

DIARY

Book 140 - Part II

September 15, 1938

GOVERNMENT FINANCING

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38. Sept. 7, 1938. - Telephone call to Moffatt at the State Department. Moffatt had some cables in from Kennedy late last night which were not encouraging. Cable from Bullitt to the effect that the Foreign Offices considers the gap between the Sudeten demands and the Czech offers have now been narrowed to such an extent that they considered it inconceivable the remaining difference should lead to a conflict." HM, Jr said "today's my day that I've got to decide."
39. (A blank page, because of error in numbering)
40. Sept. 7, 1938. - HM, Jr telephoned Ambassador Kennedy to get his guess as to whether trouble might be expected for the balance of the week. Kennedy said no; that it is anybody's guess, but he would say HM, Jr was perfectly safe.
41. Sept. 7, 1938. - HM, Jr telephoned Ambassador Bullitt he wants Thursday and Friday to be peaceful and Bullitt said he was practically safe.
42. Sept. 7, 1938. - The ten bankers whom HM, Jr phoned yesterday for their opinion on his three alternative plans phoned the Secretary today and gave him their answers.
43. Sept. 7, 1938. - Cochran reports to the Secretary what his friends think. One he talked to was Coule, General Manager of the Swiss Bank Corporation at Basle, who has very good German connections, and he feels situation is much better since Great Britain and France have demonstrated their interest in avoiding any war in Central Europe. Bach, Swedish Central Banks, looks for troublesome period that will finally end up in a plebiscite for the Czechs. He also spoke to Arch Pickens, Berlin representative of the Bankers Trust. Also talked to Paris manager of the National City, who expects no immediate trouble from Germany. Cochran also talked with the Morgan partner in Paris, who thinks Hitler will quit negotiating and not precipitate trouble. Spoke to an economist, Pat Ravsky, just back from Rome, and with Byron, President of the BIS. Cochran thinks it's absolutely safe for the balance of the week.

44. Sept. 7, 1938. - HM, Jr's note that when he told Governor Harrison what the proposed bond program was, Harrison was very much pleased.
45. Sept. 7, 1938. - Telegram to McIntyre at Hyde Park that HM, Jr is sending a Secret Service man by aeroplane with authorization for tomorrow's financing which requires President's signature.
46. Sept. 7, 1938. - Photostat of document signed by the President.
47. Sept. 7, 1938. - Telephone call with Dr. Burgess. With him in his office were Mr. Dudley Mills, President of Discount Corporation; Mr. Herbert Rapp, Vice President-Director of the Discount Corporation, who saw no reason to change their opinions from yesterday.
48. Sept. 7, 1938. - Release for morning papers of Treasury's offer of \$400,000,000 of 12-14 year 2½% bonds, 1950-1952, and \$300,000,000 of 1-1/8% Treasury notes of Series A-1943.
49. Sept. 8, 1938. - Group meeting. HM, Jr spoke to Burgess who reported that it looks all right; bonds are quoted 101½ and notes 101½ at 9:30 am and reports that most of the banks will subscribe for cash right up to the limit.
50. Sept. 8, 1938. - HM, Jr's conversation with Matteson at 12:56 pm. Matteson reports it looks very good.
51. Sept. 8, 1938. - Telephone conversation with Mr. Matteson who said "It's going big, Mr. Secretary. Over a billion." This conversation was at 2:13 p.m.
52. Sept. 8, 1938. - Telephone conversation with Burgess at 2:37 p.m. New figures: on the bond, \$1,070,000,000 and on the notes \$703,000,000.
53. Sept. 9, 1938. - Telephone conversation with Burgess at 9:21 a.m. Figures this morning are \$1,500,000,000 on bonds and \$1,000,000,000 on the notes.

54. Sept. 9, 1938. - Rentschler phone Secretary that he had \$235,000,000 in orders go through his bank for the bonds and notes, mostly the bonds. "From your standpoint, Henry," it's a marked success."
55. Sept. 9, 1938. - Group meeting. (Page 2.) Bell is to call Secretary on the Farm with final allotment figures and Gaston will get out an announcement in the afternoon.
56. Sept. 9, 1938. - Press release announcing closing of books tonight for receipt of subscriptions in payment of which Treasury notes of Series E-1938 are tendered and close as of midnight tonight, Sept. 9, for exchange subscriptions for either notes of bonds.
57. Sept. 10, 1938. - Press release announcing subscription and bases of allotment for the cash offering.
58. Sept. 12, 1938. - Phone conversation between HM, Jr and Mr. Lochhead reporting on foreign situation and particularly calling HM, Jr's attention to fact that Government bond market turned weak at the opening and is now quite weak. FRB of New York is doing some switching. Burgess is upset because market is off. HM, Jr asked for connection with Ransom and told him he would be willing to take \$10,000,000 Ransom suggested FRB and Treas operate on joint account to support the new issue and HM, Jr said Fine.
59. Sept. 12, 1938. - Another phone conversation between HM, Jr and Mr. Lochhead, at 11:39 a.m. Lochhead reports "much better tendency now. Just as soon as they went into the market and inquired about bonds, it started in tightening up.
60. Sept. 13, 1938. - Phone conversation, at 9:10 am, between HM, Jr and Mr. Ransom. HM, Jr pleased with results yesterday.
61. Sept. 13, 1938. - HM, Jr telephoned Burgess at 9:22 am to inquire about the Government bond market. Burgess reports it opened way above last night's stock exchange closing and about even with late closings. HM, Jr suggested Burgess talk to New

New York Times representative so they will write correct story on the closings.

62. Sept. 13, 1938. - HM,Jr's conversation with Moffatt. Moffatt said they have been getting a little more optimism out of Paris than out of London and HM,Jr said that checked with what the Bank of England told the FRB of NY this morning.
63. Sept. 13, 1938. - Governor Ransom told HM,Jr that he he had had long discussion with Eccles over handling of the Government bond market and for the first time finds himself in complete disagreement with Eccles. Ransom feels that in view of the European situation, the Federal Reserve should do everything to assist in maintaining the Government bond market. Eccles' position is that they should not increase their present portfolio by one dollar.
64. Sept. 13, 1938. - Phone conversation with Ransom. Ransom has just gotten word what was happening to the bond market which obviously reflects the Sudeten ultimatum and Ransom told Burgess to "stand under it."
65. Sept. 13, 1938. - HM,Jr phoned Burgess to inquire how much it had cost them to support the market and Burgess did not know. Will call back.
66. Sept. 13, 1938. - Phone call from Burgess. It has cost \$410,000 so far.
67. Sept. 13, 1938. - Matteson, in reporting, says with the latest bad report, that the Czechs had ignored the ultimatum, the market seemed to take another break. HM,Jr instructed him to go in there and take care of the Government market and "today of all days we want to demonstrate to the world and that we have the wherewithal to do it."
68. Sept. 13, 1938. - Again spoke to Matteson, who reported they had bought about \$25,000,000 which was all right with HM,Jr. "Doesn't frighten me a bit." And he, HM,Jr, wouldn't be opposed, tomorrow, if the skies brighten, to sell a few if the market ran up a half a point.

69. Sept. 13, 1938. - On the phone, HM, Jr told Knoke they would quit operating at 5:30. Knoke thought 5:15 would be all right because he does not think it will change the trend any, the trend is weak; sterling is offered and the longer we wait the more we get.
70. Sept. 14, 1938. - Phone conversation between HM, Jr and Mr. Ransom. Ransom has just told Sproul again under no circumstances to let the new bond or the new note break through par; whatever it took to do it, to do it. Sproul says they did \$26,000,000 today. HM, Jr said he agreed and he had given them an order to buy for the Treasury another \$25,000,000 making \$50,000,000 all together.
71. Sept. 14, 1938. - HM, Jr telephoned Matteson to say he authorizes him to order another \$25,000,000 making \$50,000,000 all together.
72. Sept. 14, 1938. - Allen Sproul, FRB of NY, telephoned some good news has come in and bond market is looking up.
73. Sept. 14, 1938. - HM, Jr telephoned Knoke and kidded him about putting Sterling up.
74. Sept. 14, 1938. - Press release, announcing final subscription and allotment figures.
75. Sept. 19, 1938. - Phone conversation between HM, Jr and Moffatt. HM, Jr asked Moffatt to come over and bring what messages he has.
76. Sept. 19, 1938. - Harris' memorandum of Purchases of Treasury bonds in the Open Market during the Past week.
77. Sept. 20, 1938. - HM, Jr phoned to Bullitt to inquire outlook for next 24 hours. Bullitt reported "sour".
78. Sept. 20, 1938. - HM, Jr and Moffatt's phone conversation. HM, Jr told Mr. Moffatt of his conversation with Bullitt and that Bullitt is very blue about the next 24 hours.

79. Sept. 20, 1938. - Harris' memorandum that Treasury bonds and notes were in good demand today, particularly the bonds, and the market was active.
80. Sept. 23, 1938. - Mr. Lochhead and Mr. Ransom on the phone at 2:15 pm. Thrashed out that since FED has sold some bonds they ought to bring their total up to what Treasury total is.
81. Sept. 23, 1938. - Mr. Lochhead and Mr. Ransom on the phone at 3:03 pm. Ransom spoke to five members of the Executive Committee when FED gets back to its portfolio figure before they started buying then we'll start in on joint account.
82. Sept. 24, 1938. - Lochhead's memo to Secretary outlining substance of his conversations with Ransom.
83. Sept. 26, 1938. - Harris' review of the U. S. Government bond market during the past week.
84. Sept. 27, 1938. - Lochhead's report of his conversation with Ransom who said that in view of disturbed conditions abroad there would probably be pressure on the Government bond market again this morning and after discussing it with FRB of NY they felt it would be all right for the market to go off 1/4th or 1/2 of a point a day. Lochhead called Ransom's attention to fact that the new 2^{1/2}s would then be quoted below par, and that FRB of NY should be given instructions to maintain them above par. Ransom said he would so instruct the FRB.
85. Sept. 28, 1938. - HM, Jr's conversation with Knoke on the phone. They both agreed they could not do any more than they had been doing with regard to Sterling.
86. Sept. 28, 1938. - HM, Jr and Ransom discuss over phone Federal's activity in the bond market and both were pleased.
87. Sept. 28, 1938. HM, Jr and George Harrison on the phone. Bonds are up. Harrison thinks President's address is as much responsible for the peace talk as anything else.

88. Sept. 28, 1938. - HM, Jr and Ransom on the phone.
HM, Jr told Ransom he is entirely satisfied with the way the bond market was handled today and that he would rather be "criticized for profit than a loss."
89. Sept. 29, 1938. - HM, Jr phoned Mr. Moffatt inquiring about the Munich conference, but Moffatt said no news; the Ambassadors had all gone home to get some rest. Moffatt says there has to be a compromise between the two points of view.

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September 7, 1938.
8:50 a.m.

Jay Pierrepont

Moffat: Good morning.

H.M.Jr: Hello.

M: Hello, sir. How are you?

H.M.Jr: What are you doing down so early?

M: Oh, this is my time.

H.M.Jr: I see. I wondered if you had anything in from either Bullitt or Kennedy.

M: Yes. We had some stuff in from Kennedy late last night.

H.M.Jr: Yes.

M: And it's not extremely encouraging.

H.M.Jr: Uh-huh.

M: He'd seen Halifax.

H.M.Jr: Yes.

M: Who really didn't tell him very much.

H.M.Jr: Yes.

M: Indicated that they were trying to marry the scheme of Benes' council plus Runciman's plans.

H.M.Jr: Uh-huh.

M: But then he sent another telegram, which he did not give the source of, but which is much more interesting.

H.M.Jr: Yes.

