to see the President.

R: Yes.

H.M.Jr: So, could it be - could the meeting be postponed until two-thirty without -

R: Any time you say, perfectly all right.

H.M.Jr: Well let's say two-thirty.

R: Fine.

H.M.Jr: And then the other thing, I'm having a little meeting, at my house, for supper tonight, at seven-thirty.

R: Yes.

H.M.Jr: To discuss the world situation.

R: Yes.

H.M.Jr: And if you are free I'd love to have you come.

R: I'd be delighted to come, thanks for the invitation.

H.M.Jr: Seven-thirty, informal.

R: Informal.

H.M.Jr: You can wear your pajamas or don't wear anything.

R: All right.

H.M.Jr: All right.

R: I'll be there.

H.M.Jr: Better wear a pair of shorts.

R: Uh?

H.M.Jr: Better wear some shorts anyway.

R: Wear some shorts, well the weather may turn cool by then. I'll just come in a business suit, if that's what you're wearing.

H.M.Jr: That's right.

R: Fine. Seven-thirty. Thank you Mr. Secretary.

H.M.Jr: Fine.

H.M.Jr:

I talked this morning to Moffat. There isn't anything particular, other than that the most important thing seems to be, and again, this thing is highly confidential, that the English are telling two stories; one story was from our American Ambassador in London and the other story in France, and it looks as though they are telling two stories to the Germans. And I wouldn't hold this above Mr. Chamberlain.

Kennedy - or Moffat is coming at four thirty. It looks as though they are telling two different stories, which isn't so hot. And everybody seems to think that nothing will happen now until Mr. Hitler tells the world what he's going to do. And it also, from Kennedy's cable, looks as though the British had not asked us what we would do in case there was war. The papers reported that this morning.

You (Taylor) have taken care of my message, haven't you, about having that thing rewritten?

Taylor:

Yeah.

H.M.Jr:

Is it rewritten?

Oliphant:

It is being rewritten.

H.M.Jr:

Will it be ready right after this meeting?

White:

We want five or ten minutes to go over it.

H.M.Jr:

I've got from now till ten thirty, when there's a press conference. Who is typewriting it?

White:

Berney is, but we haven't seen the finished product.

Oliphant:

Maybe we can be excused

Taylor:

We'll have it.

H.M.Jr:

(Nods to Mr. Magill.)

Magill:

Admiral Waesche called this morning and said the Maritime Commission and the Coast Guard are still at loose ends respecting this training program, and he'd like very much to have a decision made. As I

told you, the White House called up about it a week ago, and your committee was then out of town, but Mac was present, and we discussed it.

H.M.Jr: Where is Mr. Gibbons?

McReynolds: In New York.

Magill: Mac and Admiral Waesche and Admiral Lands and their General Counsel and I had a session about it one day, and apparently the parties were in agreement.

H.M.Jr: What do you recommend?

Magill: I should think, to go ahead.

H.M.Jr: On what basis?

Magill: On the basis of these present regulations, isn't it, Mac?

McReynolds: Yeah.

H.M.Jr: I don't know a thing about it.

Gaston: Your committee is all here now, Mr. Secretary. I think we'd probably better get together.

H.M.Jr: Why don't you do this for me: Give me a piece of paper I can read; put it on one piece of paper, what you recommend, and sign it. I appointed a committee before I left.

Magill: The program is supposed to start today.

H.M.Jr: I've got nothing to read. I, frankly, have no recommendations.

Gaston: They are not ready to start.

H.M.Jr: Who?

Gaston: The Coast Guard, with their training.

Magill: They are very much worried because they can't start.

H.M.Jr: Who's on that committee?

McReynolds: Gaston, Oliphant, Gibbons, and myself.

H.M.Jr: If you give me a piece of paper, telling me what to recommend

Gaston: I don't think we are ready to recommend anything yet.

H.M.Jr: I'll wait on a report from the committee.

Magill: You'll probably have the White House

H.M.Jr: Don't worry about the White House. They've got too many other things to think about.

Magill: I worry a little about the report, because I think there is - as far as I can see, the Maritime Commission is willing to do what the Coast Guard wants - so expressed themselves, and as I look at it - I am not on the committee, but we are putting ourselves in a very peculiar position.

H.M.Jr: Aren't we always?

Magill: No.

H.M.Jr: Well, I got

Magill: We're usually in a pretty good position.

H.M.Jr: I've got a committee - I appointed them before I left - to give me a report. I won't act before the committee reports.

Magill: I'll have a memo on it along the lines of your request yesterday on the decentralization sometime during the morning.

H.M.Jr: All right. Herman?

Oliphant: Not a thing.

H.M.Jr: Herbert?

Gaston: Mrs. Anna Harriman McCormack is in town and would like a chance to see you, if possible.

Oliphant: May I be excused?

H.M.Jr: Yes. Who else wants to be excused?

Taylor: I'd like to mention one thing to you before I go.

H.M.Jr: All right, do it. I'll do you now.

Taylor: This is a question of Peru. Peru, South America, not Indiana. And there is some conversation going on, leading to a trade agreement. The President of Peru, which is a silver producer, wishes to talk silver, and would like to discuss possible arrangements similar to Canada, Mexico, etc. We are, tentatively, subject to your approval, taking the position that you can not mix trade agreements and silver, but that naturally we would be more than glad to discuss the question of silver with the proper representative of the Peruvian Government, at any time. (Leaves the room.)

H.M.Jr: All right.

Lochhead: (Hands H.M.Jr. some cables.) (Indistinct and unintelligible:) The is not out of Washington yet; it doesn't get here till the fifth.

Upham: I get it, Archie.

Lochhead: ---

Upham: Yes, surely.

Lochhead: (Leaves the room.)

Upham: Do you want that now?

H.M.Jr: Yeah.

Upham: (Leaves the room.)

H.M.Jr: (Side conversation with Mrs. Klotz.)
(Nods to Mr. Gaston.)

Gaston: Mrs. McCormack - do you have a chance to talk to her - get a chance to talk to her today? She's been doing quite a bit of traveling in Europe since you saw her last.

H.M.Jr: Does she want to talk about political contributions?

Gaston: I don't think she ever heard of them.

H.M.Jr: When did she call you?

Gaston: Ten minutes ago.

H.M.Jr: If she's here tomorrow I'll be glad to see her.

Gaston: She's only going to be here today. I'll tell her it's impossible.

H.M.Jr: If she wants to come in tomorrow morning at ten thirty

Gaston: All right.

H.M.Jr: Otherwise, I can't see her.

Upham: (Returns - hands H.M.Jr. papers.)

H.M.Jr: Thank you. There is nothing in the papers about this so-called rumor.

Gaston: No.

H.M.Jr: Let Mrs. Klotz know whether you can see if she is coming at ten thirty tomorrow; if not, give that time to Kiplinger.

Gaston: Kiplinger.

H.M.Jr: Anything else?

Gaston: No, that's all.

H.M.Jr: George?

Haas: I haven't got anything - a few figures in here.

Upham: You may be interested to know that the cashier of the Bank of America, of San Francisco is here today. He and the Chief National Bank Examiner are going to, I think, try to get a final show-down on what the bank must do and whether they will do it.

H.M.Jr: Very confidentially, Mr. O'Connor's coming Tuesday morning to see me.

Upham: I understood you'd invited him.

H.M.Jr: He said he'd be here Tuesday, could I make it Monday? Ask Mrs. Klotz to show you the telegram. Boy, it's a peach.

Upham: Mr. Oliphant told me about it.

H.M.Jr: It's a peach. I didn't invite him.

Klotz: "When may I see you in Washington? I'll be there Tuesday, can you make it Monday?"

H.M.Jr: Say, listen, I don't know how

Upham: Well, neither is good enough.

H.M.Jr: All right.

McReynolds: You are under some obligations

H.M.Jr: Am I?

McReynolds: to take him back.

H.M.Jr: The Administration. Well, we'll see. I do hope they'll get the new - what they should do in connection with the Bank of America. They think now that the election is over, we should do right by our Nell.

Upham: I don't think anybody's interested in seeing they do the right thing except the Chief National Bank Examiner.

H.M.Jr: Need any encouragement?

Upham: No, he's had that encouragement, I think.

H.M.Jr: While we're on that, is anybody working on a plan for the Comptroller of the Currency and the F. D. I. C. to get into the Treasury?

Upham: Well, you asked me before we got into that examination business to tell you what I would do, and I am just almost ready to tell you what I would do, and I believe you asked Mr. Taylor to make a study of it, and Mr. Oliphant says he has a bill on the line.

H.M.Jr: Supposing you do it, and shortly after this financing, we'll get together and see what it looks like.

Upham: Because there are other things being done in other directions.

H.M.Jr: I know. I want a plan too.

Upham: In our city is both a Director of the Chicago Reserve Bank and Economic Advisor of the Chicago Reserve Bank, with whom I spent a good time this summer, and discussed some of those things with them.

H.M.Jr: I'd like to take a look at it. I think we ought to have a plan.

Upham: There are lots of difficulties in the way of any plan.

H.M.Jr: Well, get it down on paper.

Dan?

Bell: I have nothing except some letters that I'd like to have you sign, sending Federal Reserve Banks preliminary explanations on banking.

H.M.Jr: Randolph Burgess will be in, and he suggested that we have an envelope all ready for these people so they could mail it out Wednesday night, you see? Give them the information, tentatively Tuesday night, so they could do their printing Tuesday night.

Bell: I don't quite get what you're driving at.

H.M.Jr: Well, I make up my mind Tuesday afternoon what I want to do. That goes out to the banks; they have the stuff printed, but they don't mail it. They have it all in envelopes. I said what I could do was tell them Tuesday afternoon, "I have plans A, B, and C," and they have them all printed and have them all put in envelopes, and then I have maybe three or four different choices. We'll pay for the expense. They can have that stuff printed during the night - Tuesday night - so that Wednesday evening, by telegram, I can say, "We'll take plan A, B, or C." Take one of the three plans, and mail them out.

Bell: Well

H.M.Jr: We'll just release it by wire.

Bell: You wouldn't make up your mind until Wednesday.

H.M.Jr: Burgess said I don't have to under this plan.

Bell: I am not so sure about that. Some of these districts are pretty big, you know.

H.M.Jr: That was one of his suggestions.

Bell: It's all right in New York; you can reach almost every district in New York over night. You can't in Kansas City and San Francisco, and those districts.

H.M.Jr: I think a mail with a special delivery stamp; put it in the post office for San Francisco, will reach every bank over night. It can't be more than fifteen hours.

Bell: Well, I doubt that. Even under normal conditions when we sent them out on Saturday, we had to send night letters.

H.M.Jr: You can do both. You can send it by mail and if they don't get it, send a telegram. I am not going to worry, but you can do both.

Bell: We can telegraph them.

H.M.Jr: But I am not going to make a decision until Wednesday about four or five o'clock. I am not going to make up my mind. You fellows will just have to develop your technique. And Burgess said I shouldn't.

Bell: You'll have to have three plans Tuesday afternoon?

H.M.Jr: And there may be four plans. I'll have three or four plans Tuesday afternoon, and I'll release them just as early as I can - certainly by two o'clock, Washington time, I'll give you three or four plans.

Upham: Can't you use the Federal Reserve Bank branches?

H.M.Jr: At all those places they should have a midnight printer, or mimeographing set-up. Let those people work through the night. We'll pay for it. Have them in envelopes. Don't put stamps on them, and hold them. All they have to do is stamp them.

Waltman: There are five or six branches of the San Francisco bank.

H.M.Jr: Say I wrote a release by one o'clock Wednesday, which is one o'clock here, is eleven o'clock San Francisco.

Waltman: Ten o'clock San Francisco.

H.M.Jr: Ten o'clock San Francisco. All they've got to do is put a stamp on it; it's in their post office at twelve o'clock, San Francisco, Wednesday. Twelve o'clock.

Bell: Well, there will be some small banks - I don't know as it makes so much difference - it probably don't count very much in the figure, but there are so many places in the West where you haven't got but one train.

H.M.Jr: Well, use a night letter. If there's any question - it's twelve or fifteen thousand telegrams, cost four or five thousand dollars - that is all it costs. Just make a note - "Confirming our letter we are sending you this night letter." "Confirming our letter to you of today, we are sending you ..." so and so. I don't want any bank not to get it. What will it cost us, Mac, twelve or fifteen thousand telegrams?

McReynolds: Well, twelve or fifteen thousand dollars.

H.M.Jr: Just - I don't want any bank not to receive it, and I'd say, confirming our letter we are sending you this, and send it to them in a night letter, and everybody gets it. I'd send everybody a night letter.

Bell: But you leave it to the judgment of the banks as to where they need to send night letters.

H.M.Jr: But I hold the Federal Reserve responsible.

Bell: We'll just tell the President of the bank to send a night letter where he thinks the letter won't get there.

H.M.Jr: I told Burgess - inviting you over at eleven to tell you about what our needs are; we'll be glad to go over them.

Look, there isn't a single newspaper that I have read that has criticized us for holding this thing up. They all know it's going on, - and everybody will say I was a darned Well, they say I am worse than that. Would you like to price this Saturday?

Bell: Oh, I don't know.

H.M.Jr: Anything else?

Bell: No, I don't think so.

H.M.Jr: Mac?

McReynolds: (Hands H.M.Jr. note.)

H.M.Jr: Have we any jobs?

McReynolds: We can give him a job if he wants it.

H.M.Jr: Sure. Write a letter for my signature.

This is the funniest thing. Mr. Lochhead gave me this yesterday. This is one of the friends of one of the White House people, who wanted a job with the Bureau of Engraving, and he sent it from England. "You may stress on it; I don't care about that, but just see that the thing is just."

McReynolds: Magill seemed all excited about this thing, about this Maritime thing. What's he all excited about?

Magill: The thing's been dragging along.

H.M.Jr: Are you on that committee?

McReynolds: I am. The only member of the committee that's been here all the time.

H.M.Jr: Is Magill justified in being excited?

McReynolds: Personally, I don't see any excuse for withholding participation of the plan any further. The regulations, as they have drafted them, to my mind, are satisfactory. I don't see how we can get out of it. There is one fly in the ointment, and that is a matter of stubbornness on the part of the

Maritime Commission. They passed a resolution against the approval of Coast Guard employing, formally, at their expense, a labor advisor. The Chairman of their Commission has told the President, in writing, and personally, that he doesn't care, personally, whether the Coast Guard has one labor advisor or twenty, and that under the scheme of turning funds over to a Maritime Fund against whom nobody but Waesche could draw, he doesn't know any way they could prevent Waesche from hiring as many labor advisors as he wants. But there is just a little point at issue there, because they have refused to draw in organized labor in an advisory capacity at the Commission, and they are just fussing about it.

The regulations, as drawn, the complete authority is turned over to Coast Guard, with the funds, and is all we could ask for. They give him complete - do as he pleases; they couldn't stop him if they wanted to.

H.M.Jr: What's the matter with those people?

Barton: Admiral Lands has always resisted having in labor advisors in the Maritime Commission, and always won his fight. Now, it is a material loss of face to him if he permits the Coast Guard to employ a labor advisor.

H.M.Jr: Unless there is something Magill knows that I don't know, I wouldn't budge an inch. I'd just as leave call up Admiral Lands and say, "Do you want us to do this or not?"

McReynolds: He does, of course.

H.M.Jr: Where is the decision? Is it my decision?

McReynolds: Your decision.

Garton: We could go ahead and hire a labor advisor. I'd suggest calling him an Educational Advisor, but the next thing is, we've got to get an advisor. The only thing is, we suggested a ^{name} to the C.I.O. - A. F. L. group, and it was turned down flat by them. We're waiting for them to give us an alternate name.

H.M.Jr: Have I got to sign something?

McReynolds: No. I told the Coast Guard they couldn't go ahead until you knew the facts and was willing to go ahead.

H.M.Jr: We're living in 1938. What's the use of putting your head in the sand? That's the stupidest thing I know of.

Gaston: I don't think we're ready to go ahead until we get a labor advisor.

McReynolds: Madame Perkins says they want to be the labor advisor. They don't want Coast Guard to have a labor advisor. There is your situation, so far as this goes. My personal judgment is that you can't find a labor advisor.

Gaston: I think if you start out without one you're running right into trouble.

(Telephone conversation with Admiral Waesche at 10:14 A. M., attached.)

September 1, 1938.
10:14 a.m.

H.M.Jr: Hello.

Operator: Admiral Waesche.

H.M.Jr: Hello.

Admiral Waesche: Good morning, Mr. Secretary.

H.M.Jr: Good morning Waesche.

W: I hope you had a pleasant trip to Europe, sir?

H.M.Jr: Fine. And I want to tell you that Lieutenant McKay carried out his assignment extremely well and I was entirely satisfied.

W: I'm mighty glad to hear it, sir.

H.M.Jr: And he's a good representative of the Coast Guard.

W: Thank you, sir.

H.M.Jr: Now, in regard to this Maritime Commission.

W: Yes, sir.

H.M.Jr: I've got the people here in the office, why don't we go ahead?

W: I was just waiting for the word to go ahead. I know of no reason at all, sir, why we couldn't go right ahead.

H.M.Jr: Now, as I understand it, we go ahead, and they turn the money over to us and it's our decision how we employ it.

W: Yes, sir.

H.M.Jr: It's also, as I understand it, the thing sort of hinges on this question whether we can or can not employ a labor adviser.

W: Yes, sir. That was the thing that came up for discussion and held us up for some time. To my mind that was cleared up Admiral Lands' statement to Under Secretary Magill.

H.M.Jr: Which was what?

W: To the effect that Admiral Lands told the President that the Coast Guard could hire as many damned labor advisers they wanted to.

H.M.Jr: Well then, why don't we go ahead, on that basis?

W: All right, sir, we'll go ahead. I just - just the question in my mind as to whether we had the full authority from you to go ahead, but we're all set now to go.

H.M.Jr: Now let's understand each other. As to the employment of the necessary technical advice including a labor adviser, that that decision rests with the Treasury.

W: Yes sir.

H.M.Jr: Now when I say the Treasury I mean you as Coast Guard as part of the Treasury.

W: Yes sir.

H.M.Jr: And once they turn that money over to us, I don't expect any man connected with the Maritime Commission to tell us who we can employ or who we can not employ in order to carry out the training of these seamen as efficiently as possible. Is that perfectly clear?

W: Yes, sir, that is perfectly clear.

H.M.Jr: I mean, in other words, your hands are completely free to employ anybody that you want.

W: Yes sir.

H.M.Jr: If you want to hire an osteopath or - it's all right, but if you want to hire a labor adviser it's all right. Gaston sitting here and he said you may need a psychiatrist.

W: We'd go on Gaston for that.

H.M.Jr: All right. I don't know if you could hear them laughing. You're on the loud speaker so they can listen.

W: I heard some of it, yes.

H.M.Jr: Well, that's all right. I second the motion. But anyway, now we are - as I've told them - we're living in 1938, they're our labor problems and we just can't stick our heads in the sand and say they don't exist, and the fact that the Maritime Commission took one attitude doesn't mean that we have to be guided by them. Now let me just see whether these boys are all right. Will you wait a minute?

W: Yes, sir.

H.M.Jr: Well they say today's the day. Go ahead and sign her up.

W: All right, sir. We'll go ahead today.

H.M.Jr: Now just a minute. (aside - Anybody - what) Now, this committee which I've set up, you will talk to that committee, which is Oliphant, Gaston and McReynolds in connection with who the labor adviser should be.

W: Yes, sir.

H.M.Jr: I want a labor adviser. Hello -

W: Yes, sir.

H.M.Jr: I mean I - I want you to have a labor adviser. I'm not saying who it is, see? I - I have nobody to recommend, but I think we ought to have somebody.

W: Well, you know the Secretary of Labor thinks it would - it's practically impossible to find such an animal and Secretary Perkins feels it might be unwise for us to have a labor adviser.

H.M.Jr: Well -

W: But, however, that's for our own determination.

H.M.Jr: I want - what I want is - I want - I want the Treasury free to act and carry this thing out in an efficient, humane and a reasonable manner, see?

W: Yes, sir.

H.M.Jr: And I'm counting on you to do that.

W: All right, sir, I - I understand you perfectly.

H.M.Jr: And you keep in touch with this committee.

W: Yes, sir.

H.M.Jr: But if - if today's the deadline, I don't want anybody to say that the Treasury wasn't ready.

W: All right, sir.

H.M.Jr: So close her up today.

W: All right.

H.M.Jr: Now, just a minute. (aside - O.K. with you. Satisfied) All right.

W: All right, Mr. Secretary.

H.M.Jr: Fine.

H.M.Jr: O. K.?

McReynolds: Yes.

H.M.Jr: O. K., Herbert?

Gaston: Yes, fine.

H.M.Jr: Ros?

Magill: All O. K.

H.M.Jr: Anybody dissenting?

Gaston: With the understanding, of course, that Waesche will talk to us today in that connection.

H.M.Jr: O. K., Magill?

Magill: Right.

H.M.Jr: Satisfied?

Magill: It's what I wanted.

McReynolds: I'm satisfied that under the regulations, as approved by the Commission, Coast Guard has full authority to do just that.

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

OPEN MARKET MEETING

September 1, 1938.
2:30 P. M.

Present: Mr. Taylor
Mr. Bell
Mr. Lochhead
Mr. Seltzer
Mr. Harris
Mr. Upham
Mr. Haas
Mr. Sinclair
Mr. Ransom
Mr. Harrison
Mr. Williams
Mr. Pizer
Mr. Goldenweiser
Mr. Burgess
Mr. Davis
Mr. Szymczak

H.M.Jr: Do you (Mr. Sinclair) want to start this off?

Sinclair: Mr. Harrison is the Chairman of the group, in the absence of the Chairman, so let him be the spokesman, if he will.

Harrison: Well, Mr. Secretary, we felt it was a pretty difficult task at this time to meet, as a group, and make any specific suggestions as to what you should or should not do, due to the fact that we have an interval now of five or six days before you have to decide, and in the light of the present world conditions, and possible serious reactions on the money market. It would be impossible, really, to conceive of a definite program now which we could say you should execute next week. I think that on the whole, the disposition of most of the members of the group was that if it were possible for you, between now and the day that you have to decide, to work out a program in the light of the market as it exists at the time you have to decide, it would be better to do that than to conceive of a number of alternative programs, the thought being that it would be better to formulate a good program and either put it through, or do nothing, than to try, at the last minute, to

weigh relative advantages between two or three different alternatives, which might not be very great, in fact, any way. I think most of us felt that you would be justified not in going out to a very long-term bond, such as was thought possible, even a week ago; that some intermediate-term bond, anywhere between ten and fifteen years, would probably be a safer thing in the light of conditions as they exist, with an option for some notes for the exchanges, but the cash to be in the long-time bond.

There is some question on the part of some of us whether you should try to make too big a grab for cash. That is a question of judgment - whether it will be anywhere between five hundred and eight hundred million. I think that we all hope and expect it will be possible to do something, and if you are going to do something it ought to be longer rather than shorter, largely because if you are going to do anything you might as well do the thing that will not scare the market by being altogether too conservative. For instance, the feeling was, if you were forced, in the light of conditions, at the end of the week, to put out a five year note, the feeling was that would be worse than doing nothing, because it would show the market you haven't any confidence in it anyway. And having just come back from Europe, the suspicion is that you know a good deal more than the rest.

On the other hand, if it was felt you should do it long enough and ambitious enough to suit the market, at the time, you would probably have a greater success than if you were too conservative. It was for that reason, I think, that most of us don't like considering alternative programs between an ambitious one and too conservative a one.

H.M.Jr:

Could I ask a few questions, because I haven't had a chance, really, to post myself. In the first place, the recent so-called private issues, I call them, are there any that are hanging over the market, or any that are sticky?

Burgess:

No. No, they are all going very well; with perhaps one or two very small exceptions all private stuff is going over very well.

H.M.Jr:

There's nothing there?

Burgess: There's been a very substantial volume of the August issue - two hundred eighty millions, or something of that sort.

H.M.Jr: How are the dealers showing?

Burgess: For Governments?

H.M.Jr: Yes.

Burgess: Their holdings of bonds are very small. They have about twenty million bonds, and those are mostly the shorter bonds.

H.M.Jr: In notes or bills?

Burgess: Their total portfolios are relatively small, around a hundred million, which is not large. The bulk of that is in notes.

H.M.Jr: Now, how are the portfolios and cash balances of insurance companies?

Burgess: Insurance companies have some seven hundred fifty million dollars of cash - the largest at any time.

While they've been doing some buying; they've bought quite a number of Government bonds in the past two months; they still have very large amounts of cash. The savings banks, of New York at least, are in a similar position. There are a great many banks that are desirous of investing, so as far as the pressure of funds, the technical condition of the market, is concerned, the market is ready to take a good substantial amount of Government securities.

H.M.Jr: Now these foreign deposits, they are not interested in either notes or bonds, are they?

Burgess: No. Not really.

H.M.Jr: What?

Burgess: Not to any extent.

Harrison: I would question it right now.

H.M.Jr: What?

Harrison: I would question it right now.

H.M.Jr: Your own. What's the Federal Reserve's position?

Burgess: We have a little over forty million of the Decembers. That is our total.

H.M.Jr: I meant, how many bonds do you have, seven hundred million, or what have you got?

Burgess: Seven hundred fifty, I think it is. We've worked off....

H.M.Jr: I don't, see, know what happened. I am trying to bring myself up to date.

Burgess: In the June financing, we divided our holdings equally between bonds and notes. We had in mind that fifty was about to hold permanently.

H.M.Jr: How many - how much have you got?

Burgess: Fifty-five. We have reduced that bond holding to what you might call a bond normal holding. We have shifted from longer bonds to shorter bonds.

H.M.Jr: Of our billion two hundred million bills, how much do you own?

Sinclair: Six hundred odd millions.

H.M.Jr: You own half of them?

Sinclair: Almost half.

Burgess: We have a billion and a quarter that matures in two years.

H.M.Jr: You own half of our bills?

Harrison: Just about.

H.M.Jr: Did you buy any R. F. C. bills?

Harrison: No.

H.M.Jr: What are they selling at today?

Burgess: Well, today

H.M.Jr: (To Mr. Kieley) Tell Archie and Harris to come in on this.

Burgess: At par, and a half. It's a seventy yield basis.

H.M.Jr: Par, and a half; that's all right, isn't it? Is there much trading in them?

Burgess: Pretty well placed.

Pizer: We have no authority to buy them, have we?

Burgess: The general coverage in the Banking Act of '35 was interpreted to mean we could. We have had a ruling of counsel that we could.

(Mr. Lochhead and Mr. Harris come in.)

H.M.Jr: Without having studied this thing, or discussing it with my own people, I am not inclined, at this time, to sell a long two and three-quarters. I think that that would be - well, taking an unnecessary risk at this time.

Burgess: We reviewed that, Mr. Secretary, in our meeting this morning some, particularly in the light of the experience of the June issue. That went beautifully, but it took it six weeks to be distributed. That is, the dealers had portfolios, and banks that wanted to sell had portfolios. It was one of those things that was all right, but it had to be distributed over a period.

H.M.Jr: But it was good for all summer.

Burgess: It turned out that way, but it might have been shaky. It's - it's all beautifully put away now.

Ransom: So far as the domestic situation is concerned, it seems to be all right, so far as any issue you might want to put on would be influenced by the domestic situation, but the difficulty, of course, goes beyond that.

H.M.Jr: Well, I, frankly, to say again, I haven't had time - I'm just talking - I've only been back seventy-two hours, and had so much that had to be done, I haven't had time to consult with my own people, but I am just sort of talking how I think and feel. It's

all subject to change, but I don't quite agree with what Mr. Harrison said, that we can't have alternative plans where we are talking right in the family. I said to the press today, "I am not going to give anything out to the public until five o'clock Thursday night"- I mean Thursday morning. I am not going to say a word, but let's put it this way: let's say - well, it's a matter of just - we should raise some money. Well, we could still say, let's say that Hitler went into Czechoslovakia Tuesday; we still could raise some money on Thursday, but we might want to take something that was awfully sure, and say sell five hundred million dollars worth of a five-year note and let it go tonight, and do nothing. On the other hand, if the speech he makes on Tuesday were a speech for peace, we might want to do eight hundred million, and I don't know - offer like we have recently, with the right in December to convert into either.

Again, if the thing looked bad, do five hundred million of the December notes and leave the December alone.

Harrison: The cash operation?

H.M.Jr: I think there are three or four different things we could do, depending on how the picture looked on Wednesday, where we are just talking strictly in the family. We've got to raise between now and June thirty, we've got to raise two and a half billion dollars cash, and roughly, two and a half billion dollars of securities are coming due, exclusively of the bills. We've got a five billion dollar program, so I think we ought to go ahead and let's do a quarter of that this fall. And, frankly, what I'd like to do is to do a third. Now, I mean - I'd like to get all the traffic would bear, because I have been here long enough to know that in a fortnight a perfectly good bond market can just disappear, and I don't want to, with a nine hundred million dollar maturity in March, and a billion - one billion two

Bell: A billion three.

H.M.Jr: A billion three? I don't want that to creep up on me and I find myself back selling bills. For my own sake, I'd like to have an alternative,

depending upon the world picture. I think that decrees what we could do.

Harrison:

I agree with you, fully, Mr. Secretary, in your desire to do as much as you can now. I am a hundred per cent for that, and I have been right along, because I think, with your maturities and your requirements coming on next year, the more you can get rid of now, the better. I was hopeful myself you could put out a twenty-five thirty years, a twenty-five thirty-five year bond, but you think that would be indiscreet at the moment. I should think that if the news on Tuesday were so bad that you felt justified in only asking for the five hundred million, say some short notes, my own individual reaction would be not to do anything at that time. On the other hand, if news was such that it happened to be turning towards peace and the market was still behaving itself as well as it is now even, let's say, then I would do a pretty full program, according to your requirements. I mean I'd take some cash and I'd exchange the December maturities. I don't know why I feel so strongly that way, but I just feel that it would be better understood almost to do nothing than to put out just a small cash issue in notes.