M: He just called it a unimpeachable source.

H.M.Jr: Yes.

M: He said that Runciman was working on his own plan to use in case of need.

H.M.Jr: Yes.

M: That this plan in effect was entirely the Carlsbad eight points.

H.M.Jr: I see.

M: That the British Ambassador in Paris had gone to Bonnet and said "Assuming that we bring out this plan and that the Czechs don't accept it what will then be your position?"

H.M.Jr: Yes.

M: Bonnet is alleged to have replied, "Any plan that satisfied Runciman and the British Government, if not accepted by the Czechs, will forfeit French sympathies." whereupon Tripp said, "Well you go and tell that to Benes and that ended the conversation."

H.M.Jr: I see.

M: The other item in that same telegram was to the effect that Australia is alleged to have given her point of view to the British Government, which was definitely that pressure should be put on the Czechs to yield.

H.M.Jr: Uh-huh.

M: Now, they're just handing me two telegrams now, if you can hold the line a second, I'll see what they are. Why here's one in from Bullitt.

H.M.Jr: Yes.

M: I'll sort of paraphrase loosely as I go along.

H.M.Jr: Well -

M: And, abruptly, I see the first paragraph says that he considers - the Foreign Office considers the gap between the Sudeten demands and the Czech offers have now been narrowed to such an extent that they considered it inconceivable the remaining difference should lead to a conflict.

H.M.Jr: I see.

M: And that thus far the concessions had come from the Czech side.

H.M.Jr: Would it be possible to see those, both Bullitt's and Kennedy's.

M: Yes, why don't I send them over to you by one of my men, in a few minutes, when he gets in.

H.M.Jr: Well, I -

M: And let you read them, and then he can bring them back.

H.M.Jr: I can send a - I can send a Secret Service man over.

M: Oh, don't trouble on that. I'll send it over.

H.M.Jr: What?

M: I think that would save time all the way around.

H.M.Jr: I think it would. And today's my day that I've got to decide.

M: Yes, of course.

H.M.Jr: So -

M: Well, say - say in fifteen minutes.

H.M.Jr: Fine.

M: Good.

H.M.Jr: Thank you so much. Thank you.

No. 39 is a blank page because of error in numbering pages.

40

September 7, 1938.
10:44 a.m.

H.M.Jr: Hello. Hello.

Operator: I have Ambassador Kennedy now, in just a minute.

O: Ambassador Kennedy.

H.M.Jr: Thank you. Hello.

Ambass.
Kennedy: Hello Henry.

H.M.Jr: Hello, Joe.

K: How are you?

H.M.Jr: Fine. I haven't got any of that sunburn left though.

K: Mine's all washed out too.

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

K: Well they're all fine. Some of them are still down there Henry and the rest are traveling through Scotland and young Jack has gone home.

H.M.Jr: I see.

K: Yes. But they're all scattered again now until we gather them together.

H.M.Jr: Well, that's too bad. The reason I'm calling you is this. I've got a financing Thursday and Friday.

K: Yes.

H.M.Jr: And I wanted to get your best guess as to whether I might expect any trouble for the balance of the week.

K: No, I shouldn't think so Henry.

H.M.Jr: You don't think so.

K: No.

H.M.Jr: Well, all I'm interested in for the - just for the balance of the week. I wouldn't ask you to go beyond that.

K: I - I would think you'd be all right, certainly for the balance of the week not that I shouldn't think anything would happen, I mean that would be my guess.

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

K: That would be my best guess that nothing will happen this week. Of course my guess goes beyond that I don't think anything will happen next week either, but this week I don't think that anybody thinks anything will happen.

H.M.Jr: Well, that's - I didn't want to ask you beyond - but I'd - naturally be delighted to have your opinion.

K: Well, I - I mean I think it's anybody's guess Henry, because the fellows who say there's going to be trouble know just as much about it as I, who don't know anything more than they do, say there won't be. I think it all rests with Mr. Hitler.

H.M.Jr: Right.

K: And so that anybody that can tell you they're guessing his mind is crazy, but it strikes me that this war has been too well advertised.

H.M.Jr: Uh-huh.

K: And - it may not, although I understand that James, who's just come back from there, who is the editor of the Times, who I understand is in London today, he is convinced that there's an one of them going in and trying to get it over within a few - within a month.

H.M.Jr: James thinks they're going - want to get it over within a month.

K: Yes.

H.M.Jr: Uh-huh.

K: But that's anybody's guess, and that's all anything is, Henry. Nobody knows - there's no diplomatic or parliamentary or any other kind of information that's worth a tinker's damn at the minute.

H.M.Jr: Well - well I - at the moment, all I want as I say is if - I want the balance of the week.

K: I would say that definitely. There's nothing - there's no indication of anything now. Johnson is over at the Foreign Office now to see if there's any news at all on this question of Henlein's answer to these last demands. If you like I'll get you off a cable within a half an hour.

H.M.Jr: Well, a cable won't do me any good, Joe.

K: It won't.

H.M.Jr: Because I - my deadline here is - is two o'clock Washington time.

K: Today?

H.M.Jr: Yes.

K: Well, wait a minute now.

H.M.Jr: Hello.

K: Wait a minute. Wait a minute.

H.M.Jr: Hello.

K: All right. Herschel has just come back and we have an outline of the proposition and I would say that - certainly say that you were perfectly safe.

H.M.Jr: Perfectly safe.

K: I would think so. I mean that would be certainly my judgment.

H.M.Jr: And he's just come back.

K: Yes.

H.M.Jr: Hello.

K: Yes, they're still fenigglng around. There's no reason for jumping in and going to war under those conditions.

H.M.Jr: Uh-huh.

K: And you've got - you only two days, and I would say you were perfectly all right on that.

H.M.Jr: Well, I need Thursday and Friday.

K: Yes, well I - I certainly would think you were all right Henry.

H.M.Jr: O.K.

K: Anybody's knowledge or belief that anything that anything that anybody can find out I would say you were a hundred per cent safe.

H.M.Jr: Yes. Now, Joe.

K: Yes.

H.M.Jr: Do you want to ask me anything?

K: No, I mean - I don't suppose there is anything specially new Henry.

H.M.Jr: No.

K: I suppose it's just about the same, isn't it?

H.M.Jr: Just about the same, nothing new.

K: Business getting any better.

H.M.Jr: Well in checking around I've asked everybody and they all seem to think that things will be slight pick up for the balance of the year. That's what everybody tells me.

K: Yes. Now, Henry, we sent you a cable a little while ago and you should have it within a very few minutes, I should think, about a conversation That Butterworth had with Hopkins and it looks

to me like they're going to support this -
- - - the sterling - - - around this level,
which also ought to be helpful for you.

H.M.Jr:

It should.

K:

So you'll get that in a few minutes and

H.M.Jr:

It is.

K:

I think that that'll help because it will look
like the tension is relieved and the sterling
isn't going low and I should think that will all
be helpful to you.

H.M.Jr:

Well it will, and of course it's - it's terribly
important to them too.

K:

Yes, exactly.

H.M.Jr:

But we've been wondering just what they would
do.

K:

Yes, I know that. Well, this has just gone
and it looks to me like they've arrived at a level
in here around four eighty. Now in addition
to that Henry.

H.M.Jr:

Yes.

K:

We are - been having prepared here, by everybody
here that we can get, and we're also checking
with the financial thing, we're trying to make
a list of commodities and industries.

H.M.Jr:

Yes.

K:

To be effected on an each five cent point drop
in this - in spilling.

H.M.Jr:

Right.

K:

And we'll have that - we're try and get that off
to you in the next - the next boat.

H.M.Jr:

On the next boat?

K:

Well, yes, I mean it wouldn't - I mean it's a
pretty long thing.

H.M.Jr: Well the only thing is if it's going to effect the trade treaty that's all.

K: Well, I - I don't - I mean I don't know much about the trade treaty. I might just as well be in the Maritime Commission.

H.M.Jr: Uh-huh.

K: I don't know what the hell is going on.

H.M.Jr: Uh-huh. Well, if you've got something -

K: I'll send something to you by cable.

H.M.Jr: Hello.

K: What?

H.M.Jr: If you've got something along those lines. I mean I've been - I'd be glad to pay the cable charges.

K: Well, all right Henry, I wasn't thinking of that particularly but what we're trying to do is to try and get some kind of a notion of just -/what point this is going to effect our business.

H.M.Jr: Well then you'd better - you'd better put it in a cable and the Treasury will be glad to pay the cable charges.

K: All right, Henry, we're getting it prepared now, and it's been quite a job. We took the beginning - we got the start of it - there was a whole story on sterling that's been prepared here.

H.M.Jr: Yes.

K: And we're checking up now with both Commerce and with our own Department here.

H.M.Jr: Yes.

K: Trying to get as many of these industries as we can as to what level of sterling they'll be effected.

H.M.Jr: Well, that's too important. Use the cable will you Joe?

K: Yes, I guess we'll probably finish it up.
Well I'll give them another whirl today and as soon as I get it in hand I'll cable it to you.

H.M.Jr: O.K.

K: No other news around. How is - how about George and Tydings? Are they going to win?

H.M.Jr: Well, George, yes. Tydings, I don't know.

K: That so.

H.M.Jr: But George definitely yes.

K: Yes. Well you might call up Missy and Betsy and tell them I want to thank them very much. I - I hope they're all well. As far as I know, they're probably dead and buried.

H.M.Jr: Well, they're not here and I don't know where Missy is.

K: Oh, are they up - I suppose they went up to Hyde -

H.M.Jr: No, they're not at Hyde Park.

K: Cabello -

H.M.Jr: What's that?

K: I suppose Betsy is with Jimmy at Cabello.

H.M.Jr: Well Jimmy went - Jimmy's gone back to Mayo's.

K: Oh, has he?

H.M.Jr: Yes, and I think - the last I heard Betsy was up in New Hampshire.

K: Oh, for goodness sake. Oh well don't bother then.

H.M.Jr: And Missy is not in Washington and she's not at Hyde Park.

K: Yes I saw in the paper he was. Is he well?

H.M.Jr: The President is fine.

K: That's fine.

H.M.Jr: I saw him the night before last, after he got through that Maryland trip and he looked the picture of health.

K: Well that's fine. Give him my best will you Henry.

H.M.Jr: I'll - I'll do that.

K: All right, boy. I'll send you this stuff right away and you're all right so far.

H.M.Jr: Yes. Thank you.

K: Thank you Henry.

H.M.Jr: Goodbye.

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42

September 7, 1938

The following bankers telephoned the Secretary today in response to his call of yesterday and gave him their opinions. Records of conversations are attached. (The Secretary was not able to talk to Parkinson until today so records of two conversations with Parkinson are 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

T. J. Coolidge - Boston

Gordon Rentschler - New York

Thomas Parkinson - Equitable Life Assurance Company

(Pres. FRB Dallas)

September 7, 1938.
11:40 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

R.R.
Gilbert: Mr. Morgenthau, this is R. R. Gilbert, at the Federal Reserve Bank at Dallas.

H.M.Jr: Good morning.

G: How are you this morning?

H.M.Jr: Fine.

G: I made the survey that you suggested yesterday, and have jotted down a few notes here that I'll be glad to give you.

H.M.Jr: Please do that.

G: We've talked to several bankers and the president of one large insurance company here, that is throughout the district.

H.M.Jr: Yes.

G: They all seem to agree that it might be undesirable to pass September 15 without any financing.

H.M.Jr: Uh-huh.

G: In view of the unsettled foreign situation. They seem to think that it would be well for you to further fortify your cash position in view of that situation abroad and rather indicated a preference for a bond issue and a note issue expressing a preference of ten to fifteen year bond.

H.M.Jr: I see.

G: They thought that not more - not less than half a billion in new cash should be raised and that the holders of the December 15th notes might be given the privilege of exchanging them for any new issues that you offered.

H.M.Jr: Yes.

G: The reason that prompted them to make that suggestion was that if you should do that - the situation abroad became worse that you wouldn't have to do any refunding and new financing on December 15th, if market conditions were unsatisfactory and that between now and March 15th, why the structure would recover from any shock resulting from any unsatisfactory conditions abroad.

H.M.Jr: That's right.

G: Now, with regard to the conditions in this district for the remainder of the year I find that there's some difference of opinion.

H.M.Jr: Yes.

G: In that regard. The general feeling however is that this district - conditions in this district have been relatively better than in a good many of the other districts and these fellows just seem to think that therefore there might not be as much room for improvement here as there would be in some other places.

H.M.Jr: Well, do they look for a falling off.

G: No, but here's what they say, that with commodity price levels as low as they are Mr. Morgenthau and with the possibility of some further unsettling conditions in the oil situation.

H.M.Jr: Yes.

G: That conditions might not be as satisfactory during the remainder of this year as they expected a month or two ago.

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

G: They're trying to correct this oil situation by curtail production.

H.M.Jr: Yes.

G: They've gone on a five day production for September and will review the situation at the end of the month.

H.M.Jr: Yes.

G: But that briefly is the result of the canvass that I made of the situation here and that represents our views too, pretty well.

H.M.Jr: Well now you saw the tentative program I sent out last night.

G: Yes.

H.M.Jr: How did that look to you?

G: It looks fine and it looks like your views and the views of those to whom I talked - reached on about the same basis.

H.M.Jr: Well, that's perfect, isn't it?

G: Yes, it looks like it.

H.M.Jr: All right. Well, the people in your own shop, who have seen those tentative - that tentative plan, do they like it?

G: Yes, they think that that would be a very attractive issue.

H.M.Jr: Fine. Well, I'm very much obliged to you.

G: Well, all right Mr. Morgenthau. Hope that information will be of some help.

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

G: Thank you.

September 7, 1938.
11:32 a.m.

Walter
Cummings:

Hello, Henry.

H.M.Jr:

Hello Walter.

C:

How are you this morning Henry?

H.M.Jr:

Oh, fine.

C:

Henry, I've been thinking that over a good deal and of course the best thing from - to be done and whether you will agree to it or not would be 1950's and 52's at 2 and a half.

H.M.Jr:

I didn't get that.

C:

A maturity of 1950 and 1952.

H.M.Jr:

At 2 -

C:

At 2½ per cent.

H.M.Jr:

Yes.

C:

Of course you've done that, you know, the Treasury has done that three times before always extending the maturity so it would go off all right.

H.M.Jr:

Yes.

C:

Of course you're next step and which was - and what would go would be ^{the} 57's and 62's, you've got a vacant spot there you know in 57's at two and three quarters.

H.M.Jr:

I see.

C:

I think - what I would recommend would be the 50's and 52's. They'll go fine and they'd take well.

H.M.Jr:

Well now Walter, let me ask you this. Had you thought of how much cash we could offer and get away with nicely?

C:

Yes, I've thought of that. I figured that perhaps you'd want about a billion dollars, Henry, might as well take it.

H.M.Jr: Uh-huh.

C: You can get more than that if you want it. Of course I'd put out on this conversion some of those five years, one and an eighth.

H.M.Jr: You would.

C: Yes, surely. I'd give them the option, like you did before. That went off fine.

H.M.Jr: I see.

C: You can get any amount you want Henry, they're - you could get a billion - a billion, two hundred million whichever you want.

H.M.Jr: Is that right?

C: Yes.

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

C: No question about that, and I'd like to see 50's and 52's, you see, that isn't changing your policy at all.

H.M.Jr: No, no.

C: You've already done that you know. I think that would work out fine, but I'd certainly tie in the two, Henry, like you did before.

H.M.Jr: Yes.

C: And that - of course that means a little premium here, you understand at the banks, that would be -

H.M.Jr: Yes.

C: But not on a very great premium, not as great a premium as it would be on the two and three quarters.

H.M.Jr: That's right. And how about the December notes?

C: Oh, well, I'd take those up now.

H.M.Jr: You would.

C: Oh yes, get them out of the way, Henry.

H.M.Jr: Uh-huh.

C: Best not take any chances.

H.M.Jr: Uh-huh.

C: I'd - I'd just get them out of the way.

H.M.Jr: Yes.

C: There's no - you can get this money without a question.

H.M.Jr: Good. Well, that sounds very encouraging. Now, how do you feel on business for the balance of the year Walter?

C: Well out here - out here, we're going along pretty well.

H.M.Jr: Uh-huh.

C: Out here in the Middle West. Of course it's a producing country, you know.

H.M.Jr: I know.

C: Of course it would feel the effect of some of this money being spent you know.

H.M.Jr: I see.

C: Our deposits are up. Of course all our customers have money, we're not loaning much money.

H.M.Jr: No.

C: But the deposits are away up. We've got a billion, two hundred million today.

H.M.Jr: Is that right.

C: It's been holding steady now for several months.

H.M.Jr: That's tremendous.

C: Our customers come in and tell us, they're all feeling better. They come in and there's a better feeling all around. Out here in the Middle West - now don't confuse that with those New Yorkers, Henry.

H.M.Jr: I don't.

C: Out here we're feeling pretty good.

H.M.Jr: Good. Do they take much interest in politics?

C: Oh yes, sure.

H.M.Jr: I mean, no I mean the customers.

C: Huh?

H.M.Jr: I mean the business men.

C: Yes, they all come in and talk it over.

H.M.Jr: They do.

C: Oh, yes.

H.M.Jr: Uh-huh.

C: Yes, there's - there's hardly a big man that'll come in Henry that won't switch, before he gets through, talking about what's being done.

H.M.Jr: I see.

C: But they've all come to the conclusion the Administration is right on spending this money.

H.M.Jr: Uh-huh.

C: Remember they kicked like the devil before we started to do it.

H.M.Jr: That's right.

C: They think it's a good thing now.

H.M.Jr: Uh-huh.

C: But I think, Henry, getting back to this, that that would be a very fine thing and a prosperous thing and it would cut your interest rate down.

H.M.Jr: Yes.

C: Two and three quarters to two and a half.

H.M.Jr: Yes.

C: That maturity is all right.

H.M.Jr: Yes.

C: You and I, we're not going to pay it off '50 or '52.

H.M.Jr: No. Oh, we'll be around.

C: We'll be around, yes, but we won't have to raise the money.

H.M.Jr: That's right. Well thanks so much Walter.

C: And I'd tie them both in, Henry, if I were you.

H.M.Jr: I get you.

C: All right.

H.M.Jr: Thank you so much.

C: Goodbye.

September 7, 1938.
11:18 a.m.

H.M.Jr: Hello.

Operator: Mr. Lincoln.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Leroy A.
*Lincoln: Yes.

H.M.Jr: Morgenthau speaking.

L: Yes. Good morning.

H.M.Jr: Hello, Mr. Lincoln. Have you had time to kind
of test the Government bond market?

L: Beg pardon.

H.M.Jr: Have you had time to think about the Government
bond market?

L: Yes, indeed. I thought of your questions about
as you put them, in the order in which you stated
them. The first one was whether you should do
nothing at all.

H.M.Jr: That's right.

L: And I can see no reason for following that course
unless there's something in the foreign situation.

H.M.Jr: Well, there's nothing except what's in the
newspapers. I haven't got anything inside.

L: Yes. Well, if there's anyone in position to
have it, of course you're in a position to get
it from the inside.

H.M.Jr: That's right.

L: Apart from that there seems to be no reason
on earth why you shouldn't proceed if you've
determined that you need some new money and
need to anticipate the refunding of that issue
which is due in December.

H.M.Jr: That's right.

L: I assume too that you have determined about what you want in the way of new money.

H.M.Jr: Well, I haven't determined it yet but people seem to think that we wouldn't have any trouble getting between five and eight hundred million dollars.

L: Well, I can't think that you would either. Your local conditions here apart from the international situation would surely enable you to put that loan through in good shape. We're of course in the market for long term securities, very substantially.

H.M.Jr: You are.

L: And I've no doubt but that's true of the other big institutions.

H.M.Jr: I see.

L: Now, as to just how you're going to proceed, have you - have you thought of a twenty five year or fifteen year long term issue?

H.M.Jr: Well, the people have been sort of trying to argue me out of that. They feel that if I get out a long one this time it won't be very well received.

L: Why, you mean that the institutions who generally go in for that wouldn't take them.

H.M.Jr: Well, that's what I've been advised, yes.

L: Well, I can only speak for this company, but if you were to put out a twenty five year issue at the 2 and 3/4 rate that you have, I'm sure we'd take advantage of a substantial amount.

H.M.Jr: Well that's very interesting. Now I was - I was told that - to keep away from the long term Governments - this issue.

L: Well, is that because of misgiving as to the market for it among the institutions.

H.M.Jr: Yes.

L: Well frankly, I don't speak for any other institution except this one, but we'd be interested, I'm sure.

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

L: Have you contacted any of the other life insurance houses?

H.M.Jr: Just one other one.

L: Did you get any different expression from them?

H.M.Jr: Well, I - they're interested, but I got the feeling more in a medium.

L: You mean - say fifteen years.

H.M.Jr: Something along there, yes. But they're interested and they have money to invest.

L: Well, that's true of us.

H.M.Jr: Mr. Lincoln, how do you feel about business for the balance of the year?

L: Why it's probably - it seems to me and I've confirmed this in talking with my associates, that business is on the slow up grade.

H.M.Jr: I see.

L: It's somewhat improved, not very substantially, but somewhat and there's no reason to think that it's going to take a turn the other way, inventories are low. A good deal, I suppose, depends, doesn't it, on the automobile outlook.

H.M.Jr: I see.

L: And you are as good a judge of that as I am. I can say to you, as far as our own business is a barometer.

H.M.Jr: Yes.

L: That we have noted a material, substantial falling off in the applications for policy loans, and to some extent for cash surrenders in our industrial department, which are generally

something of a barometer.

H.M.Jr: Yes, a very important barometer.

L: There's been - in the past several months - there's been quite an up surge in the policy loans.

H.M.Jr: Yes.

L: And those have leveled off within the last month.

H.M.Jr: Well that's very interesting and very encouraging.

L: We think so.

H.M.Jr: Uh-huh. Well, it's very helpful. I'll make up my mind the next couple of hours, and I'll do the best -

L: You were good enough to say if I would put myself in your place, I'd hate to.

H.M.Jr: Well -

L: It's a hell of a job.

H.M.Jr: You said it. But you haven't got a very easy one yourself.

L: Well, we all do the best we can.

H.M.Jr: That's right.

L: Well if there's anything else Mr. Morgenthau, don't hesitate to call up. We want to be cooperative and if there's anything that we can throw any light on I know you'll call.

H.M.Jr: Well, with the vast business that you have and particularly the indicator of an amount of applications for loans against policies, I mean I don't know of a better - a better indicator and irrespective of this, if there's a turn one way or the other on that I'd appreciate getting a telephone call from you.

L: Well I'd be glad to give it to you.

H.M.Jr: I mean if that trend should change I'd very much like to have it.

L: You mean in the next two weeks or a month?

H.M.Jr: Well, any time, yes.

L: Sure.

H.M.Jr: I mean if there's a decided change in that trend which you say has been this way now for a month. If it should get better or worse why I'd appreciate a telephone call.

L: Well I'll be glad to have that in mind.