H.E.Jr:

Would you call five hundred million small? That's about all the market is expecting, isn't it?

Harrison:

Well, take that amount of cash in notes rather than in bonds, which I think is what they are expecting.

H.E.Jr:

Well, let me put this up for you people to chew at. This is what I was thinking about. If things remained in the more or less civilized state, that we might do, say four hundred million of a five-year note, and four hundred million in - I don't know the exact figure - two and a half per cent to a fixed date or a two and a half per cent of twelve, fourteen, or twelve sixteen - I don't know the exact figures. Now two and a half to a fixed date is a little more easier to sell than a two and a half with a call date, isn't it? Huh?

Harrison:

Yeah.

H.E.Jr:

So if you people could give me - the question, and as I say, offering these people December - their choice, that is. Now, I'd like you to kind of

fire at that, just as a target, and out of that you people who know what the people in your district, Philadelphia, and the rest of them - what they want. Last time nobody wanted the two and three quarters and we gave it to them and they liked it, and it went all right, and last time everybody wanted a two and a half.

Bell: There was a lot of sentiment for two and a half.

H.L.Jr: How would they feel this time? Would they like something like that?

Singlair: Well, in our district, Mr. Secretary, for the last few months there's been a trend both in our city banks, as well as our Federal banks to get into bonds as near ten years as possible. Not any great extent - to the extent of about thirty million dollars - and getting as near to ten years as they possibly can. I have talked to two or three of the larger banks in Philadelphia, and three days ago they were thinking of the longer bonds, but talking about between ten and fifteen years, and I think in our neighborhood that is what would go across. Our banks are not interested in the notes at the present time. They are wanting to go into the field as near ten years as they can get. I feel that you would meet a real demand in keeping somewhere between ten and fifteen years, or in that neighborhood. No doubt there are other institutions in other places that would prefer the notes, so I wouldn't have any objection to the notes along with the intermediate bond issue.

H.L.Jr: Two and a half has been given as fifty fifty-three; looks about right. That is a twelve fifteen, and fifty is a good year, and we have nothing coming due in September.

Harrison: Answering specifically your suggestion, I think about the way our mind is running this morning, that if you are going to do something, do it just that way. The bond, two and a half, about that maturity, and our thought was the most ambitious thing you could do would be to take all cash in bonds, take all the bonds in cash, and offer an option for the exchange for those bonds and a note.

H.M.Jr: If I was going after eight hundred million, wouldn't you rather split it in two lots of four?

Harrison: I think you'd have to give the option perhaps in either bonds or notes.

H.M.Jr: Huh?

Harrison: You'd have to give the option in either.

Taylor: You think fifty-fifty is the right split there, or could you go three and five?

Burgess: I think you could do five and three; five on the bonds and three on the notes.

Harrison: My own preference would be not to do quite so much cash in view of all the uncertainties today.

H.M.Jr: How uneasy are the financial people about this European situation?

Harrison: I think three days ago they were very uneasy, and very unhappy about it. I think sentiment has changed very definitely yesterday afternoon, and today - yesterday morning and today.

H.M.Jr: Why?

Harrison: That is what I was afraid you were going to ask me. It's hard to say why sentiment is going to change.

Lochhead: They said it was impossible to anticipate the favorable reaction in the foreign affairs. That is the way the Bank of England explained it.

H.M.Jr: Well, I wish they'd sell me a little of it.

Harrison: Well, I suppose in their case it was largely due to the fact that no pressure was on the Parliament today, up to one o'clock; there was no necessity to do any supporting, except for one special transaction, and after what has happened in the prior two days that is quite a considerable evidence of improvement in sentiment.

Lochhead: We did a little more than usual this afternoon. London only did three million dollars this morning. We have done, so far, about two million dollars, which is more than we usually do. That's explained by the fact it's getting toward the week-end.

Ransom: The day hasn't been as good as yesterday, but better than the day before, is that right?

Lockhead: Much better. Well, yesterday, of course, England had to do at least as much as this - maybe a little bit more.

H.M.Jr: Williams, have you got any ideas?

Williams: No, I don't feel I can add anything to what's been said. I had rather felt that, before you spoke, it might be better to make the choice between a program rather than the alternatives, in the light of all the conditions, and decide between that and not doing anything at this time. There may be something in what you said in having alternative plans; I wouldn't know about that.

Ransom: May I ask something about the mechanics of our program?

Bell: I don't think there is any difficulty. What we'll do is, say there are three plans; we'll wire Tuesday afternoon sometime those three plans, with definite instructions to set them up as though they were all going to be mailed, and late Wednesday afternoon, the Secretary will say, I want plan A, B, or C, and chuck them in the envelopes.

Sinclair: You are supposed to have done that before you get the decision.

H.M.Jr: With the proviso that we are going to hold the President of each Federal Reserve Bank personally responsible that each bank in his district gets that letter or a night letter. If there is any doubt in his mind that that letter isn't going to get to his desk the next morning, send him a night letter.

Taylor: And the right one too.

Sinclair: I think I will extend my vacation.

H.M.Jr: I don't want any small bank calling up saying, "I didn't get this letter."

Ransom: May I ask Mr. Burgess whether there is any practicability in that point of the plan?

Burgess: I have only one modification I'd like to suggest. That is in the wording "late Wednesday afternoon." We've got to do it in New York by half past four, New York time. I suspect some of the other districts where there is more distance ought to have a little more time.

H.M.Jr: We'll give it to you at two o'clock, eastern standard time.

Burgess: That will be all right.

H.M.Jr: Isn't this plan called the "Burgess plan?"

Bell: I think it is. (Laughter)

H.M.Jr: You and I agree with that, don't we? I mean, the whole idea of these envelopes?

Burgess: That's right.

Sinclair: The Presidents will take care of Mr. Burgess.

Ransom: You see, Mr. Secretary, we have developed some information.

Sinclair: The alternatives weren't Burgess' plan.

Bell: Well, it is, modified.

Burgess: I think there is an advantage in it if, when you sit down to it Tuesday, you find you are so convinced that one plan is the right one that you can discard the other two. I think there is a real advantage. There is danger of confusion, and even sending it to twelve places, the notions that you have to send alternatives may create an adverse impression. I think we are pretty fool-proof, but there is always a little danger of conveying an impression of difficulty. I think that is a problem you can't settle until Tuesday.

Harrison: I hope what you are going to find is by Tuesday the coast will be so that you will say, either you do something such as you outlined a moment ago, or that you will do nothing, because I question whether it will be sufficiently clear to make it possible for you to cut too fine a pattern between the different plans. Anyway, I think you will be able to go out pretty huskily or you will decide you don't want to do anything. That is all I meant in my comment about the alternative plans.

- H.M.Jr: Well, I don't - I can't tell. We try to get here as good information as can be gotten anywhere in the United States for what it's worth, and having tried, it's anybody's guess what will happen in the next week or ten days. It is just anybody's guess; that's all there is to it, and we have just got to sit here and wait.
- Ransom: Might I ask one more question about the "Burgess plan," whether, between the three alternatives there would be close shading or whether there would be decided difference between the three solutions?
- H.M.Jr: Well, that wouldn't be - well, I mean, you might say - there might be, let's say, for argument, to answer either way, we'd all say it's going to be eight hundred million dollars; we're going to say three hundred million in a note and it gets down to a fixed date or callable date. I don't know whether you call that fine or not, but it might be there, as to whether the thing should be callable or should it be to a fixed date?
- Ransom: That is what I had in mind - fine shading.
- H.M.Jr: It might get down to that. This thing, after having done this so long, it kind of gets down to - oh, I don't know, it's electric waves.
- Ransom: Crystal gazing?
- Bell: Conscience.
- H.M.Jr: Your old elbow, left toe, and all those important economic factors go into deciding what it should be.
- Harrison: Mr. Secretary, there is no doubt, first, you are right; you ought to do it if you can; second that up to a few days ago you could have done anything you wanted; third, the market wants you to do something; and fourth, having decided they haven't gone to hell, I think you can do a pretty good program. Therefore, I would deplore, myself, seeing a compromise with just a note issue for cash. I haven't talked that over with the rest of the group. I am just speaking for myself on that. Your desk cleared, you have other alternatives. You probably could do it in October, if war broke out; if the sky cleared off a little, or you think it's

necessary, wait until December, always having bills up your sleeve, if you got in a pinch. You've got so much leeway that I think to do something that would raise the flag of war into all investors, about the market, would be unfortunate.

H.M.Jr: Well, if I had to do it today, I wouldn't hesitate to go out and sell a lot of cash. I wouldn't - I mean I wouldn't.

Harrison: That's the way I feel.

H.M.Jr: I wouldn't hesitate a moment to offer tomorrow eight hundred million dollars worth of cash.

Bayaczak: Short of the exchange.

H.M.Jr: I am sure it would go.

Harrison: By the end of the week it is likely that things will not be any worse than they are now, unless there is war, and in that event you wouldn't do anything at all.

H.M.Jr: I just don't want to be caught unaware; I want all the machinery set up so we can do what we think is the most sensible thing to do. If I had to do it tomorrow I wouldn't hesitate to sell it.

Harrison: I - the President of one of the big banks in New York told me yesterday he would do it, and his suggestion was to offer an exchange for December and March, and go twenty-five thirty - nothing else.

H.M.Jr: Twenty-five?

Harrison: Thirty.

H.M.Jr: And he would do December and March?

Harrison: December and March - no cash there. Twenty-five thirty. I differed with him.

H.M.Jr: You say a New York banker? I haven't talked to anybody but that is

Harrison: But I don't think that represents common opinion in New York.

Bell: Maybe he didn't own it.

Harrison: That is possible.

H.M.Jr: How about you two gentlemen over there?

Pizer: I think the best bet would be a two and a half per cent bond, either fifty fifty-two or definite security. I'd be a little skeptical about raising as much as eight hundred million cash. I think that might come a little as a shock to the market. I'd prefer to keep it around five or six. That is the only thought I have on it.

H.M.Jr: Goldenweiser?

Goldenweiser: I haven't any feeling about it, Mr. Secretary. I haven't quite gathered up the threads yet. It seems to me that you are in a position to decide on the program, any time you make up your mind to decide, with this one great uncertainty, if war should break out in Europe, and if war should break out it would be - I am inclined to agree with Governor Harrison, that then it would be a good thing to say, in view of that development we are just doing nothing for the moment, because a minor issue doesn't seem to me to be worthwhile in the circumstances. I'd be inclined to have a program and either follow it or call it off. And I favor, generally speaking, the same bond you've been talking about, the shorter bond. I would not like to see a long bond coming on the market at this time.

H.M.Jr: Taylor?

Taylor: Two and a half, plus a note, and three and five, if you can do it - Decembers.

H.M.Jr: Burgess?

Burgess: That is all right.

Taylor: Plus a note.

Szymczak: For the cash.

Ransom: What proportion, may I ask?

Taylor: Five in bonds, three in notes for the cash, with an option for your Decembers.

H.A.Jr: Burgess?

Burgess: I think that's pretty good. You might consider whittling the cash a little and putting in a few tax state bills for December. I am a little afraid of the money market on these tax states when we don't have tax state bills. It doesn't matter in September because the excess reserves are sufficient, but the tax states are always excessive. When you sell an issue for cash it adds to that. Normally you have an off-set in the maturities of bills. I think there's a good deal to be said, as a matter of principle, for anticipating that kind of thing, because you never can tell when the money market may change so that will be important. It probably won't be important in December, but I think it would be well to, nevertheless, to sell a few December tax state bills, and if you do that you might like to raise a little less cash this other way. You'd be a little more certain - four hundred - three perhaps, and then raise a couple hundred million for tax state bills.

H.A.Jr: I hate like the devil to sell a maturity now that will not mature until after we get by June.

Bell: Do you think eight hundred million would be a shock to the market?

Burgess: I think it's a little more than they expect.

Bell: Why?

H.A.Jr: With a four billion dollar deficit? How are we going to raise it?

Burgess: They know how much cash you have; they think you're piling up cash and not going to use it for a long time.

Bell: We have always told them we've got

Burgess: A lot of that would be in bills. It would bring home to them the fact there is going to be a present deficit, you see, in a way they haven't quite visualized it.

Upham: It's been mentioned several places that it may go to a billion.

Burgess: Yes, the market hasn't been thinking that though. They look at the big cash balance and say, with that big balance they probably won't raise it so far ahead of the time they need it. You see, that would give you two billion and a quarter, something like that.

H.M.Jr: It will run off fast enough.

Burgess: I don't feel very strongly, but I think it's something to consider.

H.M.Jr: Well, if I didn't have March and June facing me, - it's a five million dollar program, exclusive of the bills. That's a hell of a lot of money in any country.

Taylor: Except California.

H.M.Jr: And Mexico. They asked me at my press conference, what do I think of the thirty dollar relief plan? I said, "Fine, if you can get it." Then I said, "Don't print that."

Chester?

Davis: No comment. None of the suggestions scare me very much. I think they are all right, within the range of what we have considered likely.

Szymczak: Two and a half per cent bond, twelve and fifteen years, for about six hundred cash.

H.M.Jr: Two and a half per cent bond for six hundred cash, twelve to fifteen year bond, and an option on the notes?

Szymczak: Yes, I think so.

H.M.Jr: Six hundred cash.

Szymczak: Yes.

Bell: No cash on the notes?

Szymczak: Oh, some cash, if you feel that you can work out; an alternative if you can't. I prefer just bonds for the cash.

H.M.Jr: George, do you want to say something?

Haas: I'd be inclined to agree with what Wayne Taylor said.

H.M.Jr: Well, now, how are we going to work this? When am I going to see some people, etc., to check up on you?

Burgess: Well, we can trot out a carefully prepared list on Tuesday, or Saturday, or any time.

H.M.Jr: No, I don't want to see them Saturday.

Bell: How about tomorrow?

H.M.Jr: No use.

Harrison: Tuesday's your best bet.

H.M.Jr: Tuesday.

Burgess: About three or four, really, of the right people on Tuesday, is what you want, rather than a great long procession.

H.M.Jr: That's right.

Burgess: Discount, Devine, Guaranty Trust - something like that - Marriner. I wouldn't think very many.

H.M.Jr: You want to stay behind and make out a list? Huh?

Burgess: All right.

Harrison: What time is Mr. Hitler's speech? Has anybody figured it out?

H.M.Jr: Mr. Hitler has always been very considerate as far as the Treasury is concerned. When he went into the Rhine he waited a week, till we did our financing. He's been very nice.

Bell: Japan has been nice, too.

H.M.Jr: These countries are awfully nice. They always wait. I was just figuring, whatever time he talks, because of the difference in the time, we wouldn't see much of it until the evening of Tuesday.