H.M.Jr: Right. Because I can't get enough information of that kind, and to help me in my job.

L: Well you've got one of the biggest jobs in this country, and God bless you.

H.M.Jr: Thank you so much.

L: All right.

H.M.Jr: Goodbye.

L: Goodbye.

September 7, 1938.
1:53 p.m.

H.M.Jr: Hello.

Operator: President Peyton, Minneapolis.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Peyton: This is Mr. Peyton, Mr. Secretary.

H.M.Jr: Well have you had time to think over about our financing?

P: Yes, I've given it considerable thought and my partner who's best informed in whom I have confidence.

H.M.Jr: Yes.

P: Now, I've put this in the form of a memorandum and I'll read it to you.

H.M.Jr: I don't hear you terribly well.

P: I have prepared it in the form of a memorandum.

H.M.Jr: Yes.

P: And I'll read it to you.

H.M.Jr: Will you do that?

P: And I also have a memorandum on business conditions.

H.M.Jr: Good.

P: I'll start with the memorandum on your financing.

H.M.Jr: Please.

P: Barring war or an unusual disturbance in Europe.

H.M.Jr: Yes.

P: Rates will remain approximately the same for the remainder of this year. This represents the consensus of opinion that I've talked with.

H.M.Jr: Yes.

P: And probably well into next year.

H.M.Jr: Yes.

P: We can see no reason for any advance in rates and we do not believe rates are apt to go much lower.

H.M.Jr: Yes.

P: Unless driven lower by governmental action.

H.M.Jr: Yes.

P: The consensus of opinion is that war would definitely depress Government securities and should Congress take action leading to the removal of the tax free features.

H.M.Jr: Should Congress do what?

P: Should take action leading to the removal -

H.M.Jr: Yes.

P: Of the tax free features.

H.M.Jr: Yes.

P: The rate of Government securities will be affected.

H.M.Jr: Yes.

P: We believe that from a psychological point of view.

H.M.Jr: Yes.

P: No financing at this time might have a desirable effect on business.

H.M.Jr: Might what?

P: Might have a desirable effect on business.

H.M.Jr: You think no financing would be good?

P: Well, I - I'm just qualifying that.

H.M.Jr: Yes.

P: We believe that from a psychological point of view no financing, at this time, would have a desirable effect on business, but it would be only a short time psychology.

H.M.Jr: Yes.

P: Because those who are familiar with Government financing must know that it can only be temporary relief.

H.M.Jr: Yes.

P: We believe it is not desirable to anticipate Government financing too far in the future.

H.M.Jr: Yes.

P: Because it might be best for business to continue a policy of borrowing money - for Government to continue the policy of borrowing money when it is needed.

P: Disregarding any possible failure and waste by anticipating financing too far into the future.

H.M.Jr: Yes.

P: We believe that the market would absorb a large amount at a reasonable rate at this time. The banks are eager to get Government bonds at par and we believe that both the Decembers and March maturities could be financed at this time without undue disturbance to the money market.

H.M.Jr: Yes.

P: Provided they will refinance with an issue which banks could buy at par.

H.M.Jr: I see.

P: And it's difficult for us to see how the Treasury could have a better time to finance these two issues than the present.

H.M.Jr: Yes.

P: The present holders of Decembers one and a quarter are anticipating the opportunity of conversion and we believe that we will take advantage of it.

H.M.Jr: Yes.

P: The market here seems to anticipate that the Treasury will take about one half million in cash and refinance the December issue at this time. If the Treasury believes there is to be war or similar disturbance in Europe then it is not a matter of great importance whether large financing is done at this time or not. If however the Treasury anticipates European disturbance it might be well to take as much as it could get at this time. We believe that it might be well for the Treasury to take a large issue if it believes that Congress might act soon in removing the tax exempt feature from Government securities.

H.M.Jr: Yes.

P: One of my insurance friends believes that the company might be tempted to take an issue of approximately ten years at a two and a half per cent rate.

H.M.Jr: Yes.

P: Although it already has an overbalanced position in the Government, because the ten year maturity would give it a balanced position from a maturity point of view, but it would not be interested in long term bonds or in short term notes, general conditions being so disturbed

that it would not care to tie up its money for twenty or twenty five years at two and three quarters. This was all written yesterday.

H.M.Jr: I understand.

P: We believe that it is probably better for the Treasury to carry on its required financing at the present time and not to wait until Hitler has completed his manipulations in Europe.

H.M.Jr: Repeat that, I didn't get that.

P: We believe it would be probably better for the Treasury to carry on its required financing at the present time and not to wait until Hitler has completed his manipulations in Europe.

H.M.Jr: Uh-huh.

P: It would have a tendency to develop confidence in the market now. There is evidence that the banks don't want a long time issue plus a disturbed European condition. In fact we have reason to believe that there is a tendency on the part of banks to get out of long time issues and into short time issues because of the war scare in Europe. We believe it might be well for the Treasury to offer a Treasury bill up to five years along with its long time issue because the new market is in a position to accept a large amount and this would assure the success of the financing if the long time bonds were not particularly successful. One of my banker friends suggested that September was a bad time for Treasury to finance. That he would much rather see the financing done on a regular quarterly basis so he could anticipate buying Government securities at regular times, and that way maintain his maturity on a definite basis. One of my friends felt that a long time issue would not be absorbed by the banks at this time. They would be very desirable to make this a long time issue so it would go into the invested.

H.M.Jr: Uh-huh.

P: There's also always the consideration of maintaining a reasonable supply of bills so open market transactions may not be impeded. Now here I come to the consensus of opinion about this issue.

H.M.Jr: Please?

P: The general consensus of opinion seems to be that the financing should include from one half billion to eight hundred million of five year notes at a rate of from one per cent to one and one eighth per cent.

H.M.Jr: Yes.

P: Together with one half billion of ten to fifteen year bonds on a two and a half per cent basis.

H.M.Jr: Uh-huh.

P: Allowing the December maturities the right of exchange at par for the longer time issue.

H.M.Jr: Uh-huh.

P: In this way the Treasury would dispose of the December financing and acquire approximately eight hundred million of additional cash as they had to guess the / of European trouble.
possibility

H.M.Jr: Uh-huh.

P: One individual suggested a twenty five year three - two and three quarters bond which presupposes he'd invest his interest rather than the bank. Now, that's all that I have on the financing itself and it represents the consolidated opinion of those I talked with and of this bank.

H.M.Jr: Well, that's very helpful.

P: I - I presume I gave you too much, but -

H.M.Jr: No, no.

P: That's a pretty comprehensive question you asked.

H.M.Jr: Well, you couldn't give me too much.

P: Now, I would be very glad to give you our -
I have a short resume of conditions here.

H.M.Jr: I'd like to have it.

P: In preparing that, we actually contacted all
of our main industries yesterday.

H.M.Jr: Good.

P: And this is the resume of their point of view.

H.M.Jr: Go ahead.

P: The volume of business in this district, during
the next four months, will be a little larger
than in the same four months last year continuing
the slight improvement of the last sixty days.
Wholesalers of merchandise expect sales to
increase fifteen to twenty per cent. A depart-
ment store operator aims at two to four per cent.
Mail order sales are expected to equal last
year and retail lumber sales will probably be
only a little smaller. That's an odd thing
but our lumber men are not selling

H.M.Jr: Uh-huh.

P: Local manufacturers of textiles and roofing both
for national distribution are anticipating
substantial increases on a unit basis but prices
in both lines will average lower. Department
store stocks are better balanced but are not
much lower with the result that additional
supplies of many items must soon be purchased.
Lumber retailer stocks are much lower but are
considered ample for anticipated sale product.
Stocks of butter and canned foods are expected
to be large, and there is doubt that present
prices can be maintained.

H.M.Jr: Yes.

P: But no changes are expected in the price of
other commodities.

H.M.Jr: Yes.

P: And purchases by retailers should exceed their anticipated volume in the next forty five days. Delivery may be difficult to obtain but price rises are not expected. We estimate farm marketing income will be only five per cent smaller than present price levels.

H.M.Jr: Yes.

P: Favorable live stock feed ratios partially offsets low feed grain prices.

H.M.Jr: Yes.

P: Heavier feed cattle weight and larger hog marketing will more than offset slightly lower prices that go far toward counteracting dairy income decline but total live stock income will be about eight per cent lower.

H.M.Jr: How much?

P: Eight per cent.

H.M.Jr: Yes.

P: Crop income will equal that of 1937 if prices decline no further.

H.M.Jr: Yes.

P: Wheat loans, milling demands for hard spring wheat and export subsidiaries on low grade dura all point toward gradual improvement in wheat prices when present hedging pressure is moved from market.

H.M.Jr: Yes.

P: wheat prices are expected to raise prices for other grains.

H.M.Jr: Yes.

P: And there is another interesting thing about that, the better grains are - are doing a very good market right now.

H.M.Jr: The better grains.

P: They are showing a premium.

H.M.Jr: Uh-huh.

P: Recent increases in iron work consumption have resulted in scheduling of winter operations for some other ground mine but unless stocks and lower reports are reduced further our mining operations will be much smaller than a year ago.

H.M.Jr: Uh-huh.

P: And I think they will be smaller because those stocks have been materially reduced.

H.M.Jr: Uh-huh.

P: And here's a summary of what I've just told you. Business prospects for the future of this district to January first, next, are vague and hard to define and largely dependent on the price element but they indicate toward an upward movement. That concludes - I mean that's pretty concise.

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

P: That's a summary of what the district has told me.

H.M.Jr: Now, have your boys seen our tentative program which we wired out last night?

P: I have it before me.

H.M.Jr: How do you like it?

P: Well, I can't see any harm in it. It looks all right to me. It fits in almost identically with what we - our own conclusion, except as amounts and of course you're the judge of those, we wouldn't know anything about that.

H.M.Jr: You thought we could go a little heavier.

P: Yes, I probably would if I were running it, but I'm not running it and you know a lot more about it than I do. I notice that the - I got a flash this morning that the Sudeten Germans had accepted - for a basis of negotiation/suggested the Czechs

so I presume it changes the picture a little.

H.M.Jr: Well then later on I've had something else that sort of contradicted that, but the way it's written - I mean the way you've got it now, you have no worry about your district taking its share. Hello.

Operator: Hello.

H.M.Jr: We're cut off.

O: Oh, I'm sorry.

H.M.Jr: Well, I've got to go on. If he calls - if you call back tell him I appreciate it very much, and I was through, see?

O: All right.

H.M.Jr: Thank you.

O: All right.

* Pres FRB Chicago

September 7, 1938.
10:17 a.m.

H.M.Jr: Hello.

Operator: President Schaler, Chicago.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

G. J. Schaler: Good morning, Mr. Secretary.

H.M.Jr: How are you?

S: Schaler, in Chicago.

H.M.Jr: Right. Morgenthau in Washington.

S: Well, I don't know as there's any use of my pulling in here, but - in view of the paper - but here's about what we find.

H.M.Jr: Yes.

S: Providing that there's no outside foreign change, our fellows really united in feeling that there must be financing done at this time, not only to meet the expectations of the public, but the favorable market.

H.M.Jr: Yes.

S: They - out of the poll of course they are all in favor of taking up the December maturities.

H.M.Jr: Yes.

S: They feel that an issue should come out without a premium attached and they are in favor of a one and an eighth note and a five year, a two and three quarter bond of sixty three or a two and a half bond of about fifty three.

H.M.Jr: Uh-huh.

S: That's about - that's the concensus of opinion.

H.M.Jr: I see.

S: Now if you want any comment on the business situation.

H.M.Jr: I do.

S: I've got a few memorandums here. Would you care to have me read them to you?