Lochhead: Mr. Secretary, the trouble is here, we seem to be assuming that by Tuesday this situation is going to be clarified; this situation is going to be cleared up, or there is going to be war. There is likely to be just a postponement - neither way. you may have to face the alternative, things are not bad enough to abandon the financing, and yet you couldn't go forward with your full program, and, therefore, you have to still consider the alternatives. You might have to cut down the amount of cash, likely, and change the amounts of notes and bonds. I think you've got that possibility.

Stymczak: That is your alternatives.

Lochhead: The situation might not be bad enough, you see, to abandon your program altogether. That would be a bad thing.

Well: That is one of the alternatives.

H.M.Jr: I would have to be awfully bad to abandon the entire program.

Ransom: It would have to be a crisis that doesn't exist yet, I take it.

E.M.Jr: The fellows who know anything about money know we've got more coming here than ever. I mean, it would be a bigger flight of capital than ever.

Ransom: I don't think there is any disagreement with this group on your statement, if you had to do it tomorrow, you could go ahead on any one of these suggestions, with some difference of opinion as to the exact amount you might want, or how you might divide it, but assuming Tuesday night it is no worse than it is today, I don't take it that anyone's pressed it.

H.M.Jr: I think the Wednesday morning paper will carry what the American press thinks of it, and then they will kind of make up their minds. You'll get your reaction, maybe Wednesday. Maybe Hitler might not talk Tuesday.

Ransom: Your program gives you until Wednesday.

H.M.Jr: Two o'clock Eastern Standard time.

You got any thoughts, Cy?

Upham: No, I am very much influenced by what Governor Harrison says. I am afraid I don't like these alternatives. I'd want six instead of three if I were going to shade.

H.H.Jr: They've got plenty of envelopes.

Upham: I'd like to either - I think the decision is going to be just as difficult on Wednesday as it is on Tuesday.

H.H.Jr: Don't put stamps on those envelopes though.

Sinclair: We are going to lick them ourselves.

H.H.Jr: It's difficult any way you put it.

Sinclair: It seems to me if on Wednesday there is still an uncertain condition, there is some advantage on the Treasury going ahead with a program instead of trying to split it. There's going to be all that conjecture

H.H.Jr: You mean if we do nothing?

Sinclair: I mean, if you weaken your program with too short a term. I'd much rather see the bulk in the longer bonds.

Harrison: I would go ahead with it unless you had a state of war, or something comparable to a state of war.

Szymczak: Would you go out, George, for eight hundred million in bonds only?

Harrison: No, I think if things stay as they are, my inclination is toward a shorter amount of cash.

Szymczak: And then limit it to bonds?

Harrison: I would prefer the bonds for cash and an option on the exchanges.

H.H.Jr: Of course, there is no law against it if we didn't do any financing on the fifteenth of September, why we don't do it on the fifteenth of October.

Harrison: That's what I said; you've got lots of alternatives. You are sitting prettier, in fact, in spite of the conditions.

W.H.Jr: I expect to keep that way, if I can keep my intelligence and my health. I want to stay - I have always had three months to turn around.

Harrison: I want to keep your health, and one reason I want to spare you is that terrible decision Wednesday morning, of which of three plans you are going to take.

W.H.Jr: I've got four quarters

Harrison: Mr. Secretary, a national banker in my town, who is a Director of the Federal Reserve Bank of Chicago, has sold the entire million of Government bonds that he had; that is all he had, and he sold them all; and there is an awful lot of talk in that community about why he sold them. He must have some inside knowledge about what is going to happen to Government bonds. Now, perhaps that experience makes me over-emphasize the importance of what Governor Harrison said about people in twelve banks knowing that you had to go to three plans, and there is so much uncertainty. It does get talked about quite a bit out through the country. This man is supposed to have a pipe line to Washington by virtue of being a Director of a Reserve Bank. The other banks don't like it because he sold out every Government bond he had.

W.H.Jr: Now, as a matter of fact, in each bank, how many people know there are three plans?

Sinclair: There would be only three people, myself, Mr. Davis, who is the officer in charge of the fiscal agency, and one other in the department, and the printer who set it up.

Harrison: That is not true if you are going to stamp all the different series.

Burgess: You've got to get it ready for mailing.

Sinclair: Then you have your force.

Burgess: There would be twenty-five people in each bank.

Harrison: I'll guarantee nobody in my bank - will leak in my bank; I can't guarantee any other bank.

Wineclair: I know you and your bank, so I'll guarantee both.

Well: I haven't heard.

Wineclair: I think it would be a sign of wisdom.

Harrison: The market's gone ahead of you on that. They - while many of them are liberal about wanting the long time one at first, I think you will find that is what they want now.

Well: They wanted that ten twelve year in June too.

Taylor: That's just an exchange.

H.C.Jr: The amazing thing though there's been nothing written up that anyone is alarmed because we didn't offer Tuesday morning but waited until Thursday. Everybody takes it that it's a sane move. I haven't seen any criticism; everybody takes it perfectly grand.

Harrison: It's all the more reason I think if on Wednesday you can make a courageous offering, it has a beneficial affect on the situation. If at that time you can't make a definitely courageous offering, it seems to me you've got a question to decide as to whether you want to make any at all. I am a little more doubtful about the expediency of doing a half-way job at that particular point than I would be if I were doing nothing, or doing what you originally contemplated.

H.C.Jr: Well, I appreciate the fact that the Federal Reserve is willing to accept the Burgess Plan and do this extra work. It will be a lot of extra work, but it's just a matter of over night. That is, one night, and if we make up our mind any earlier, or something like that - can see daylight on Tuesday, we'll shoot the works on Tuesday. We are not going to hold this thing just - I realize the more we hold it the more complicated we make people. If we can see daylight Tuesday night we'll shoot it to you and let it go.

Harrison: That is fine. My advice against the tripartite arrangement was not so much I was thinking of the

work in the bank, as all these other possible repercussions of doing it. That's all.

H.M.Jr: Anybody got any thoughts I overlooked?

Szymczak: You wouldn't be thinking, perhaps, of just doing the exchange in December and the note going out? If you are going to do that, you're going to do both?

H.M.Jr: That's right.

Burgess: If you can do one you can do both pretty much.

H.M.Jr: All right.

24

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: September 1, 1938

TO Secretary Morgenthau

FROM M. A. Harris

The market bases are on closing bids August 31, 1938. I have given two bases for several bond issues. The first basis is a very conservative estimate while the second one is in line with the market and the basis the issue would sell at if it should immediately sell in line with the market.

SEPTEMBER FINANCING

Suggested Issues

Market Bases

Estimated Premiums

(1) TREASURY NOTES:

1% due 3/15/43 (4 1/2 years)	0.84	23/32nds
1% due 9/15/43 (5 years)	0.88	19/32nds
1 1/8% due 9/15/43 (5 years)	0.88	1 point 6/32nds

(2) TREASURY BONDS without callable periods:

2 1/2% due 1953 (15 years)	2.40 - 2.36	1 1/4 pts. - 1 3/4 pts.
2 1/2% due 1954 (16 years)	2.44 - 2.40	25/32nds - 1 pt. 10/32nds

(3) TREASURY BONDS with callable periods:

2 1/2% 1950/53 (12-15 years)	2.38	1 1/4 points
2 3/4% 1950/55 (22-27 years)	2.66 - 2.64	1 1/2 pts. - 1 pt. 26/32nds
2 3/4% 1951/56 (23-28 years)	2.67 - 2.65	1 3/8 pts. - 1 pt. 23/32nds
2 3/4% 1952/57 (24-29 years)	2.68 - 2.66	1 1/4 pts. - 1 pt. 19/32nds
2 3/4% 1953/58 (25-30 years)	2.70 - 2.68	29/32nds - 1 1/4 pts.

(4) OUTSTANDING ISSUES that may be offered at a price:

Issues

Current Bid Price

1 1/8% Treas. notes 6/15/43	101.10/32nds
2 1/2% Treas. bonds 1949/53	101.25/32nds
2 3/4% Treas. bonds 1950/53	101.27/32nds

RIGHTS

Current Bid Price

Current Premium

1 1/4% due 12/15/38	101.20	1 pt. 9/32nds *
		1 pt. 18/32nds **

* Above a no-yield basis if calculated to Dec. 15, 1938.

** Above a no-yield basis if calculated to Sept. 15, 1938.

25

September 2, 1938.
11:12 a.m.

H.M.Jr: Hello.

Operator: Mr. Knoke is busy talking to London. I'll get
him when he's through.

H.M.Jr: All right.

H.M.Jr:

26

September 2, 1938.
11:26 a.m.

H.M.Jr: Hello.

Operator: Mr. Knoke. Go ahead.

H.M.Jr: Hello.

Knoke: Mr. Secretary.

H.M.Jr: Talking.

K: Good morning, sir.

H.M.Jr: Good morning.

K: As a result of more encouraging news both from Berlin and Prague, the market has turned rather abruptly and is very definitely on the bid side with few sellers who stand sterling about 4.85 and 3/8ths.

H.M.Jr: Good.

K: News are more encouraging, as I said, from both Berlin and Prague, but I think one must bear in mind that none of them are official yet.

H.M.Jr: No.

K: That's semi-official. Bolton, at the Bank of England, who just called, told me he had spoken to Prague on the telephone, and they had pointed out that they knew of no official news.

H.M.Jr: Yes.

K: Never the less the market is more optimistic.

H.M.Jr: Good.

K: The - if the situation should clear up you will probably, however, see return of the French franc to the spotlight.

H.M.Jr: I see.

K: And probably that will be under attack as a result of renewed labor agitation, & I understand there's a strike has been declared in the textile industry.

H.M.Jr: Yes.

K: And probably you'll see a weaker franc unless -

H.M.Jr: Well, that would be a pleasant relaxation for us compared to what we've got now.

K: Yes. The British, today, sold two million dollars, which is not big, but they sold also two and a half million pounds worth of gold.

H.M.Jr: Uh-huh.

K: Again Sweden and Dutch among the buyers.

H.M.Jr: Uh-huh. And for your own very confident - confidential information you can just give it to Harrison, but nobody else. We have an American cruiser in those waters there now. Hello.

K: Yes.

H.M.Jr: I mean the Nashville is - is over in Sweden and will be over in Sweden - in England until the seventeenth of September.

K: Yes.

H.M.Jr: So if I need her to bring gold over, she's available.

K: But I hope you'll never need it.

H.M.Jr: Well, she's there. I mean, she - she's over on a shakedown cruise.

K: Yes, I see.

H.M.Jr: So if we need -

K: I think that might cause an awful stir.

H.M.Jr: Well, -

K: If we used her.

H.M.Jr: Well, we'd only use her if there was war.

K: Yes, yes.

H.M.Jr: But there's between that - I'd say a hundred million dollars over there, I'd rather use the cruiser. I mean I haven't sent her over there, but she's there in case I need her.

K: Yes, I see.

H.M.Jr: I mean she's there now.

K: Yes.

H.M.Jr: I mean in English waters.

K: I understand, yes. Yes.

H.M.Jr: I just meant to give me a comfortable feeling in case I wanted to get out a hundred million dollars I got a way of getting it out.

K: Yes. Well I think whoever said - said it last night, was right, when he pointed out that as long as you were arranging for the shipments nobody could criticize you in a million years.

H.M.Jr: I know. But this is just a little side bet I've got in reserve.

K: All right, sir. I'll tell the Governor about it.

H.M.Jr: Well that - that's all. I mean -

K: Yes.

H.M.Jr: Thank you for reporting.

K: Right, sir.

27

September 5, 1938.
8:20 p.m.

H.M.Jr: Hello.

Moffatt: Hello. How are you, sir?

H.M.Jr: How are you?

M: Well, did you get down all right?

H.M.Jr: Yes, I'm at the Treasury.

M: Now, I've just been over at the Department.

H.M.Jr: Yes.

M: And there's nothing particularly new in.

H.M.Jr: Uh-huh.

M: I've got a few little odds and ends for you.

H.M.Jr: Please.

M: In Prague, Mr. Carl saw Benes late Saturday, and found him still pretty - pretty worried.

H.M.Jr: Uh-huh.

M: He rather expected however that Hitler would not make his vital speech on Tuesday. He thought he'd make it on the Friday meeting of this week.

H.M.Jr: On the which?

M: On the Friday.

H.M.Jr: I hope he's right.

M: He's speaking Tuesday and then he's speaking again on Friday.

H.M.Jr: I see.

M: Now there's a rather interesting little tid-bit in from Russia.

H.M.Jr: Right.

M: Which is to the effect that Litvinov is supposed to be leaving shortly for Geneva.

H.M.Jr: Uh-huh.

M: Which rumours that he is going to try and bring this whole subject up at Geneva.

H.M.Jr: I see.

M: That's worrying the Czechs very much, because they are afraid that he is going to try and get a declaration of aggression against Germany.

H.M.Jr: Good.

M: And fear that that might mean a delay in - in the vital days if trouble should break out.

H.M.Jr: Well, why should it worry the Czech Government?

M: Because they'd want - they'd want the Russians, in case of trouble, to move at once and not wait and try and get a declaration of aggression.

H.M.Jr: Oh, this would be a stall on their part -

M: That's it exactly, a stalling movement on the part of Russia.

H.M.Jr: I get you.

M: The British have told us, via Lindsay, what they're afraid of.

H.M.Jr: Yes.

M: And that is that Hitler, tomorrow or Friday, may ask for a plebiscite.

H.M.Jr: I see.

M: And they say that Runciman is using all his efforts to prevent that.

H.M.Jr: Uh-huh.

M: They've been rather upset by Benes who has apparently blown hot and cold, but by no means always staying in a conciliatory mood.

H.M.Jr: Uh-huh.

M: I saw in tonight's late ticker that the Czechs were going to offer a new - a new plan.

H.M.Jr: To the Sudetens.

M: To the Sudetens.

H.M.Jr: Uh-huh.

M: The only other thing worth mentioning comes from Belgium where they say that what they think might happen would be that Hitler would gamble on a very quick campaign and then turn around and offer Europe a new *(Lacota?)* based on guaranteeing Esnick, Czech-man.

H.M.Jr: Uh-huh.

M: Well, that's roughly their budget. Bill Bullitt isn't back yet, so there's nothing in from him today.

H.M.Jr: Where is he?

M: Oh, he went down to make that speech in the south of France, you know.

H.M.Jr: And nothing - I mean nothing from Kennedy.

M: And nothing from Kennedy.

H.M.Jr: So I mean they don't - whatever Henlein and Hitler talked over, we really don't know.

M: We don't know and up to the last telegram the British didn't know.

H.M.Jr: I see. Well, thank you so much.

M: All right, sir.

H.M.Jr: Thank you.

M: Fine. Goodnight.

H.M.Jr: Goodnight.

28

September 8, 1938.
9:10 a.m.

H.M.Jr: Hello.

Operator: Governor Young will be at the bank in Boston in about a half hour.

H.M.Jr: Yes, well now, nothing from ninthirty to ten though.

O: All right. All right.

H.M.Jr: What else you've got?

O: That's all, right now.

H.M.Jr: Well where's the head - the President - I hear Mr. Eccles is away.

O: Yes, and Mr. Lincoln is expected in a few minutes.

H.M.Jr: And then Mr. Parkinson.

O: Mr. Parkinson is expected at nine thirty.

H.M.Jr: Uh-huh.

O: We'll put him off until ten and Mr. Rentschler is expected in a few minutes.

H.M.Jr: Well, after - from nine thirty to ten nobody, and you can put in the Paris call.

O: All right.

H.M.Jr: And ten what?

O: At ten o'clock then I'll make an appointment with Mr. Parkinson.

H.M.Jr: Well, I want Paris at ten.

O: Paris at ten, all right.

H.M.Jr: And then I'm - I can work on phone calls from ten to eleven and then you've got the third of Minnesota, Minneapolis, Chicago, Boston, Dallas. I want Tom Smith in St. Louis.

O: All right.

H.M.Jr: Walter Cummings in Chicago, if he's there.
I don't know whether he's there or not.

O: All right.

H.M.Jr: I guess that'll be enough.

O: All right.

September 6, 1938
10:32 a.m.

H.M.Jr: Is he coming?
O: Mr. Cochran.
2nd O: Mr. Secretary.
H.M.Jr: Hello.
O: Mr. Cochran.
Cochran: Hello, Mr. Secretary.
H.M.Jr: Hello.
C: Hello, Mr. Secretary.
H.M.Jr: How are you?
C: All right, sir, thank you.
H.M.Jr: Cochran.
C: Yes, sir.
H.M.Jr: I wish that you'd do a little telephoning around tomorrow morning.
C: Yes.
H.M.Jr: And get the best impressions you can as to whether there'll be any trouble - all I'm going to ask for is the rest of this week. You see, on account of - the reason I want this information is on account of my financing.
C: Yes, I understand.
H.M.Jr: And if you can call me back at eleven o'clock Washington time, Wednesday, see?
C: At eleven o'clock Washington time.
H.M.Jr: Yes, call me. Now, what I want - oh, I'd call up as many of your friends as you value their opinion, do you see?
C: Surely.
H.M.Jr: And all I'm going to ask you is their best guess as to whether there'll be any real trouble the rest of this week.

C: I see.

H.M.Jr: From now through Saturday night.

C: I see.

H.M.Jr: Now I want the best guess so I can make my best guess.

C: Surely, but I'll get them in the morning and call you by - at five o'clock tomorrow evening, that is eleven o'clock your time.

H.M.Jr: Yes, call just as many people as you think necessary, but what I've got to make up is my mind - is what are the chances of there being trouble during the rest of this week.

C: I understand.

H.M.Jr: See, and that's that.

C: Yes, sir.

H.M.Jr: How does it look over there today?

C: Considerably better.

H.M.Jr: Uh-huh.

C: Because it looks like they're going to force Czechoslovakia - that is the British and the French - to make very big concessions to the Germans - the Sudetens, you see.

H.M.Jr: Uh-huh.

C: I mean - they're just doing everything to avoid the war at this time.

H.M.Jr: Uh huh.

C: And the market was considerably quiet this afternoon.

H.M.Jr: Yes.

C: They - here, they held it at one seventy-eight twenty nine to thirty one without much expenditure.

H.M.Jr: Yes.

C: I talked with my friend at four fifteen and he said that over in London they had only spent one-third of what they had spent yesterday.

A.M.Jr: Yes, but yesterday was some day.

C: Yes, yes.

A.M.Jr: Yes.

C: But anyway it was quieter there than it was yesterday, considerably quieter. When you called me I was over at the Ministry of Finance.

H.M.Jr: Yes.

C: The man who talked with us you know.

A.M.Jr: Oh, yes.

C: They called me over to get the reply.

A.M.Jr: Yes.

C: And I talked to him once since we had crossed, you know.

H.M.Jr: Yes.

C: And he said then that they've referred the matter to the Central Bank for study.

H.M.Jr: Yes.

C: And today he called me over and he said that after consulting with the bank, which had in turn discussed the matter with the Bank of England.

H.M.Jr: Yes.

C: The Minister wanted to let you know that he was extremely grateful for the suggestion in regard to helping with the franc.

A.M.Jr: Yes.

C: It was felt however and particularly in view of this present international political situation.

H.M.Jr: Yes.

C: That the proposed plan only increased speculation in the forward franc and that it would be difficult to avoid publicity, and he said that - most appreciative of the interest you've shown.

H.M.Jr: Yes.

C: And would welcome any other suggestion that you might see fit to make toward the same end of straightening the tri-partite cooperation.

H.M.Jr: Uh-huh.

C: And though they were very nice about it, but they're just afraid to try anything now, you see?

H.M.Jr: Well, you're going to put that in a cable aren't you?

C: Well, I didn't - I hadn't planned to put it in a cable.

H.M.Jr: Yes, I wish you would.

C: You'd rather have it that than in the letter, you see it hasn't gone on the record here at all.

H.M.Jr: Oh, hasn't it?

C: Beg pardon.

H.M.Jr: It has not.

C: No, nothing has ever appeared on the record here.

H.M.Jr: Oh, I didn't know that. Well, let's put it in a letter.

C: I'll put it in a letter and get it on the Normandie which leaves here tomorrow morning.

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

C: I'll write it tonight and get it - those words.

H.M.Jr: All right.

C: And I - I asked him how - how the Treasury situation was, whether they are going to have to do any

borrowing soon, and he said, "No." He said, "The situation, the international situation is better but it's going to continue tense for some weeks."

H.M.Jr: Yes.

C: And he said, "We have no immediate plans for any action at all."

H.M.Jr: Uh-huh.

C: We're still working on the budget, that should be finished the fifteenth.

H.M.Jr: Uh-huh.

C: So, that - that's about everything.

H.M.Jr: All right.

C: Porter was here yesterday and he was in again
You remember Robert Porter?

H.M.Jr: Yes.

C: But he had nothing particularly new.

H.M.Jr: I see.

C: A little worried. I mean he said, "Well, if this sterling goes down it's bringing about all currency - bound to catch new people." And I said, "Yes, we realize that."

H.M.Jr: All -

C: I'll get busy, in the morning, on this thing, and get it to you surely.

H.M.Jr: Thank you.

C: All right, sir.

H.M.Jr: Goodbye.

C: Goodbye.

30

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 6, 1938

TO Secretary Morgenthau

FROM M. A. Harris

SEPTEMBER FINANCING

<u>Suggested Issues</u>	<u>Market Bases</u>	<u>Estimated Premiums</u>
(1) <u>TREASURY NOTES:</u>		
1% due 3/15/43 (4 1/2 years)	0.83	3/4 point
1% due 9/15/43 (5 years)	0.86	22/32nds
1 1/8% due 9/15/43 (5 years)	0.86	1 point 9/32nds
(2) <u>TREASURY BONDS without callable period:</u>		
2 1/2% due 1953 (15 years)	2.40 - 2.36	1 1/4 points- 1 3/4 points
(3) <u>TREASURY BONDS with callable periods:</u>		
2 1/2% 1950/53 (12-15 years)	2.38 - 2.36	1 1/4 points- 1 1/2 points
2 3/4% 1950/55 (23-27 years)	2.66 - 2.64	1 1/2 points- 1 pt. 26/32nds
2 3/4% 1951/56 (23-28 years)	2.67 - 2.65	1 3/8 points- 1 pt. 23/32nds

"RIGHTS"

	<u>Current Bid Price</u>	<u>Current Premium</u>
1 1/4% due 12/15/38	101.20/32nds	1 point 9/32nds * 1 point 18/32nds **

* Above a no-yield basis if calculated to December 15, 1938.

** Above a no-yield basis if calculated to September 15, 1938.

2 1/2 50-52 — 101 1/4 - 1/2
note — 101 11/32

31



TREASURY DEPARTMENT

WASHINGTON

September 5, 1938

CONFERENCE IN THE SECRETARY'S OFFICE REGARDING THE SEPTEMBER 15 FINANCING

-000-

This conference was with Mr. Mills and Mr. Hepp of the Discount Corporation of New York. Others present were Assistant Secretary Taylor, Dr. Burgess, and myself.

Mr. Mills said that they had been in touch with their New York office before they came in to see the Secretary and found that big insurance companies had been in the market during the day in quite large volume for the 2-3/4% 1958-63 bonds. This, of course, had a tendency to strengthen the rights on the December 15 notes. He said if he were writing the ticket at this time he would say a 2-1/2% 12-14-year bond, but he would prefer, in order to make it sure, a 2-1/2% straight 1950 bond.

The Secretary explained to them that the Treasury is in a nice position at this time because, due to its large cash balance, it can offer nothing or can ask for anything up to \$800,000,000 in cash. But, he said, every one knows that we will need during the fiscal year 1939 at least 2-1/2 billion dollars new money and that we have maturing issues, exclusive of Treasury bills, aggregating \$2,700,000,000 to refund; and therefore he would like to know from these gentlemen what they would suggest as a shock-proof security.

Mr. Mills replied that he thought a 2-1/4% 10-year bond would be shock-proof. When the Secretary asked him if that would be regarded as a sign of weakness, he said yes, he thought it might be. Another suggestion he made was a two-year note. He thought that would stand up under terrific pressure. His next choice would be a 14-year 2-1/2% bond.

The Secretary then asked about the amount. Mr. Mills said he thought \$700,000,000 should be the limit. Mr. Hepp said he did not think it made much difference as to what amount the Secretary asked for, but he would not go over \$800,000,000 in view of the figures carried in recent news articles. He thought that a note would be O. K. but in view of the coupon we would have to put on ~~any~~ security, it might be more vulnerable than a

bond. If we should have a war we could expect, in spite of all the excess reserves we have, a firming in interest rates. He thought that the rate on the note would have to be at least 1% and 1-1/8% would be much better. As to the division between a bond and a note, he thought that 60% or 70% of the cash offering should be in a bond and the balance in a note. He said that if we offered as much as \$700,000,000, \$500,000,000 could very well be in the bond and \$200,000,000 in a note.

The Secretary then requested them to fix the maturity date of a 2-1/2% bond in the amount of not more than \$400,000,000 which would in their opinion be shock-proof. They both agreed that the 2-1/2% 1950 bond would do the trick. When asked whether a 1950-52 bond would be better than a straight 1952 bond, they both replied that a 1950-52 bond would be better. They were then asked if we could raise as much as \$500,000,000 in either of these issues. They answered that we could. They said that the Secretary could raise \$500,000,000 in a 1950-52 bond and \$300,000,000 in the June 15, 1938 notes, and in addition offer the holders of the December 15 maturing notes the right to exchange into either one of these issues. They both agreed that it makes very little difference whether the amount is \$700,000,000 or \$800,000,000, but the Secretary might feel safer if he confined it to \$700,000,000.

SWB



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

September 6, 1938.

CONFERENCE IN THE SECRETARY'S

OFFICE REGARDING THE SEPTEMBER 15 FINANCING

This conference was with Mr. Devine of Devine & Company, New York. Others present were Assistant Secretary Taylor, Dr. Burgess and myself.

The Secretary told Mr. Devine that it seemed to him that he had three choices. He could have no financing at all; he could issue some securities for cash, or he could, in addition to selling securities for cash, offer exchange privileges to the December note holders. He asked Mr. Devine what he would do under the circumstances, taking into consideration the world situation.

Mr. Devine said that he would certainly refund the December notes. In addition, he would offer \$500,000,000 in new securities for cash. To take care of this he would sell a 2-1/2 per cent straight bond maturing in September, 1951, but if the Secretary wanted to be a little more conservative, maturing December 15, 1950. His reason for this suggestion was that the market needed a stimulant. The whole Government security market is off at least a half point since June and there does not seem to be any real base for the present market. He thinks that if you would offer this

2-1/2 per cent bond that it will give the market just exactly what it needs and for this reason he thinks it advisable to make a fixed maturity. He said that the Secretary could sell a 2-1/2 per cent 50-52 year bond but that did not quite meet the situation to which he just called attention.

The Secretary then asked him what would happen if we had no financing at all. He said it was his opinion that the market would immediately go up at least a half point, but he did not think that this would hold and that it would later recede by that much. He said he was not concerned about Hitler or the war scare. He feels that powers concerned will work this mess out and that there will be no war, certainly not in the immediate future. It is his opinion that even if war should break out on the day of the Treasury announcement, there would still be a fair measure of success to the new offering if it is properly priced. He also feels that at this time the banks have got to be our customers. While there will be some buying by insurance companies, it will not be as much as in the June two and three quarters.

The Secretary asked him what he would do if the amount of the new offering was \$800,000,000. He said that if he were going to sell \$800,000,000 of securities he certainly would sell a 2-1/2 per cent bond maturing in 1950. He would not advise a note for cash, but he would offer a note in exchange for the December 15 maturities. He said that if he were going to offer a note, he

would offer a 1-1/8 per cent five year. A 1 per cent five-year note would go but he does not feel that the Secretary ought to be put in the position at this time of forcing the market.

The Secretary asked him what opinion he had on the outlook for business during the remainder of this year. He said he thought the outlook was good and that he was quite bullish on the stock market.

swB

33



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

September 6, 1938.

CONFERENCE IN THE SECRETARY'S

OFFICE REGARDING THE SEPTEMBER 15 FINANCING

This conference was with Mr. Garner of the Guaranty Trust Company. Others present were Assistant Secretary Taylor, Dr. Burgess and myself.

Discussion was started by the Secretary as to what would happen if the Treasury made an offering of securities on Thursday and war broke out. Mr. Garner replied immediately that the issue would not go, but later amended it to say that there would be some subscriptions. What he meant to imply was that it would not be nearly the success if war did break out. He looked at it from the standpoint that war means higher cost and higher money rates and naturally makes investors reluctant to buy securities in the face of those readjustments.

The Secretary asked him what would happen if we did no financing. He said he believed that it would be interpreted as fear on the part of the Treasury. The market now expects something and he believes that you should have an issue of some kind unless the war actually breaks out before the announcement. He feels that you should try to make some allowance for the uncertainties. On the other hand he does not feel that you should try to allow for the

worst possibilities. He says that if the Treasury will make an offering which is reasonably attractive and appeals to the market that it will be a success in spite of the uncertainties. He said at this time the Treasury would have to appeal to the bank investors and not to the underwriters for later distribution.

The Secretary then asked him what he would do specifically. He said that he would have a bond and a note issue. The Treasury could issue a 2-1/4 per cent eight-ten year bond or it could issue a 2-1/2 per cent twelve-fifteen year bond. He said the market likes a fixed maturity, but it boils down to the question of choice on the part of the Treasury. It can have a call date if it likes and there is not much objection on the part of the market. He feels that the Treasury could go to a 2-1/2 per cent fifteen year bond, but that is pushing the market a little and it would be better if it were a shorter maturity by a year or so. He said that there was some objection from the standpoint of the Treasury to a five-year note because of the 1943-45s, but if the Treasury could eliminate this objection, he would recommend a five-year 1-1/8 per cent note.