H.M.Jr: Very much.

S: Well now here's - here's one report. This is a - this is a wholesale house. "Small business is good and prices are steady. There's been a small increase in employment which is expected to further increase before the end of the year. Anticipate good business for both fall and spring. Detroit business dependent upon auto industry which is now expanding. Increased activity in all lines expected during the next three months, but much uncertainty as to the next year. Volume cannot be determined until consumer demand is more fully developed. One authority estimates '39 auto production at two million eight to three million two. Anticipates further labor trouble when larger number of men return to work. All feel that a change or repeal of the Wagner Act is necessary before progress can be made. Capital still lacks confidence and so does labor."

H.M.Jr: Yes.

S: "Chicago: Retail business improving and prices steady. Fall increasing employment and expect good business in the fall. Milwaukee: Volume normal, no pickup. Employment fairly even. Some labor trouble. Do not look for good business in immediate future as it is hard to develop due to lack of confidence in Government spending. Indianapolis: Present business improvement due to Governmental spending and not hopeful of permanency until Administration policy on labor changes. General Comment: Due to - due to lower prices on farm products. Canned goods and other agricultural products excepting meat will move to market slowly or be utilized through feeding livestock operations, which will again place spending ability in the hands of this - in the hands of the individual some months later. It would therefore seem

that business cannot expect any great increase of volume from this source between now and the first of the year. "

H.M.Jr: Well, I would say that was mildly optimistic all along the line.

S: Oh yes, I think so, yes. I think we can look forward. Of course we have to expect this thing to develop a little slowly.

H.M.Jr: Yes.

S: One of these, I - as I mentioned yesterday - one of the disturbing factors, of course, is the agricultural prices, and I don't know - any of us can do anything about that.

H.M.Jr: No.

S: That of course is going to put the money - the farmer won't sell at the low price at this time.

H.M.Jr: Yes.

S: Or he'll use it operations and that'll mean a delay of anywhere from three to six months before he has the money in hand to spend.

H.M.Jr: Yes.

S: It's very evident that business gets the benefit of Governmental spending like our retail and so on - is doing very well.

H.M.Jr: Uh-huh.

S: The heavier goods, the manufactures of farm machinery and - of course those are - those are the fellows that - they just don't know yet where we're at.

H.M.Jr: Uh-huh. Did you see our tentative financing program that was wired in?

S: Yes, I just saw it a little while ago, yes sir.

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

S: I think it's fine.

H.M.Jr: You think it's fine.

S: I think it's fine, and I think it'll go over
and be very well received.

H.M.Jr: Thank you.

S: Yes, sir. I think it's just fine.

H.M.Jr: Well, I - I appreciate those thumb nail sketches
of business and we hope everything will

S: All right, if we can help you any time later,
why just call us up.

H.M.Jr: Thank you.

S: Yes.

H.M.Jr: Goodbye.

September 7, 1938.
10:55 a.m.

H.M.Jr: Hello.
Operator: Mr. Bailie.
H.M.Jr: Hello.
Earl
Bailie: Hello Henry.
H.M.Jr: Hello, Earl?
B: Yes, how are you?
H.M.Jr: How's business?
B: Everything's fine.
H.M.Jr: Is it? What would you do if you were
Secretary of the Treasury?
B: Well, Henry, I tell you what I'd do.
H.M.Jr: Yes.
B: I wouldn't do nothing.
H.M.Jr: What?
B: I would certainly do something.
H.M.Jr: Yes.
B: I would try to do something which couldn't fail,
even if there was war tomorrow.
H.M.Jr: Yes.
B: I think that five hundred million dollars.
H.M.Jr: Yes.
B: Of new money.
H.M.Jr: Yes.
B: Plus an offer to the Decembers to come in or not
as they like.
H.M.Jr: Yes.

B: But not increasing the amount of my cash by the amount they didn't come in.

H.M.Jr: Uh-huh.

B: You see, I mean, just maximum five hundred million cash.

H.M.Jr: Yes.

B: Part of the Decembers.

H.M.Jr: Yes.

B: And I would make an alternative offer.

H.M.Jr: Yes.

B: Five years, and I'd make it very sweet.

H.M.Jr: Yes.

B: I'd make it one and a quarter.

H.M.Jr: One and a quarter?

B: I would - I wouldn't - I wouldn't take one and an eighth - I'll come back to why in just a minute, and I'd make, say something around ten, twelve or maybe a straight twelve.

H.M.Jr: Yes.

B: I wouldn't go away out into the future.

H.M.Jr: Yes.

B: And I think a lot of people, today, consider ten twelve as - well not so long.

H.M.Jr: Yes. ...

B: On the other hand they think of them as being longer than they would if there wasn't a war scare.

H.M.Jr: Yes.

B: Now, I'm assuming that there's going to be war tomorrow.

H.M.Jr: Yes.

B: But that we don't know it.

H.M.Jr: Yes.

B: I mean - that I think is the worst assumption.

H.M.Jr: Yes.

B: Because you offer tomorrow morning.

H.M.Jr: Yes.

B: If there isn't war tomorrow, if things are as they are today, you'll have a big over-subscription, you'll close tomorrow night and you're set.

H.M.Jr: Yes.

B: Let us suppose however that you offer them tonight, papers appear in the morning and alongside your story is the story that Hitler is moving on towards the Czechoslovak front.

H.M.Jr: Yes.

B: Under those circumstances, very few Decembers, I think, would come in.

H.M.Jr: Yes.

B: That's the reason why I say, don't increase your cash by the amount they don't come in.

H.M.Jr: Yes.

B: Because no matter what the premium was, the fellows say, well Henry will give me a premium in December for those, and then I'll know what kind of world I live in. In the meantime I'll keep my ninety day papers.

H.M.Jr: Yes.

B: At least that's what I think I'd say.

H.M.Jr: Yes.

B: Now, anybody - if there's war -

H.M.Jr: Yes.

B: Then every banker will say to himself, well I'd rather keep cash, and whatever he does will be done because he thinks he's a good fellow.

H.M.Jr: Yes.

B: And because he wouldn't - he doesn't want to let the Treasury down. I believe that the banking community and people like ourselves in the trust where we have a lot of cash would say to ourselves we couldn't get hurt with a one and a quarter. Now with one and an eighth or a one, say a four and a half year one and a eighth, or something of that kind.

H.M.Jr: Yes.

B: I wouldn't feel that way. So that I - I'm thinking of the situation where - where the worst happens.

H.M.Jr: Yes.

B: Now, if the worst doesn't happen, why of course there's no problem at all. You're one and a quarter to two rich. You don't have to give that much. You're twelve - you would have a straight twelve for instance, the reason I speak of that particular thing is because your straight ten are considered so terribly good.

H.M.Jr: Yes.

B: A man likes to have some Government/portfolio ^{in his} that he knows the exact date they'll go out on.

H.M.Jr: Yes.

B: Now, you've got so much float in the other part of your portfolio.

H.M.Jr: Yes.

B: So many alternatives to the then Secretary of the Treasury.

H.M.Jr: Yes.

B: That I don't think you need to feel that you'd be treating him badly. If you offer one straight - twelve year obligation.

H.M.Jr: Yes.

B: And I think that would appeal to certain people who wouldn't come in otherwise.

H.M.Jr: I see.

B: Maybe nothing in that idea, just struck me as something that had merit.

H.M.Jr: Yes.

B: I think the chances are, I mean, you've got to gauge the war chance.

H.M.Jr: Yes.

B: If you're not worried about war before next Monday, then why one and a quarter is too rich.

H.M.Jr: Yes.

B: But, remember this, that you're taking a responsibility in selling securities today on the edge of war, which you wouldn't be taking ordinarily.

H.M.Jr: Yes.

B: And every banker who re-recommends your offer is taking somewhat of a responsibility.

H.M.Jr: Yes.

B: And you want to be damned sure that you're offering something that you can say, as you hear the bullets whizz, well the boys that have got that have got something they can live with.

H.M.Jr: Yes.

B: That's - that's all I say.

H.M.Jr: Uh-huh. Well now - thank you, and let me just ask you this because this affects me. If you care to express an opinion how you feel on business for the balance of this year.

B: Well, the way I feel is this. If war doesn't come I think we're going to have fairly good business. Now, let me give you two items that have just come in to me the last forty eight hours on business.

H.M.Jr: Yes.

B: One is a very careful go over of all the big textile companies.

H.M.Jr: Yes.

B: Business is not going to be helped for the rest of the year by the textile industry, rather the reverse.

H.M.Jr: Yes.

B: They've had their bulge. From now on that's going to be rather cut down and the reverse. Even though it's quite optimistic - even though you may be quite optimistic on business in general.

H.M.Jr: Yes.

B: There is not going to be any further help from taxables. That's about fourteen per cent of your business average.

H.M.Jr: Yes.

B: We went to talk to the Public Utility people on their construction budget.

H.M.Jr: Yes.

B: They're still being cut down. Their this year's budget. I've made an attempt to find, in the last few weeks, any business people

who were lengthening out on their buying policy,

H.M.Jr:

Yes.

B:

I find Sears and Montgomery Ward are buying on a six month basis now.

H.M.Jr:

Yes.

B:

In other words they're covering their catalog.

H.M.Jr:

Yes.

B:

Which is just what they would normally do.

H.M.Jr:

Yes.

B:

Everybody else has some variation of this kind of a phrase, "Well I'd rather pay more later when I feel a little clearer."

H.M.Jr:

Uh-huh.

B:

So that - while I feel that business is going to be pretty good, and I feel that the consumer's contingencies are going to continue to improve.

H.M.Jr:

Yes.

B:

I doubt very much whether - with things as unsettled abroad as they are.

H.M.Jr:

Yes.

B:

You're going to have - unless there's a complete clear up of that situation.

H.M.Jr:

Yes.

B:

Anything terribly good for the rest of the year.

H.M.Jr:

Uh-huh.

B:

That's another reason why I thought I would like to have you have some cash and besides I think you - the way - the only way you

could harm this thing Henry, the big way, would be to do nothing.

H.M.Jr: Uh-huh.

B: I think that would be very disappointing.

H.M.Jr: Uh-huh.

B: They'd say here's the guy that knows everything. He's just come back, he's read the whole dope and he isn't going to do anything.

H.M.Jr: Yes.

B: God, it must be terrible.

H.M.Jr: Well, I'm - I'm bucked up to see that they're selling thirty million of Youngstown sheet and steel tomorrow - tube whatever you call it.

B: There 's a very very thorough-going war cause in that.

H.M.Jr: There is.

B: Yes. We - We're in that syndicate.

H.M.Jr: It's the first time there's ever been a big offering on the same day as the financing.

B: I - the preliminary - the preliminary inquiries are very favorable.

H.M.Jr: Good.

B: Now Henry, do you mind having an offering on the day of the financing?

H.M.Jr: No. No, but I think that - I think it's foolish from their standpoint.

B: Well, I think so too but of course their attitude was this that they didn't want to put it off a day on account of this war situation.

H.M.Jr: Now the only - the only thing where it would affect me would be if it went badly.

B: Well, it seems to be just the opposite.

H.M.Jr: If there's went bad^{ly}/it might - they'd say, well you know Youngstown's going bad^{ly} and so forth and so on and it might have a depressing effect.

B: Well Henry, I think what I would do would be after the smoke blows away, day after tomorrow, I would just let the Federal Reserve, as they see people down town.

H.M.Jr: Yes.

B: Say that the Treasury isn't terribly keen about having offerings on quarter day, because I suspected Kuhn Lobe never thought of the point.

H.M.Jr: Well, I - when Douglas comes back I'm going to talk to him.