He was then asked about the amount. He said that the market is talking about an amount between \$500,000,000 as a minimum and \$750,000,000 as a maximum. He would not worry about the success of the issues in an aggregate amount of \$750,000,000, but he does not feel that the Secretary ought to go over that figure. As a division between the two suggested issues, namely, a bond and a note, he said he would put the amount on the two

issues and let the subscribers make their choice. In other words, he would ^{not} put in a maximum amount on each issue but would offer say \$750,000,000 in bonds and notes and make the allotments on the basis of subscriptions tendered in proportion to the amount to be allotted. Of the two suggestions he has made he prefers the bonds and if it is divided, he would suggest that a larger percentage go to the bonds, say on the basis of 70 per cent bonds and 30 per cent notes. He did not believe that the Treasury should ask for more than \$750,000,000 in cash as it might be interpreted that the situation is more serious than it appears if you go over that figure. He feels that \$750,000,000 will not disturb the market.

SWB

34

September 6, 1938

Kleine. (Sept 6: 1938)

#500. cash

2 1/2 1951 fixed

2 1/2 Dec 1950.
and ~~December conversion~~

or
2 1/2 1950-2

basis of market not
as good as in June.

says he is a
little nervous
business rolling now

September 6, 1938

Garner - Guaranty,

note and bond

$2\frac{1}{4}\%$ 8-10 yrs.
or

$2\frac{1}{2}\%$ 12-15 yrs

$2\frac{1}{2}\%$ 15 yrs fixed maturity
maximum

\$700.00 to \$750.00

note 5 yr 18

70% bond 30% note

Feels O.K. in business
for this fall.

September 6, 1938

Hascount Corp.

12-14 bond —

~~etc~~ —

10yr $2\frac{1}{4}$ absolutely
safe

next 14yr $2\frac{1}{2}$
sell at $101\frac{3}{4}$ - $102\frac{7}{8}$

not over 700 to 800

not more than ~~valuable~~
valuable

shorted proof bond $2\frac{1}{2}$
12 yr.

35

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 6, 1938

TO Dr. Burgess

FROM M. A. Harris

Mr. Matteson has just telephoned again and stated that Mr. Love of C. E. Quincy & Company leans toward a 23-year 2 3/4% bond. Mr. Love also stated that Mr. Baker of the Travellers Insurance Company told him that he preferred such a bond but he did not state that he would not subscribe to a shorter bond.

36

September 6, 1938

The Secretary talked to the following people today. (Records of conversations attached)

R. R. Gilbert - First Vice President of
Federal Reserve Bank, Dallas, Texas

Walter Cummings - Chicago, Illinois

Leroy A. Lincoln - President Metropolitan Life
Insurance Company, New York

John N. Peyton - President Federal Reserve Bank,
Minneapolis, Minnesota

G. J. Schaller - President Federal Reserve Bank,
Chicago, Illinois

Earle Bailie - New York

R. A. Young - President Federal Reserve Bank,
Boston - talked from East Joffrey, N.H.

T. J. Coolidge - Boston

Gordon Rentschler - New York

(The Secretary was not able to reach Thomas*Parkinson
of the Equitable Life Assurance Company.)

* The Secretary talked to Thomas Parkinson on September 7 -
records of two conversations will be found under that date.

*First VP FRB Dallas

September 8, 1938.
10:41 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

R.R.
*Gilbert: Hello.

H.M.Jr: Mr. Gilbert.

G: Yes.

H.M.Jr: Henry Morgenthau, Jr.

G: How are you Mr. Morgenthau?

H.M.Jr: Fine, and you?

G: Very good, thank you.

H.M.Jr: I'm sorry to hear Mr. McKinney is ill.

G: Yes. He is not seriously ill though, Mr. Morgenthau. I think he'll be up in a few days.

H.M.Jr: Good. Well, I'd like the Dallas bank to do a little thinking on our financing for the next twenty four hours, see?

G: All right.

H.M.Jr: This is - we've got three alternatives, and I've got to make up my mind between now and noon tomorrow.

G: Yes.

H.M.Jr: One, we can do nothing.

G: Yes.

H.M.Jr: Two, I could ask for somewhere between a half a billion and a billion dollars, and three, I could ask for the cash and give the December noteholders the right to convert.

G: Yes.

H.M.Jr: Now, that's my proposition.

G: Four hundred million maturing in December.

H.M.Jr: That's right.

G: Uh-huh.

H.M.Jr: And I thought if you'd talk it over with some people that you have confidence in, and I'd like to call you back in about twenty four hours.

G: Well, we'll be very glad to do that.

H.M.Jr: Would you do that?

G: Be very glad to.

H.M.Jr: And then when I call you up tomorrow, could you give me your impressions of what business will be for the balance of the year, in your district?

G: We - we will try to do that. We're pretty bad forecasters though Mr. Morgenthau.

H.M.Jr: Well, so are we all. But this is just for my own use.

G: Yes.

H.M.Jr: I will not put it in the paper.

G: Well, I'll tell you. Do you feel like that I should mention this to any of the bond dealers or just the banks themselves?

H.M.Jr: I'll leave that to you.

G: Uh-huh.

H.M.Jr: You use your discretion.

G: I see.

H.M.Jr: Yes.

G: We'll be glad to make a little canvass of the situation here and give you the benefit of those views, as well as our own, when you call tomorrow.

H.M.Jr: Yes. And also if we do ask for cash, what your banks down there - what they'd like best.

G: I see.

H.M.Jr: Yes.

G: You mean as to notes or bonds or as to the rate on each?

H.M.Jr: No, notes or bonds.

G: Uh-huh. I see.

H.M.Jr: Yes.

G: Well all right, and we'll do everything we can to help you out on that Mr. Morgenthau.

H.M.Jr: Thank you so much.

G: You're welcome.

H.M.Jr: Goodbye.

September 8, 1938.
10:12 a.m.

H.M.Jr: Hello.

Operator: Walter Cummings. Go ahead.

H.M.Jr: Hello.

Walter Cummings: Hello.

H.M.Jr: Walter Cummings?

C: Yes, sir. How are you Henry?

H.M.Jr: How are you?

C: I'm just fine.

H.M.Jr: Where are you now?

C: I'm in Chicago.

H.M.Jr: At your bank?

C: Yes, I'm at the bank.

H.M.Jr: Good for you.

C: I was away for a month. I read about you, I was over in Europe too, but I didn't go to the Continent, I just stayed in England. Rested up for a month.

H.M.Jr: Good.

C: I see that you were traveling around a little. How are you feeling Henry?

H.M.Jr: Fine, never better.

C: Oh, that's great.

H.M.Jr: Walter.

C: Yes.

H.M.Jr: I want to ask you to think over my problem for the next twenty four hours.

C: All right.

H.M.Jr: On the financing.

C: Yes.

H.M.Jr: This is what I've got. I've got three alternatives. I can do nothing. That's number one.

C: Yes.

H.M.Jr: Number two, I can raise say from a half a billion to a billion dollars in cash.

C: Yes.

H.M.Jr: And number three, I can raise some cash and give the December noteholders an opportunity to convert.

C: Uh-huh.

H.M.Jr: That's about the picture, between now and noon tomorrow, I've got to make up my mind.

C: Supposing - supposing I do a little thinking today and call you back, Henry.

H.M.Jr: I - I could talk to you about this time tomorrow.

C: Yes, all right then.

H.M.Jr: I'll call you.

C: All right, that's just fine. I'll think it over and see what I -

H.M.Jr: And I'd like to get your impression as to what you think the business conditions are going to be for the balance of this year.

C: Are you going to need any addi- new money? Do you need any new money - will you need any new money?

H.M.Jr: When?

C: This year.

H.M.Jr: Well, here's the picture. From now until July 1, next, I need two and a half billion dollars in cash.

C: Yes.

H.M.Jr: And I've got exclusive of the bills I've got two and a half billion dollars worth of securities maturing.

C: Uh-huh. I get you.

H.M.Jr: Now, that's the program. That's exclusive of my bills.

C: Yes, I see.

H.M.Jr: That - that's the picture.

C: Yes. All right, Henry, I'll - I'll do some figuring today and give you the best I can think on.

H.M.Jr: Yes, and if you - and then also what kind of securities the boys would like.

C: Yes.

H.M.Jr: And how much they'd like them.

C: Yes.

H.M.Jr: But I'm in a nice position. I don't have to do anything.

C: Yes I know but you want to look ahead.

H.M.Jr: That's right.

I've got nine months to raise two and a half billion cash.

C: All right, Henry, then I'll talk to you tomorrow.

H.M.Jr: Righto.

C: All right. Goodbye.

September 6, 1938.
10:08 a.m.

H.M.Jr: Hello.

Operator: Mr. Lincoln, the President of the Metropolitan Life Insurance.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Leroy A. Lincoln: Yes.

H.M.Jr: Henry Morgenthau, Jr.

L: Yes.

H.M.Jr: Mr. Lincoln, I'm calling you up, quite frankly, I understand Mr. Ecker is away.

L: Yes, he is. He is sailing tomorrow, I think, gets here next Monday.

H.M.Jr: Well, I'd like to talk to you, the same way I have to him in previous financings, if that's agreeable to you.

L: Why sure.

H.M.Jr: Here's ^(I can do one of three things) my problem during the next twenty four hours. / I can do nothing or I can borrow from a half a billion to a billion dollars cash or I can borrow some cash and offer these maturing December note holders an opportunity to convert into whatever we offer -

L: I didn't hear that, please.

H.M.Jr: We can offer the December note holders -

L: Yes.

H.M.Jr: An opportunity to convert into whatever we offer for cash, the same kind - whatever security we offer for cash we could give the December noteholders the right to convert into that. Hello -

L: Yes.

H.M.Jr: Now, on account of the European situation my picture is naturally muddy and I wonder if you'd mind thinking it over for twenty four hours and letting me call you back tomorrow morning about this time and asking you what you'd do if you were Secretary of the Treasury.

L: Well, that's a pretty big order.

H.M.Jr: Well -

L: Surely, we'll be glad to give you our views any time.

H.M.Jr: After all, you got - represent about the biggest pool of capital in America, and Mr. Ecker has been kind enough to give me his frank advice the last year or two, and I'd appreciate it if you would do the same.

L: Well, I'll be very glad to go over it and as I understand you, your alternatives are nothing or an outright borrowing of a half billion to a billion. Did you have in mind the long-term issue for that?

H.M.Jr: Well, we could have a bond or we could have a bond and a note. I haven't really been able - I haven't - my thoughts on that haven't crystallized.

L: I see.

H.M.Jr: I'd be glad to get your suggestions on that.

L: And then your third alternative is to offer to the December noteholders a conversion.

H.M.Jr: That's right.

L: At the present time.

H.M.Jr: That's right.

L: Uh-huh. Well, of course we're always glad to express any views if you want them, and you want to call up tomorrow morning.

H.M.Jr: I'll call you about this time tomorrow, if that's convenient for you.

L: Oh, that'll be perfectly convenient.

H.M.Jr: And if you care^{to} discuss it with some of your own associates.

L: Good.

H.M.Jr: And as I say, if you'd put yourself in my place, and let me know what you'd do.

L: I'll be very glad to do that and I'll look for a call from you tomorrow forenoon.

H.M.Jr: Thank you so much.

L: All right.

H.M.Jr: And I'd like to ask you tomorrow, I mean, something, I mean about your own feeling as to the conditions, I mean, as you see them.

L: Well, which conditions do you mean?

H.M.Jr: Well -

L: Family or foreign or what?

H.M.Jr: Naturally - within the United States.

L: You mean as to whether business is improving?

H.M.Jr: Right, or getting worse or standing still.

L: Uh-huh. Well, I have my own impression about that and I suppose you do.

H.M.Jr: Yes, but I'd like to have yours.

L: Well, I'll go over that with my associates and see if they confirm my own impression.

H.M.Jr: Would you do that?

L: Surely.

- 4 -

H.M.Jr: Thank you. I - I'd like to get that.
L: All right.
H.M.Jr: Thank you very much Mr. Lincoln.
L: Yes, sir. Goodbye.

(John N. Peyton, Pres. FRB Minneapolis)

September 8, 1938.
10:26 a.m.

H.M.Jr: Hello.
Governor Peyton: Yes, this is Mr. Peyton.
H.M.Jr: Henry Morgenthau, Jr.
P: Yes, Mr. Morgenthau.
H.M.Jr: How are you?
P: Very well, thank you.
H.M.Jr: Governor Peyton, I wish, if you didn't mind, think a little bit about my problem or our mutual financing problem for the next twenty four hours.
P: Yes.
H.M.Jr: Here's what - the way it looks. I've got three alternatives. I can do nothing or I could ask for a half a billion to a billion dollars worth of cash or I can ask for some cash and give the December noteholders a chance to convert. See?
P: Yes.
H.M.Jr: Now, what I'd like you to do is to think about it - talk to some people that you've got confidence in, and I'd like to call you back in about twenty four hours and ask your advice.
P: I'll be very glad to do it. Now you want me to take it up with those who I have the most confidence in this district.
H.M.Jr: That's right.
P: A complete confidence.
H.M.Jr: That's right.
P: Now, just a minute. (aside. Have you got those three things? Got them correctly.) All right, I'll do that and be ready for you in twenty four - Do you want me to call you or do you want to call me?

H.M.Jr: I'll call you.

P: All right.

H.M.Jr: Now, Mr. Peyton.

P: Yes.

H.M.Jr: When I talk to you tomorrow, I'd like to get your best thought on what the business outlook is for the balance of this year, in your district.

P: Oh, I think I can give you that pretty accurately. We keep up to date on that.

H.M.Jr: Good.

P: All right, I'll have it ready for you.

H.M.Jr: Thank you so much.

P: You're very welcome.

H.M.Jr: Goodbye.

(G.J.Schaller, Pres. FRB Chicago)

September 8, 1938.
10:13 a.m.

H.M.Jr: Hello.

Operator: Governor Shaler at Chicago.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Gov. Shaler: Good morning, Mr. Secretary.

H.M.Jr: How are you?

S: Well sir, just about the same out here.

H.M.Jr: Mr. Shaler.

S: Yes.

H.M.Jr: I wanted to tell you what my problem was for the next twenty four hours, see?

S: All right.

H.M.Jr: In connection with Treasury financing.

S: Yes.

H.M.Jr: I'd like you to think it over and I thought I'd call you back in about twenty four hours.

S: Well, what do you mean, what - what - what we should do?

H.M.Jr: Yes, but let me tell you what the problem is, see?

S: Yes.

H.M.Jr: The first place I've got three alternatives. I can do nothing.

S: Yes.

H.M.Jr: Or I can raise between a half a billion and a billion dollars.

S: One half to one billion.

H.M.Jr: Yes.

S: Yes.

H.M.Jr: Or I can raise - and the third thing is that to raise the cash and give the December noteholders an opportunity to convert.