B: I think the - I think George Harrison could put that point over very casually, and you'd never have another one happen.

H.M.Jr: I think so. I think that's maybe the way to do it.

B: I think that's an awfully easy way to do it.

H.M.Jr: Yes.

B: They'd resent it from Douglas.

H.M.Jr: They would.

B: They'd take it from the Federal Reserve in a most casual way.

H.M.Jr: O.K.

B: Henry, are you going to be home either tonight or tomorrow night?

H.M.Jr: Both nights.

B: Well, do you mind if I call you up a few minutes?

H.M.Jr: Not a bit.

B: The reason being that I'm taking my children off in the automobile over the weekend.

H.M.Jr: Tonight would be a little bit better than tomorrow night.

B: O.K. Well, I'll call you tonight.

H.M.Jr: And, but - say, how about around eight o'clock your time.

B: That would be seven o'clock.

H.M.Jr: No, I mean - that's - I'm thinking about around nine o'clock my time which is -

B: It would be around - around -

H.M.Jr: See, what time is it now?

B: Nine o'clock with me, eight o'clock with you.

H.M.Jr: Twelve. Yes. Well, now nine-thirty, how about nine-thirty? Your time.

B: That would be ten-thirty yours.

H.M.Jr: No, eight-thirty. Eight-thirty.

B: Nine-thirty would be fine.

H.M.Jr: Nine-thirty your time?

B: Yes, I'll call you up. I'm going to be - I'm going to be at the Union Club and I'll call you up at nine-thirty.

H.M.Jr: That'll be fine.

B: And we'll have a little chat.

H.M.Jr: Fine.

B: O.K. old fellow.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Very much obliged.

*Pres., FRB of Boston

September 7, 1938.
10:07 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

R. A.
*Young: Hello, Mr. Secretary.

H.M.Jr: How are you?

Y: Well, I'm not so good. I went down to the bank this morning then I came out home. I'm out home now.

H.M.Jr: Oh, I'm sorry.

Y: I - I thought that over and talked it over with a couple of men in the bank.

H.M.Jr: Yes.

Y: And I think this third proposition is the best one.

H.M.Jr: What's that?

Y: That is to put out - both for cash and an exchange.

H.M.Jr: Yes.

Y: Which I gathered you were getting ready to do, from what I saw there this morning.

H.M.Jr: That's right.

Y: Yes. I hardly - you mentioned the first option -

H.M.Jr: What's that?

Y: Your first option - your first proposal was to do nothing.

H.M.Jr: Yes.

Y: I - I suppose that comes about because you've got plenty of money.

H.M.Jr: Yes.

Y: I think it's a prudent thing to take their market even though you don't need the money.

H.M.Jr: I see. And did you see what we're thinking of doing?

Y: Yes.

H.M.Jr: How did that look to you?

Y: Well our boys said that looked very good to them.

H.M.Jr: They said what?

Y: Said it looked very good to them.

H.M.Jr: Very good.

Y: Yes.

H.M.Jr: Uh-huh. And how's the feeling up there around Boston, on business conditions, for the balance of the year?

Y: Well, I think people are optimistic.

H.M.Jr: You do.

Y: They're hopeful anyway.

H.M.Jr: Uh-huh. Well, is there anything that you'd like to tell me that I - for my guidance?

Y: No, I don't think so.

H.M.Jr: You don't think so. Well -

Y: If I get anything more, I'll call you back.

H.M.Jr: All right.

Y: Yes.

H.M.Jr: Thank you.

Y: All right.

September 7, 1938.
10:29 a.m.

H.M.Jr: Hello.
J. Jefferson
Coolidge: Hello. Good morning, Henry.
H.M.Jr: Hello. Jeff - how are you?
C: Fine.
H.M.Jr: Have you had a chance to think about the
Government bond market?
C: Yes, I - I've thought about it and I've talked
with a few people.
H.M.Jr: Yes.
C: I think - if you'd like my reaction.
H.M.Jr: I would.
C: I'd like to go a little slower than I talked
yesterday.
H.M.Jr: You would.
C: My reaction would be that you could readily sell
five hundred million of the large issue of bonds
- at say a hundred and one.
H.M.Jr: Uh-huh.
C: And I'd be rather tempted not to go higher than
five hundred million in a long bond market.
H.M.Jr: Oh, you mean to sell the long bonds.
C: Five hundred million, I think
The insurance companies are going to be very
big buyers.
H.M.Jr: Yes. Do you mean to sell the last - to reopen
the last issue?
C: Well, that's what I'm thinking, I don't want
to be too definite.
H.M.Jr: Uh-huh.

C: And then I think that a five year one per cent note would revolve very nicely for the December maturities.

H.M.Jr: I see. But total cash - how much?

C: Well, I was thinking five hundred million.

H.M.Jr: Uh-huh.

C: Of long bonds.

H.M.Jr: I see. I see.

C: I'd be a little scared of war and so forth of pushing more than five hundred million on a long market.

H.M.Jr: I see. Well, how would you feel if we sold at two and a half bond into the fifty - would - could we sell any more of that?

C: You could certainly sell that, yes.

H.M.Jr: I mean could we sell more than that?

C: You could sell more than that.

H.M.Jr: Uh-huh.

C: I think that - I was thinking I was trying to - I think if you sell the long bond and the five year note.

H.M.Jr: Yes.

C: That you'd pay less interest and have better maturities.

H.M.Jr: I see.

C:

H.M.Jr: I see.

C: You have a good many maturities in the early fifties now.

H.M.Jr: Uh-huh. But you'd do something, wouldn't you?

C: I would. I - I'd - if I'm right in figuring your expenses you probably need five hundred million cash every three months.

H.M.Jr: That's right.

C: And I expect this is an opportunity to raise the proper share of this.

H.M.Jr: That's right.

C: And I think with the market as good on notes as it is that it might pay to revolve those December notes into a five year note.

H.M.Jr: Uh-huh.

C: But you could raise the whole amount in two and a half/ bonds if you wanted to.
per cent

H.M.Jr: I see. How do you feel on business for the balance of this year, Jeff?

C: I think it's going to get better.

H.M.Jr: You think it's going to get better, but I haven't got much to prove except that I think that this spending of money is going to result in a pick up.

H.M.Jr: I see. I see. Well, thank you very much. Hold your thumbs for me for tomorrow.

C: Henry, by the way, I may be in Washington next week, could I see you?

H.M.Jr: Of course.

C: Thursday or Friday?

H.M.Jr: Yes. Do you know definitely now?

C: Not, no - not very definitely - if you have a spare hour.

H.M.Jr: Well, will you - well send me a wire Monday or Tuesday and let me know and I'll answer you.

C: I'll do that.

H.M.Jr: Send me a wire Monday.

C: Yes.

H.M.Jr: Or - I mean - Tuesday, send - let me know Tuesday and I'll answer you.

C: Good.

H.M.Jr: I'd like to see you.

C: Good.

H.M.Jr: All right, Jeff.

C: Goodbye.

H.M.Jr: Goodbye.

September 7, 1938.
11:07 a.m.

H.M.Jr: Hello.
Gordon
Rentschler: Hello Henry, how are you this morning?
H.M.Jr: Oh, I'm fine, how are you?
R: Still got those fellows all locked up in Germany?
H.M.Jr: I don't know. I don't know.
R: There's no news this morning, is there that you've got that we haven't got?
H.M.Jr: No. There's nothing.
R: Everything quiet.
H.M.Jr: Well, everything is - let's put it - status quo..
R: Yes.
H.M.Jr: I mean there's nothing new one way or the other. I mean everything's that out is in the paper.
R: So then the answer to your first question is, that we really ought to ask for some money.
H.M.Jr: Right. How much?
R: I think that's called for, don't you?
H.M.Jr: I think so.
R: I think it's really important, as I've thought it out over night, I think it's important from playing our hand on through.
H.M.Jr: Right.
R: I don't think we ought to give him the idea that - the crowd over there - that there's any concern here about not going through.
H.M.Jr: That's all right with me.
R: Don't you think that's wise?

H.M.Jr: Oh, yes, I - I - I'm - I think that to do nothing shows more concern than the situation deserves.

R: I think that's right and even if the reason for concern exists I've rather made up my mind that we ought not to pay any attention to it, to the extent of letting them feel that we're so careful that we can't go along with our own plans without counting them in.

H.M.Jr: That's right.

R: It's - if it's a game of poker I think we've got to stick with our three aces.

H.M.Jr: That's right. As - as we'd say check and Czechoslovakia.

R: Exactly. All right. Well, that's the answer to that one.

H.M.Jr: Yes.

R: Now, how far have you gotten on what you want to offer?

H.M.Jr: Now listen, the market is still open.

R: Yes.

H.M.Jr: Let me put it this way. How much cash do you think we could comfortably get away with?

R: With the right kind of issues I think you can - the Street's talking five hundred millions of new money, I think you can get a little more than that if you want it.

H.M.Jr: You do.

R: Yes.

H.M.Jr: And -

R: I wouldn't make it less and my own hunch would be between five hundred and seven hundred and fifty millions would look all right.

H.M.Jr: Uh-huh, and one piece of paper or two?

R: I think I'd give them two this time.

H.M.Jr: And what - what would you make them?

R: Well, on the long, I don't believe I'd go over the twelve years.

H.M.Jr: Uh-huh.

R: And on the short, I'd keep that within, of course within the five year period.

H.M.Jr: Uh-huh.

R: Now some of the boys have been talking about a lesser amount than that but I don't believe that would be wise.

H.M.Jr: Uh-huh.

R: That is to go less than the five years, I wouldn't care if it was four and a half years, I'd a little bit rather have it five and have it a little bit sweeter.

H.M.Jr: I see.

R: If the market stays the way it is at the present time, you wouldn't have any trouble at all on the one - opening up the June one and an eighth.

H.M.Jr: Uh-huh.

R: If it stays the way it is now. My own mind has been running on a September, a five year September one and a quarter which of course would be very rich and would go over with a scramble.

H.M.Jr: Yes.

R: And it would go over with a scramble because at that rate there'd be a lot of people who would realize that even if we had a shock there'd be a good secondary market.

H.M.Jr: I should think so.

R: Of that and where people would lock them up.

H.M.Jr: Yes.

R: I don't like that so well, and I'd always hoped we could keep away from it because I don't like this tax exempt stuff.

H.M.Jr: Uh-huh.

R: But I don't think there's any alternative at this time excepting to have that kind of a storm cellar.

H.M.Jr: I see. Well, that gives me your idea. Let me ask you this, because this is a determining factor, how do you feel on business for the balance of this year?

R: I think it's going to come very slowly but I think it's coming.

H.M.Jr: Uh-huh.

R: I don't agree with these fellows that were optimistic, that it would all start the day after Labor Day.

H.M.Jr: Yes.

R: But I don't agree at all with these fellows who take the point of view that it's indefinitely postponed.

H.M.Jr: I see.

R: I think it's moving along gradually and slowly. The Housing thing I think from the things being done in Washington is doing - is getting on extremely well.

H.M.Jr: Yes.

R: The crop situation is troublesome from the standpoint of price.

H.M.Jr: Yes.

R: But I went out to Ohio last week, the week before last.

H.M.Jr: Yes.

R: And we've raised an awfully cheap crop and as far as I'm concerned I can make money selling my crop at these lower prices.

H.M.Jr: I see.

R: So that I'm not nearly as much pessimistic about that as the boys are who only see the price returns.

H.M.Jr: Uh-huh.

R: In other words, Henry, as one farmer to another, I'm better off with the hogs I've sold at 8.65 this year.

H.M.Jr: Yes.

R: Which I did when I was home the 23rd of August.

H.M.Jr: Yes.