S: Tell - let me see how much have we coming in December?

H.M.Jr: About four hundred million.

S: Four hundred million in December.

H.M.Jr: Yes.

S: And you think we could convert that and raise some cash.

H.M.Jr: That's right, or I can do nothing.

S: Well, you're in a pretty - you're in a pretty strong position as far as your offer is concerned.

H.M.Jr: Very.

S: And, of course we've been thinking about it a little out here.

H.M.Jr: Yes.

S: What - what you might do, and I'll be glad to kind of go over it here and you'd like to have us tell you what - what from this end you - we think would be the -

H.M.Jr: The best.

S: The best. All right, I'll be glad to.

H.M.Jr: I'll call you back in twenty four hours.

S: That's tomorrow morning.

H.M.Jr: Yes.

S: You bet, sir, we'll be ready to answer you.

H.M.Jr: And I'd like to get your impressions as to
- oh the balance/year as far as business goes.

S: Well, I just came back from the country. I
of the
was just telling the boys around the table here.

H.M.Jr: Yes.

S: This - the crops on account of price
and seeding operation are going to move out
very slowly.

H.M.Jr: Yes.

S: Which means that the buying power and so on are
in the hands of the individual especially from
the agricultural sections.

H.M.Jr: Yes.

S: Isn't going to appear until at least late in
the season?

H.M.Jr: I see.

S: So I think these banks, the smaller banks
especially, will be pretty well loaded up, I
think their deposits will not increase. I'm
referring now to the fall not in the center

H.M.Jr: Yes.

S: Just for the reason that I say there's a bulge
there. You've got a - there's a good crop out
here and it'll come, but it'll be late.

H.M.Jr: Well, now, what will that mean - what will the
banks' attitude be, for instance, toward the
subscribing to a cash issue?

S: Now?

H.M.Jr: Yes.

S: Oh, I think you're going to meet pretty good response there, altogether.

H.M.Jr: You do.

S: I don't think that's a large enough factor to really disturb your financing.

H.M.Jr: You don't.

S: No, I don't.

H.M.Jr: But you think that the purchasing power from the agricultural sections is going to be delayed?

S: That's all.

H.M.Jr: Uh-huh.

S: Yes. But I - I don't think that'll interfere with your program to any great extent.

H.M.Jr: How do the manufacturers and distributors feel, in Chicago?

S: Oh, well as I - just as I - we haven't made any canvass but they're just kind of marking time, everybody's -

H.M.Jr: Could you sort of check up a little bit today?

S: Yes I can.

H.M.Jr: Could you call up a few of the fellows so that you could let me know tomorrow?

S: See whether - what you want to know is -

H.M.Jr: Well, how -

S: Spending any.

H.M.Jr: Well, how they feel about the rest of the year, see?

S: How they feel about the balance of the year?

H.M.Jr: Yes.

S: All right, we'll check up a little on that.
H.M.Jr: Would you do that?
S: Glad to, sir.
H.M.Jr: Thank you. Thank you.
S: - Yes. All right, sir.
H.M.Jr: I'll call you tomorrow..
S: All right.

September 8, 1938.
8:59 a.m.

Operator:

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Earle

Bailie: Good morning, Henry. How are you?

H.M.Jr: Fine. I've got to sink my pride a second time and call you. I've got no pride left.

B: What's this?

H.M.Jr: I thought you were going to call me over the weekend.

B: No, Henry, what I understood, I - I - I was crazy to talk to you but I thought that probably you were going to - you probably were pretty busy and probably hadn't gotten away from the farm -- to the farm.

H.M.Jr: No, No.

B: And so I didn't call.

H.M.Jr: You - I thought said - you asked if I would be up on the farm over the weekend.

B: Well, and you said you thought maybe you would and we'd have a talk.

H.M.Jr: Yes.

B: And I had an impulse about six times.

H.M.Jr: Yes.

B: To call you up and then I thought well the poor fellow has been away for six weeks, and probably if he's up there he's working on selling his apples, and so I didn't do it.

H.M.Jr: Well, here we are anyway.

B: Here we are anyway.

H.M.Jr: This is official.

B: Yes.

H.M.Jr: What I'd like you to do is to think over, in the next twenty-four hours, the following problem for your government.

B: Right.

H.M.Jr: Firstly, I - on Thursday I can do nothing. That's plan one.

B: You can't do anything.

H.M.Jr: I could.

B: Yes, you could do nothing.

H.M.Jr: I could do nothing.

B: Yes.

H.M.Jr: Or, plan two. I could offer for cash somewhere between five hundred million and a billion dollars.

B: Right. Which you clearly don't need judging by your cash position.

H.M.Jr: That's right.

B: But on the other hand, if we were going into a cold winter why it would be nice to have it.

H.M.Jr: Well, we know we're going to have a cold winter because we have - well roughly, the program is this, that you get the picture - between now and the first of July I have to raise two and a half million dollars.

B: Of new money.

H.M.Jr: Of new money.

B: Right.

H.M.Jr: And exclusive of the bill, I have maturing another two and a half billion.

B: Yes.

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

B: Right. Now -

H.M.Jr: Now the third program is - I can offer cash, plus an offer to the December notes that convert into whatever the cash offer was.

B: Right.

H.M.Jr: See?

B: I get you perfectly.

H.M.Jr: Now that - that boils down. Hello.

B: I get you Henry.

H.M.Jr: And what I'd like you to do is to think about it and sometime before noon tomorrow morning I'd like to call you up.

B: O.K. Well now Henry, let me tell you my plane.

H.M.Jr: Yes.

B: I'll be in the office all tomorrow morning.

H.M.Jr: Yes.

B: I'm spending the evening with Harrison Williams, down at Bayville, Long Island. There's no reason why I couldn't call you from there, if you wanted me to.

H.M.Jr: Which evening?

B: This evening.

H.M.Jr: No, I wouldn't be ready.

B: You wouldn't be ready.

H.M.Jr: Are you going to be in your office tomorrow morning?

B: All morning.

H.M.Jr: Well, I'd much rather call you there.

B: All right. Now shall I call you or will you call me.

H.M.Jr: No, I'll call you between ten and twelve, New York time.

B: O.K. Well I'll be here all morning.

H.M.Jr: How is that?

B: That's fine.

H.M.Jr: And by that time, you'd know.

B: Well, let me ask you one other question.

H.M.Jr: You can ask me two.

B: The question I want to ask you is this. Do you feel any more worried about Europe than you did the other night?

H.M.Jr: Well, I've got to be terribly honest. If you'd asked me that question yesterday morning I'd have said I felt more worried.

B: Yes.

H.M.Jr: This morning things are a shade better.

B: Well now, I feel about it just the way I felt the other night which was that nobody could tell what was going to happen.

H.M.Jr: Yes.

B: But that if I had to bet I'd say well there's at least a fifty-fifty chance of there not being war.

H.M.Jr: Yes.

B: Maybe a little better than fifty-fifty chance.

H.M.Jr: Well, I've been saying fifty-fifty, but as of this morning I think it might be fifty-five for peace, forty-five for war.

B: Right.

H.M.Jr: But if you called me up at noon I might be different again.

B: That's all right, I just wondered because in the background of my thinking I am going on the basis of pretty close to fifty-fifty.

H.M.Jr: Yes. But I mean, as of this morning, it's a little fraction better for peace but it changes every hour.

B: Sure.

H.M.Jr: Now, here's the amazing thing. Nobody in the United States Government and - knows what Hitler and Henlein talked about.

B: Isn't that amazing.

H.M.Jr: And the English tell us that they don't know.

B: Yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: So as far as I'm concerned the foreign dispatches of the New York Times are as good information as anybody has.

B: Yes.

H.M.Jr: See? That - the English tell us they don't know.

B: Well, I don't doubt it.

H.M.Jr: So - so there you are, but - but - yesterday was very bad in England, financially. Today is better and sterling - the price of sterling reflects that.

B: Right.

H.M.Jr: See?

B: Yes.

H.M.Jr: Now, you've really got everything that anybody in Washington has got when I tell you that.

B: Well, I tell you I just - offhand, I thought about this a lot, over the weekend.

H.M.Jr: Yes.

B: And my feeling is I would not do nothing.

H.M.Jr: Yes.

B: Unless there was war.

H.M.Jr: Yes.

B: Because I think it looks as if youwere - it would be almost - almost the most frightening thing you could do.

H.M.Jr: Yes.

B: From the business community's point of view.

H.M.Jr: Yes.

B: Now, let me - I'll think that over again, but - just for what it's worth.

H.M.Jr: Yes.

B: That's my first impression.

H.M.Jr: Yes.

B: But I don't want to see you stick your neck out so far.

H.M.Jr: No.

B: That I'd personally have to take my two dollars and a half to subscribe to your damned bonds to make it a success.

H.M.Jr: Well -

B: Some place in between.

H.M.Jr: Yes.

B: Don't you think so?

H.M.Jr: Well, as I say, that - between now and tomorrow at three o'clock I've got to make that decision.

H: Right. I don't think you need to make - do anything terribly risky, still I think you can put on a small show for the regular patron.

H.M.Jr: Yes.

B: I'll give - I'll expect to hear from you tomorrow morning, then.

H.M.Jr: Because remember this, there's nothing in the Constitution that says that I couldn't do, say a little something now, and a little something in October.

B: Oh, exactly.

H.M.Jr: What?

B: I - I understand perfectly.

H.M.Jr: I - I mean there's nothing in the Constitution -

B: That's right.

H.M.Jr: - that forbids that. There's a fellow down here, Bailey, that got us doing this thing on a quarterly basis. And -

B: As a matter of fact it's high time to get rid of any presents that guy left you with.

H.M.Jr: I don't feel that way.

B: Well, I - I think Henry, that the appearance of business as usual is extremely important.

H.M.Jr: Right.

B: To everybody.

H.M.Jr: Right.

B: All right then, I'll expect to hear from you tomorrow morning.

H.M.Jr: That's right.

B: And if - if you're up at the farm next weekend you can't avoid a talk from me, because I've got a lot of things I want to talk to you about.

- 8 -

H.M.Jr: All right.
B: Take care of yourself.
H.M.Jr: Thank you.
B: Goodbye.

(N. A. Young, Pres. FRB, Boston)

September 6, 1938.
9:16 a.m.

Operator: Go ahead.

H.M.Jr: Hello.
Governor Young: Hello.

H.M.Jr: Governor Young.

Y: Yes.

H.M.Jr: Henry Morgenthau.

Y: How are you this morning, Mr. Secretary?

H.M.Jr: Fine.

Y: I'd like you to think about my - our mutual problem for the next twenty-four hours which is the following. On our financing I can do one of three things. I could do nothing - hello.

Y: Yes.

H.M.Jr: Or I could raise between five hundred million and a billion dollars cash or I can raise the cash and give the December maturities a chance to convert into whatever I offer for cash. Hello.

Y: Yes.

H.M.Jr: Now those are the three alternatives that I have. I wish you'd think those over and I'd like to call you back in twenty-four hours and get your advice.

Y: Well, I'm away up in New Hampshire.

H.M.Jr: Oh!

Y: And I'm leaving this afternoon.

H.M.Jr: Yes.

Y: To go down to Boston.

H.M.Jr: Yes.

Y: And could you call me about this thing -
could I call you about this time tomorrow?

H.M.Jr: Yes, you can.

Y: Now, this is - this is a party line.

H.M.Jr: What's that?

Y: I say this is a party line that you're on.

H.M.Jr: I see.

Y: I don't think anyone else is on it.

H.M.Jr: Well -

Y: But you said you had three options.

H.M.Jr: Yes.

Y: Well, can you repeat those. I couldn't hear
very well.

H.M.Jr: I - Number one, I can do nothing.

Y: Yes.

H.M.Jr: Number two, I can raise between a half a billion
and a billion dollars in cash.

Y: Yes.

H.M.Jr: Number three, I can raise the cash and also give
the December maturity an opportunity to convert
into whatever I offer now.

Y: I see.

H.M.Jr: See?

Y: Yes.

H.M.Jr: Those are the three alternatives.

Y: Well, I'll call you back in the morning.

H.M.Jr: Will you do that?

Y: I'll be very happy to.

- 3 -

H.M.Jr: All right.

Y: All right.

H.M.Jr: Goodbye.

Y: Goodbye.

September 8, 1938.
9:07 a.m.

H.M.Jr: Hello.

Operator: Mr. Coolidge.

H.M.Jr: Thank you.

D: Go ahead.

H.M.Jr: Hello.
Jeff

Coolidge: Hello. Good morning Henry.

H.M.Jr: How are you Jeff?

C: Fine, and how are you?

H.M.Jr: Fine. Jeff, I'd like you to think over some Treasury problems during the next twenty-four hours.

C: Yes.

H.M.Jr: This is what I'm faced with. Between now and tomorrow night I can do one of three things on our financing.

C: Yes.

H.M.Jr: I can do nothing, or I can make a cash offering somewhere between say five hundred million and a billion, or I can make the cash offering and give the December maturities the right to convert into I - whatever I offer for cash.

C: Yes.

H.M.Jr: Now those are my three alternatives, and between now and tomorrow noon I've got to make up my mind.

C: Well, I can tell you Henry I've been thinking that over, what - trying to guess and so forth.

H.M.Jr: Yes.

C: And my hunch would be to sell five hundred thousand - five hundred million cash and convert the Decembers.

H.M.Jr: Five hundred million cash.

C: Yes.

H.M.Jr: And convert the Decembers.

C: Yes.

H.M.Jr: Had you thought all - at all about what kind of piece of paper?

C: Well, I wouldn't be quite so sure about that, but I was rather thinking of twenty to thirty years, two and three quarters.

H.M.Jr: You would. I say you would.

C: Yes.

H.M.Jr: That's what I call the Coolidge Plan. Well, Jeff. Hello.

C: Yes.

H.M.Jr: Think it over and I'll call you up in the forenoon tomorrow.

C: Good.

H.M.Jr: Will you be at your office?

C: I'll be here tomorrow morning, yes.

H.M.Jr: Fine. Think it over.

C: I tell you, I have a meeting eleven to twelve tomorrow.

H.M.Jr: Well, I'll put in a call and then when you're free they'll put you on.

C: Fine.

H.M.Jr: How's that?

C: One or two people here - get their opinion.

H.M.Jr: Yes. I wanted to give you twenty four hours.

C: All right.

H.M.Jr: To think about it.

- 3 -

C: All right, Henry.

H.M.Jr: Goodbye.

C: Goodbye.

September 6, 1938,
9:21 a.m.

H.M.Jr: Hello.

Operator: Mr. Rentschler. Go ahead.

H.M.Jr: Hello.

Gordon
Rentschler: Hello Henry. Good morning.

H.M.Jr: How are you?

R: All right.

H.M.Jr: You sound as though you were away, far.

R: No, I'm right here in my office.

H.M.Jr: Gordon -

R: Do you hear me now?

H.M.Jr: I hear you moderately well. I got - I'd like to put up three alternative plans to you, for you to think over the next twenty four hours.