R: Then I was last year when I went home and sold hogs at 12.40.

H.M.Jr: Uh-huh.

R: And I think my hog business is in much better shape because at 8.65 I've made as much money as I want to make, and having done that I've got a darned good market for pork that I wouldn't have at 12.40.

H.M.Jr: I see. Well, that's interesting.

R: Now therefore, I feel that after people get that into their minds that we'll be a little bit better off, businesswise, than we're now expecting to be.

H.M.Jr: I see.

R: I don't think there's going to be any great hoop up, but I think that we're going to have a steady climb between now and the end of the year.

H.M.Jr: Good.

R: With a look forward to a better spring if we don't do something foolish.

H.M.Jr: Whoever gets out your monthly bulletin, I wish you could get - tell them that I read the September bulletin very carefully and I certainly want to compliment them on it.

R: Well, I'll be glad - that was Alan Temple and Bassett Roberts and - well the three of us sat down and tried to figure it out.

H.M.Jr: Well, that I thought was a particularly interesting and competent job.

R: Well, I'm glad you liked it. Sometime when either Bassett or I are coming down we'll bring Alan along with us. You ought to know him, he's - he's the third man that helps write it.

H.M.Jr: I'd like to meet him sometime.

R: He's a very competent fellow, Henry.

H.M.Jr: All right.

R: Now our hunch, I mean in general, we don't look for any great big upturn, we don't think there's going to be a great deal of money loaned.

H.M.Jr: Yes.

R: But there'll be a little.

H.M.Jr: Uh-huh.

R: And - we ought to be better the last ninety days than we've been in the ninety days we've just gone through.

H.M.Jr: Well, that sounds cheerful.

R: Now, it may not turn out that way but that's the way we're going to play it.

H.M.Jr: Fine. Well thank you so much, Gordon.

R: Now, Henry, on this intermediate one do you think that sounds sense to make it ^{at} twelve year?

H.M.Jr: Well, that's what I've got to decide in the next two hours.

R: Yes, I see.

H.M.Jr: And I've got a yellow and a blue and a green pencil.

R: Yes.

H.M.Jr: And we'll sharpen them in the next couple of hours, why we'll make up our mind.

R: That's all right. The only hunch I have - that I'm sure that this is the time we ought to see that a reasonable issue is offered.

H.M.Jr: Yes.

R: And I think it's awfully good - beyond just the matter of getting the right investment for our banks.

H.M.Jr: Fine.

R: To make this thing a success because of the situation on the other side.

H.M.Jr: Right. Well we -

R: Therefore I'd like to be in possession to take something - do something with your yellow pencil that we can take the limit.

H.M.Jr: Do you like the yellow pencil?

R: I like the yellow pencil.

H.M.Jr: All right, Gordon.

R: All right, now if there's anything else fellow, I'll be here all day.

H.M.Jr: O.K.

R: Bye-bye. Good luck to you.

H.M.Jr: Thank you.

September 7, 1938.
10:39 a.m.

H.M.Jr: Hello.

Operator: Mr. Parkinson.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Parkinson: Hello.

H.M.Jr: Hello Mr. Parkinson.

P: Good morning Mr. Secretary. Terribly sorry I was out of reach yesterday.

H.M.Jr: Well, that's all right. I hope you were enjoying yourself.

P: I am sorry to say I was.

H.M.Jr: Good. Well, if you were the Secretary of the Treasury and you had to do a little financing what would you do tomorrow?

P: Well, you want it to be successful and I was going to say enthusiastically received.

H.M.Jr: Correct.

P: At least you want it to be successful.

H.M.Jr: Well, I'd like it to be.

P: Yes, there's only one thing in my mind. I think I'm going to suggest something quite different from what I have in the past.

H.M.Jr: Right.

P: That's this. In your absence, I don't know whether you realize it or not, there's been a good deal of talk down there, or rather up here, which appears to emanate from down there, about tax exemption.

H.M.Jr: Uh-huh.

P: And its unreliability for the future.

H.M.Jr: Yes.

P: Now, that's being talked of a good deal.

H.M.Jr: Yes.

P: So that I would suggest that you avoid any statement with respect to policies.

H.M.Jr: Yes.

P: If you'd put out some tax exempts at this time, it might help.

H.M.Jr: Well, we can do that.

P: You see what I mean?

H.M.Jr: I see.

P: There's been a good deal of talk about the tax exemption and about eliminating it even from outstanding bonds.

H.M.Jr: Yes. Well I know.

P: Which I think has caused some of the softness around here.

H.M.Jr: Well, I don't mind telling you that I'm a hundred per cent opposed to making that thing retroactive.

P: Yes.

H.M.Jr: I mean I'm absolutely opposed to it.

P: Yes.

H.M.Jr: Personally and -

P: You see there's been some talk in your absence -

H.M.Jr: I know.

P: They think Ros Magill did something that was misunderstood.

H.M.Jr: I see.

P: And gave the impression that the outstandings were not secure.

H.M.Jr: Yes.

P: And that is really, as I tried to tell one of your folks down there about two weeks ago, is really the cause of some of the softness in the market up here the last two or three weeks.

H.M.Jr: Well, you Columbia professors ought to get together.

P: Well, there's been a lot of them around lately that's right. But I do think that in view of that, if you did put out some of the five year notes it would be helpful.

H.M.Jr: Well, I - I'm glad to get that.

P: Now after the - principal point - well, but what we would like best would be something of the little longer term.

H.M.Jr: Yes.

P: And the higher rate.

H.M.Jr: Yes. Well, how long?

P: If you want the shorter rate then I suppose it - what we would like best would be somewhere around twelve years.

H.M.Jr: I see.

P: Well, we're not very far apart. How much, do you think, new cash we could ask for and have it received well.

P: Oh, plenty of money around.

H.M.Jr: There is.

P: Yes.

H.M.Jr: I see. Plenty of money.

P: Yes.

H.M.Jr: Uh-huh.

P: Oh yes.

H.M.Jr: That's good.

P: If you could - if you could do that one thing, that I suggest about the tax exemption.

H.M.Jr: Yes.

P: I think there'd be lots of banking money available to you.

H.M.Jr: Well, that - that won't be difficult.

P: I see.

H.M.Jr: That won't be difficult.

P: Well then, as to amount, I think you could go to a billion new money without any trouble.

H.M.Jr: Is that right?

P: Yes.

H.M.Jr: Uh-huh. Well, that's interesting. Now let me ask you -

P:

H.M.Jr: Hello.

P: Yes.

H.M.Jr: Let me ask you this question.

P: Yes.

H.M.Jr: How do you feel about business for the balance of this year?

P: Well, it has seemed to me absolutely certain that it was going to improve but I must admit that one of the questions in my mind, this morning, after the Labor Day end - weekend, was to check up a little and see whether there's any signs of it.

H.M.Jr: Uh-huh. Have you had time to check up?
P: No, I haven't.
H.M.Jr: Uh-huh.
P: I'll know better this afternoon.
H.M.Jr: Would you call me back?
P: Yes I will.
H.M.Jr: I'd appreciate it.
P: Yes, I'll call you back this afternoon.
H.M.Jr: Well, I've got just what - the information
I'd like to have from you.
P: Well, I'm always glad to give it to you.
H.M.Jr: Thank you so much. And if you - after you've
checked up, if you would call me back I'd
appreciate it.
P: Yes I will.
H.M.Jr: Thank you very much.
P: Goodbye.
H.M.Jr: Goodbye.

September 7, 1938.
3:25 p.m.

H.M.Jr: Hello.

Operator: Mr. Parkinson. Go ahead.

H.M.Jr: Hello.

Parkinson: Hello Mr. Secretary.

H.M.Jr: Hello, Mr. Parkinson.

P: I'm calling you back after checking up, as I said I would.

H.M.Jr: Good.

P: The general question of business conditions.

H.M.Jr: Right.

P: I find still a very - a general - well, I won't say general, but a very real feeling that business is going to improve gradually but steadily.

H.M.Jr: Uh-huh.

P: I think this change in the atmosphere, at least as we see it here -

H.M.Jr: Yes.

P: By the news from Europe.

H.M.Jr: Yes.

P: Is a good deal of help.

H.M.Jr: Yes.

P: There's still a great deal of uncertainty in everybody's mind. My own impression was - prior to the weekend - that conditions would just have to improve.

H.M.Jr: Yes.

P: There was a lot of back log and a good crop and some other things of that kind, things are bound to be better.

W.C.Jr: Yes.

P: And we can't go on being pessimistic forever.

W.C.Jr: That's right.

P: So I - I think, as a result of what little chance I've had to look around today that that is true.

W.C.Jr: Yes.

P: May I add one other thing about the other matter that we were discussing this morning?

W.C.Jr: Please.

P: I have the impression here that your contacts with the banking fraternity.

W.C.Jr: Yes.

P: Has not been quite as useful for your immediate purposes.

W.C.Jr: Really.

P: As it might be.

W.C.Jr: Well, I -

P: And I was going to suggest to you without naming any names -

W.C.Jr: Yes.

P: That you make some effort, before you make any announcement, to bring two or three of the important fellows here into your discussion.

W.C.Jr: Well of course it's too late for this issue.

P: Is it?

W.C.Jr: Oh, yes.

P: Yes.

W.C.Jr: But, I mean - the wires are out now, you see?

P: Oh, I see.

H.M.Jr: But -

P: You've made your decision.

H.M.Jr: Yes.

P: Yes, I see.

H.M.Jr: But you evidently are bothered about some particular banks.

P: No, I think that two or three of them here have the impression that they haven't been consulted.

H.M.Jr: Well, do you mind naming names?

P: Well, I'd rather not just now. I will to you sometime.

H.M.Jr: Yes. Of course, you know - I've got to rely on the Federal Reserve of New York, you know.

P: Yes.

H.M.Jr: For that.

P: Yes.

H.M.Jr: And if they are - are overlooking somebody or somebody's deals are being overlooked -

P: Well, that's it. I think that's it.

H.M.Jr: Well, I feel -

P: You know some men need a little more attention than others.

H.M.Jr: Well, -

P: I wouldn't be overlooked unless I was kicked between the eyes.

H.M.Jr: Yes.

P: But some other folke are.

H.M.Jr: Well, I'd be very glad to -

P: You - I think you know what I mean.

H.M.Jr: I know what you mean, but I don't know who you refer to, see?

P: Well, I would chance - I would chance this suggestion to you - if you still had time and were going to make some effort I would suggest to you that you pay a little attention to the opinions of Potter, Aldridge and - what's the man's name over at National City?

H.M.Jr: Rentschler.

P: That's it.

H.M.Jr: I see.

P: Yes.

H.M.Jr: Well, I'll be perfectly frank, it's too late this time. The thing is over.

P: I see.

H.M.Jr: But -

P: Well, it's only an idea and it may not be as important as I - I thought it was just important enough to tell you, that's all.

H.M.Jr: Well, as I say, I'll be very frank. We have had our Press conference for tomorrow morning's papers.

P: Yes.

H.M.Jr: And the wires have gone out, as I said, so the die is set.

P: I see.

H.M.Jr: And we're hoping for the best, because I'm always glad to get suggestions and I think you know that now.

P: Yes, I do.

H.M.Jr: And it's pretty hard, but -

P: Oh it's pretty hard to satisfy everybody,
I know that.

H.M.Jr: Well, I - but I'm glad and I'm more than
willing to take the hint and see what I can
do.

P: Yes.

H.M.Jr: And thank you so much.

P: All right, sir.

H.M.Jr: Goodbye.

P: Good luck.

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September 7, 1938.
2:39 p.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

H. Merle Cochran: Hello, Mr. Secretary.

H.M.Jr: Where are you now?