R: All right, fine.

H.M.Jr: Number one on my financing.

R: Yes.

H.M.Jr: I can do nothing.

R: Yes.

H.M.Jr: Number two, I could raise between a half a billion and a billion dollars in cash, and number three I could raise some cash and give the December notes a chance to convert.

R: Yes.

H.M.Jr: Into whatever we offer to cash.

R: Yes.

H.M.Jr: Now, those are the three alternatives that I've got.

R: Well they really are going to be determined in the next twenty four hours by what those fellows do on the other side, aren't they?

H.M.Jr: Partly. Also, I mean, depending upon our own financial community.

R: Yes. Now, as far as you are concerned, Henry, you - if you wanted to take the first alternative and do nothing -

H.M.Jr: Yes.

R: You have all the cash you need to carry you for some - quite a period.

H.M.Jr: That's right.

R: So that you really - you're not being forced to do anything.

H.M.Jr: That's right.

R: And on the second, there'd just be the question the second and third alternative as to which would - the market would take.

H.M.Jr: That's right.

R: Now of course the market is laying full of money and it is very anxious to invest.

H.M.Jr: That's right.

R: And the only question in our minds now is will they invest it at more advantageous pace later on than now.

H.M.Jr: Yes.

R: That's really what they'll be balancing in their minds.

H.M.Jr: Well, the other thing is how would the market react if we did nothing? I mean would they consider that very bearish?

R: Yes.

H.M.Jr: See?

R: Yes, I'd like to think about that a little bit.

H.M.Jr: They - they might think, well gosh Morgenthau must be pretty worried.

R: Well, of course, all of that has been kept out of it so far Henry, I think you've done a swell job on that.

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

R: For

R: /instance Jim Townsend has been away, sitting over at his house, watching the papers, and not in contact with the bank, came in this morning with a feeling that everything was very calm and very clean.

H.M.Jr: Who - who is that?

R: My - one of my assistants.

H.M.Jr: Oh, yes.

R: He felt that this thing was in good shape.

H.M.Jr: Yes.

R: Jim Townsend, you - you know him.

H.M.Jr: Well, I know his name.

R: Yes. Now, I mean not - I think that indicates pretty clearly that there was - that there is an atmosphere of calmness and this market was very valuable to preserve if we can.

H.M.Jr: That's what I want to do.

R: I think that's very important, up to the time something breaks out over there.

H.M.Jr: That's right.

R: We've had nothing new from the other side this morning, other than just the market was sterling.

H.M.Jr: That's right.

R: And our own fellows, apparently, from both London and Paris have not called in, which indicates that they feel that there's nothing they can give us other than what's in the papers.

H.M.Jr: Well, there isn't anything other than what's in the papers and we haven't got anything here and the British Government tells us that they haven't got anything.

R: Well I think that would be - if any outsider would get it I think that between Kass Bannon and Benel, those three boys would get it, and they just have had nothing this morning.

H.M.Jr: Well, we haven't got anything.

R: Well that's - I'm glad to know that.

H.M.Jr: Yes.

R: But now Henry, I'll - I'll talk to our boys about this, the ones that I can talk with confidentially.

H.M.Jr: Right.

R: And then if there's anything further, why let me know, will you?

H.M.Jr: Well, I'm going to call you back in twenty four hours.

R: All right. Fine.

H.M.Jr: That meeting went all right the other night.

R: I think it went extremely well, don't you?

H.M.Jr: I thought it brought out some interesting facts.

R: Yes, I think it was - I think it was a very wise thing to do. The general reaction of the few fellows I went away with afterwards was exactly the same.

H.M.Jr: You felt it was worth your while to come down, did you?

R: Very definitely so.

H.M.Jr: Good.

R: I think it's extremely important to be ahead of these things rather than behind them.

H.M.Jr: That's right.

R: And as it was I think that group of fellows turned out to be pretty good.

H.M.Jr: I thought they were very good.

R: Tell me, who in the dickens was the fellow that I insisted on calling Mr. Warren?

H.M.Jr: He is assistant to Walter Stewart.

R: To Walter Stewart.

H.M.Jr: Walter Stewart.

R: Oh, Walter Stewart.

H.M.Jr: He's his assistant.

R: Oh, I see, well what is the - what's his history.

H.M.Jr: He's an economist.

R: Oh, I see. Is his name Warren?

H.M.Jr: Yes.

R: Oh, I see. Well, I - I thought I was right about that. I'd been calling him Warren for quite a while when I thought good golly, maybe I'm wrong about it.

H.M.Jr: No, he - back - oh two or three years ago - did quite a paper on gold sterilization.

R: Yes, I know that. Well, I've - I've gone back and forth with him for two or three years and always called him Warren and then somebody told me, when I came out, that I was wrong, but I'm glad to know I'm right.

H.M.Jr: No, his last name is Warren and he's the assistant to Walter Stewart, and he's a sort of - specializes in gold.

R: Yes, I see. Well I - I've got it straight now and I was right anyway. All right, Henry.

H.M.Jr: All right.

R: Good luck to you, but I think you did a good job last week.

H.M.Jr: Well, I'll call you back in twenty four hours.

R: Yes, and if we hear anything - get any feel in the meantime, I'll give you a ring.

H.M.Jr: And then if you do think that we should do something you might be thinking what kind of a piece of paper we should offer.

R: Very good indeed.

H.M.Jr: All right. But we're in a nice position that we can really do - move in any direction.

R: Yes.

H.M.Jr: I'd like to stay that way.

R: Yes. Well, that's the right way to stay.

H.M.Jr: Right.

R: All right.

H.M.Jr: Goodbye.

R: Goodbye.

37

RE: SEPTEMBER 15 FINANCING

September 6, 1938,
8:00 P. M.
(At H.M.Jr's. Home.)

Present: Mr. Taylor
Mr. Bell
Mr. Burgess
Mr. Haas
Mr. Lochhead
Mr. White
Mr. Seltzer
Mr. Harris

H.M.Jr: I had a chance to tell him what we're doing.

Bell: What'd he say? What are we going to do about the President's approval?

H.M.Jr: I thought we'd give it to a Secret Service man and let him take it up to him tonight, and let him sign it tomorrow. He could fly to Newark, let a man meet him at Newark, and be up there at twelve.

Well, Larry, what do you recommend?

Seltzer: Why, my first choice would be these bonds you're talking about - two and a half, fifty fifty-two. I think they are very sweet, - and your notes. But my very first choice would be six hundred instead of seven hundred. I don't think it's quite as safe.

H.M.Jr: How would you divide six hundred?

Seltzer: Four and two.

H.M.Jr: Well, we'll go around the room. Archie?

Lochhead: I would approve of the full seven hundred. I don't think you're asking too much; you're cutting down a hundred under what I thought you'd ask for, in the first place. I think that is just in his own mind and not in the market's mind. I think the market will take them.

H.M.Jr: Think it's fairly safe?

Lochhead: I think it's absolutely safe. I think I'd under-

write it at a premium of one and a half if I were a bond dealer. It's a fairly good syndicate.

H.M.Jr: George, after reading your pessimistic business review, I'm a little shaky. George is a little pessimistic on business; how about bonds?

Haas: Despite that, I'd be inclined to leave the proposal, as you gave it this afternoon, stand. I feel a little bit of Larry's apprehension, but, as he says, he doesn't feel it very strongly. I think I'd go it.

H.M.Jr: No alternatives?

Haas: No.

H.M.Jr: Harris?

Harris: Well, I think it's perfectly safe. I prefer a fifty fifty-three bond over a fifty fifty-two, because I think you can sell it just as well and you get the advantage of a year. I am not so much worried about what the market will take as I am about how much money we're going to raise. In other words, I'd rather see five hundred million dollars raised in the long bond than I would eight hundred million in a short bond. The amount of money you take will affect the market more than the amount you use. As far as the amount you use - any of that you put out will go fine.

H.M.Jr: What conclusions do you draw?

Harris: I'd prefer to see six hundred million than I would more of money.

H.M.Jr: You're with Larry?

Harris: Yes.

Bell: You're thinking about two issues when you say six hundred?

Harris: I think you could even do it with two and three-quarters.

Bell: Whether it's a five hundred million issue or eight hundred issue?

Harris: In other words, I think the amount of money that you ask for would have more affect on the market than the bonds you raise it in.

H.M.Jr: You recommend a six hundred million. What would you sell?

Harris: I think a very conservative bond would be a two and a half.

H.M.Jr: Would you split it?

Harris: Four and two.

H.M.Jr: You and Larry are together.

Burgess: Except you'd use the bond one year longer?

Harris: I like a fifty fifty-three better than I do a fifty fifty-two.

H.M.Jr: Have we got anything coming due in fifty?

Burgess: No.

H.M.Jr: Or fifty-one?

Bell: There are those fifty-one fifty-fives.

H.M.Jr: But nothing in fifty?

Bell: No.

H.M.Jr: Well, then, it gets down - he's had a change of heart since I've seen him. Taylor?

Taylor: I haven't had any change of heart.

H.M.Jr: Where are you?

Taylor: I'd do it fifty fifty-two, and the notes.

H.M.Jr: How much?

Taylor: I could still be talked into a little more money.

H.M.Jr: A little more money? You'd go up to eight hundred?

Taylor: I think you are perfectly safe on eight hundred. If you do eight hundred I'd split it five and three.

H.M.Jr: Dan:

Bell: Well, after we finished our conference I wrote my ticket, four fifty and two and a half bonds, fifty fifty-two, and three hundred million of the June fifteen offering. After we finished with the Discount boys I wrote down four fifty and three for those two issues. Now you've got four to three; I don't kick on that. I don't think there's enough there to kick about.

H.M.Jr: Care whether it's fifty fifty-two or fifty fifty-three?

Bell: No, I don't care. You want it bomb proof, and I think the fifty fifty-two is O. K.

H.M.Jr: Randolph?

Burgess: I stick by the program. Four and three - four hundred and three hundred. Fifty fifty-two, I think, is a little bit safer, particularly for that amount and the opening up of the old note. I think it's a good program. I think it's just as generous as you can make it, and as short as you can make it, without appearing too concerned. I think it is a good program; I think it will go. Except for the actual outbreak of war.

H.M.Jr: And after having a couple of hours, I don't think we can price it to make sure it will go with an announcement of the outbreak of war.

Burgess: If war is announced you'd simply have to postpone it.

Bell: On the other hand, it might go with pretty bad news.

Burgess: I think that would go with pretty bad news. I think you could still make that go.

H.M.Jr: Of course, that turn-around on the foreign exchange was a false report.

Lochhead: It was not verified. The market turned around on the unverified report that the settlement had been made with Czechoslovakia. Still, it showed how strongly the market was trying to come back. They have discounted a lot of bad news and if there

is any good news at all they'd have a pretty good snap back.

Burgess: In other words, it was oversold yesterday.

H.M.Jr: Well, the more I think of it, I don't think we can price a war-proof bond.

Bell: No, I don't think so.

Haas: It's Divine.

H.M.Jr: I don't think we can do it.

Lochhead: I don't think it's in your promise, is it, Mr. Secretary? If you are going to try to price a war-proof bond, you'd have to put such a terrific premium on it, you'd scare it, domestically.

H.M.Jr: Supposing Thursday morning early they'd declare war, then what? Can I call this thing off?

Burgess: Yes.

Bell: It will not have been mailed.

H.M.Jr: On Wednesday morning?

Bell: Well, it will be mailed tomorrow night.

Taylor: Do you think it makes any difference because you have had your announcements out - sent out the night before? And if it happens to you right in the middle of it, sell what you can.

H.M.Jr: We'll just call it off.

Taylor: I don't think you need do that. If it's a flop, it's too bad.

Burgess: Sell what you can during the day and close the books that night, - so far as it goes.

H.M.Jr: Well, I can't foresee it, that's all.

Taylor: And if it happens in the middle of it you are certainly not going to be criticized for it.

H.M.Jr: I think if we pick up seventy or seventy-five million of new money at the present time, on top of what we've got

Burgess: That's plenty.

H.M.Jr: I think that's plenty.

Harris: The market is looking quite a bit toward what we are going to do. We have been looking toward the market quite a bit, and it's looking toward us now.

Burgess: It's a great advantage to have the market expect about what you do.

H.M.Jr: Now there is one insurance company today that went out and bought long-term Governments, which seemed to make the dealers happy. If they want to go into longs, fine; that will pull the rest up.

Lockheed: The war scare or no war scare, there is going to be no shortage of bank funds here. They may get frightened, but they are still coming in.

H.M.Jr: There may be more funds than ever. After thinking it over, I think it's all right. Any after thoughts? Anybody? Last call - I mean as far as tonight goes. We have all day tomorrow to check up on the country.

Burgess: One question we discussed a little after we left you was whether you want to allow any interest on the December notes, and we figured it out and found the amount of interest - the difference between the one and an eighth per cent coupon you'd give, and the one and a quarter for those three months, would be one thirty-second, which can be ignored.

H.M.Jr: Now, I am a December noteholder and I turn it in for a note. What happens to me?

Burgess: You'd simply get a new note.

Bell: You'd get one and a quarter per cent earned interest up to September 15, and then you'd get a one and an eighth note, dated June 15. You get cash for one eighth of one per cent.

Burgess: No. That is, you get the accrued interest on your note, up till September 15 when you turn it in.

H.M.Jr: After that?

Burgess: You get the new interest that the note carries.

H.M.Jr: Then you don't get any cash?

Bell: Yes, they do, because you have to give them a note for the June fifteen - for the one and an eighth coupon, which is about thirty-one cents a thousand.

H.M.Jr: Up to September fifteen.

Harris: You can make them pay for that.

Bell: Well, on a premium

Burgess: You are simply paying the coupon, that's all.

H.M.Jr: But you're paying a three months' coupon.

Bell: In effect, we're paying the difference. What we do is credit them at one and a quarter per cent and charge them one and an eighth.

H.M.Jr: And if he takes the bond?

Bell: Then he gets the full one and a quarter per cent for three months and gets a new bond at two and a half per cent dated September fifteen.

H.M.Jr: And in either event, September fifteen - oh, he gets the interest on the new note and no more.

Bell: That's right.

Taylor: One and a quarter is tops in either case at September fifteenth.

H.M.Jr: What else?

Bell: That's the only question.

H.M.Jr: You want to go to the phone and tell the boys.

Bell: If you've got everything settled.

H.M.Jr: All right with me. I said thirty minutes.

Bell: I practically have it all written up. Now, how about the telegrams, can we send them and have you initial them in the morning?

H.M.Jr: What telegrams?

Bell: The telegrams to go out - to print these up and have them ready to mail tomorrow afternoon.

H.M.Jr: But the final O. K. isn't until three o'clock, daylight saving time.

Burgess: The Federal Reserve Banks will print these up and have them all ready to mail, but no piece of literature will go out until you approve it.

H.M.Jr: Go right through there; there's a phone in there.

Bell: (Leaves the room.)

H.M.Jr: (To reporter:) That's all.