C: I'm at home now.

H.M.Jr: Good.

C: I put in a call and your office accepted, but when I got on the phone at five they said you wanted to speak to the Ambassador.

H.M.Jr: No, there was a misunderstanding. I - as a matter of fact, when they told me the Ambassador had gone to the races, would I talk to his secretary, I canceled the call.

C: I see. They canceled mine evidently in the mix up.

H.M.Jr: And then -

C: I say they evidently canceled mine in the mix up.

H.M.Jr: Well there was a mix up because they kept saying that the Ambassador's secretary wants to talk to me, and I said I don't want to talk to his Secretary.

C: I was the one who wanted to talk.

H.M.Jr: Oh.

C: Well anyway I hope it's not too late.

H.M.Jr: No, no, time enough.

C: Yes. Well, I - I've talked to a good many friends.

H.M.Jr: Yes.

C: And the situation here today was not quite so good. There was a little more pressure.

H.M.Jr: Yes.

C: My friend said that he lost one million pounds.

H.M.Jr: He lost.

C: Yes.

H.M.Jr: Yes.

C: Now one half of that was to hold the franc and the other half was to give the national defense fund some kind of exchange they needed to pay a bill.

H.M.Jr: Oh!

C: And in London he thought the total would go to five million sterling for the day.

H.M.Jr: To what?

C: He thought that the British had - would lose five million pounds on the day's operations.

H.M.Jr: I see.

C: So the pressure was a little heavier at both places.

H.M.Jr: Uh-huh.

C: And on this other proposition, my friends think there will be no break this week, certainly not.

H.M.Jr: Well now, who did you talk to?

C: Well I can singularize each one, if you wish?

H.M.Jr: I do.

C: All right. I talked by telephone with Goule the General Manager of the Swiss Bank Corporation at Basle.

H.M.Jr: Yes.

C: Who has very good German connections.

H.M.Jr: Uh-huh.

C: He feels that the outlook in Europe is much better since Great Britain and France have demonstrated to Runciman and otherwise their interest in avoiding any war starting in Central Europe.

H.M.Jr: Yes.

C: And of influencing Czechoslovakia to make concessions.

H.M.Jr: Yes.

C: So he sees no great danger at present.

H.M.Jr: Yes.

C: But he expects the atmosphere to be troubled for months.

H.M.Jr: For how long?

C: For many months he said.

H.M.Jr: Yes.

C: It won't end with just with October, but it will take months to get this Czech business worked out.

H.M.Jr: Yes.

C: And Rach of the Swedish Central Banks at Stockholm tells me that he looks also for a long troublesome period that will finally end up in a plebiscite for Czechoslovakia.

H.M.Jr: Yes.

C: Whereby the Germans and Polish and Hungarian minorities would all declare themselves.

H.M.Jr: Yes.

C: And he does not think that Great Britain or France would go to war to stop such a plebiscite.

H.M.Jr: Yes.

C: That is if that was insisted upon that they couldn't hold back on that.

H.M.Jr: Yes.

C: Incidentally, just take sterling, it over-valued at 4.86.

H.M.Jr: He does not.

C: He does not. And he believes that there should be an improvement in the present sterling rate once the big capital movement from Europe to America turns on some better international political news.

H.M.Jr: Uh-huh.

C: However that was his point.

H.M.Jr: Uh-huh.

C: Then last night I had a caller, a man named Arch Pickens, who is the Berlin representative of the Bankers Trust.

H.M.Jr: Yes.

C: He made the point that there are eight hundred thousand people now in Nuremberg for this convention.

H.M.Jr: How many?

C: Eight hundred thousand in the town.

H.M.Jr: Yes.

C: The normal population is two hundred thousand.

H.M.Jr: He figures that it would take at least five or six days to get the people transported to their homes after the Congress ends on September 12th.

H.M.Jr: Uh-huh.

Q: So he figures there would be nothing before the 17th or 18th.

W.M.Jr: I see. Uh-huh.

Q: And he thinks that Hitler's final speech on the 12th, you see that's when his next big speech will be given, to close the convention, may be peaceable, but he is afraid there may be some aggressive moves in the latter half of September. That's after these people get back to their homes. Now he's the most nervous one I talked with.

W.M.Jr: But he doesn't think anything will happen while they are in Nuremberg?

Q: No, he does not. He does not. He went back to Berlin last night, after I talked with him and he does not think anything will happen while they're there.

W.M.Jr: I see.

Q: And - but he is - was - as I say, the most nervous man I talked with on the situation.

W.M.Jr: He was.

Q: Principally because, he said that the influence in the Government had shifted very much to the radical wing of the Nazi party.

W.M.Jr: I see.

Q: And that these people think that France and Great Britain would not fight to save Czechoslovakia.

W.M.Jr: Who thinks that?

Q: That these people in the left wing -

W.M.Jr: Yes.

Q: - of the Nazi party do not think that France or Great Britain would go to war to save Czechoslovakia.

W.M.Jr: I see.

C: And it's this ignorance which he thinks is the greatest danger of a big war.

H.M.Jr: I see.

C: And he said that the German business people are very hard up - have been forced to sell securities, so on, to get ready cash and that's put down the Bourse and he confirmed the same report that I turned in before that labor is very unhappy over being dragged into this mobilization.

H.M.Jr: Yes.

C: And fortification works down along the border, and so on.

H.M.Jr: Yes.

C: I talked with the manager here at Paris, of the National City.

H.M.Jr: Yes.

C: Who has good connections in Berlin. He expects no immediate trouble from Germany.

H.M.Jr: Uh-huh.

C: Incidentally he thinks sterling will continue weak for some time.

H.M.Jr: Yes.

C: And may even go lower.

H.M.Jr: I see.

C: I talked with the Morgan partner here, who thinks Hitler will quit negotiating and not precipitate trouble.

H.M.Jr: I see.

C: A number of people from his staff were called to do French military service today.

H.M.Jr: Uh-huh.

C: They're sending a bunch more of these reservists over to fill up the forts between here and the border.

H.M.Jr: They are.

C: So all of those forts now are up to capacity - and they're mobil - sending a lot of troops in some of those towns you were in like Rouen.

H.M.Jr: Oh yes.

C: Then, a friend of mine, an American economist, I think you know him, Pat Ravsky.

H.M.Jr: Oh yes.

C: He just came back yesterday from Rome.

H.M.Jr: Yes.

C: He'd been down there and incidentally he saw the Finance Minister Azzolini, the Governor of the Bank and Guarneri, who is in charge of the exchange control.

H.M.Jr: Yes.

C: He found the budget situation not so bad.

H.M.Jr: Uh-huh.

C: But the country is going through very heavy hardship as a result of the unfavorable balance of payments. They've had to cut their imports away down, particularly on wheat, the standard of living has lowered further - bread is quite bad.

H.M.Jr: Uh-huh.

C: He said there were a lot of German tourists travelling there but not many other tourists.

H.M.Jr: Uh-huh.

C: It is much below what they expected. And of course these German tourists are paying with these travel lires since Italy has built up a big unfavorable trade balance with Germany.

H.M.Jr: Yes.

C: And he said, down there, that the sentiment toward Germany was not kindly at all.

H.M.Jr: Uh-huh.

C: And that the Italians, both officials and people working in the hotels, everyone are unanimously hoping not to be drawn into any conflict between Germany and Czechoslovakia.

H.M.Jr: Uh-huh.

C: Then I talked with Byron, President of BIS.

H.M.Jr: Yes.

C: And he is quite close to Germany there, you see, and having Germans in the bank, he said that the tension was very high among the Germans.

H.M.Jr: Yes.

C: He said that no one could tell in advance what action would be taken since that depends on just one man.

H.M.Jr: Yes.

C: And he said he would not be so much worried if the Germans themselves were not so wrought up.

H.M.Jr: Uh-huh.

C: He feels that the tension is so great there that there might be some off balanced decision and so on.

H.M.Jr: I see.

C: He thinks the next two weeks will be the critical ones, but he actually expects no blow up.

H.M.Jr: Uh-huh.

C: But he and the man who had been in Berlin were the two most - bordered on the pessimistic.

H.M.Jr: Uh-huh.

C: But even they don't expect anything this week.

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

C: Then, when I talked with my friend here at the bank, with regard to the losses, he said that the people today, he thought more than ever, that there would not be a European conflict.

H.M.Jr: Uh-huh.

C: And I said, "Well, why that" and he said "Well, one man has been here from London, who is the economist of a well known international banking concern with branches in New York, Paris and London."

H.M.Jr: Yes.

C: And he said that this man said that - quite frankly - that the Czechs had been sold out.

H.M.Jr: Yes.

C: That's just the whole thing that they're - they're going to force these concessions to avoid any trouble.

H.M.Jr: Right.

C: I think that's about the story, except that I've talked with our military attache, who has just been over to see his best contact here at four o'clock.

H.M.Jr: Yes.

C: And his contact expects no trouble before late in September even if then.

H.M.Jr: Uh-huh

C: I mean he's not convinced that it'll come and he says he expects nothing before then.

H.M.Jr: Uh-huh. Did you talk to Cochran to find out what he thought?

C: Who?

H.M.Jr: Cochran.

C: Hoffman?

H.M.Jr: Cochran. Merle Cochran.

C: No, no, he didn't ask me anything.

H.M.Jr: Well, well - what does Cochran think for the rest of the week?

C: I think it's going to be all right.

H.M.Jr: The rest - I'm just talking - the balance of this week.

C: Well, I think it's absolutely safe.

H.M.Jr: Uh-huh.

C: I honestly do.

H.M.Jr: All right.

C: Now, that's my opinion partly before and it's confirmed by all of these people.

H.M.Jr: Good.

C: Even though two of them are nervous for the remainder of the month.

H.M.Jr: Right. Well, thank you very much.

C: All right, sir. Do you want this cabled or not?

H.M.Jr: Yes.

C: I have it in form if you want it cabled.

H.M.Jr: Yes, I'd cable it.

C: Except I can't mention my own two people here.

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

C: All right, sir. I'll get it off tonight then.

H.M.Jr: Goodbye.

C: Goodnight, sir.

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September 7, 1938

When I told George Harrison what our proposed bond program was as we set it last night, he was very much pleased.

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September 7, 1938

My dear Mr. President:

I would appreciate it if you would sign the inclosed document and return it to me by the same messenger who brought it to you.

Respectfully,

(Signed) H. Morgenthau, Jr.

The President,
Hyde Park, New York.

Copy

September 7, 1938

T E L E G R A M (Via White House wire)

COL. MARVIN H. McIntyre

POUGHKEEPSIE NEW YORK

I AM SENDING SECRET SERVICE OPERATOR HARVEY INGLEY
ON THE FOUR OCLOCK PLANE TO NEWARK AND THEN BY
AUTOMOBILE TO POUGHKEEPSIE STOP HE IS CARRYING
AUTHORIZATION FOR TOMORROWS FINANCING STOP WILL
APPRECIATE YOUR SEEING THAT INGLEY DELIVERS THIS
DOCUMENT TO THE PRESIDENT TONIGHT FOR HIS SIGNATURE
STOP WHAT ARE THE LATEST QUOTATIONS ON CHRISTMAS
TREES AS I AM IN THE MARKET FOR ONE /

HENRY MORGENTHAU JR

Copy

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
SECRET SERVICE DIVISION

MEMORANDUM

September 7, 1938

Memorandum for the Secretary

From Chief, Secret Service

Agent Harvey Ingley will be available at 2:45 P.M. to secure papers which you desire delivered to Hyde Park. He has a reservation on the airplane leaving here at 4:00 P.M. and arriving at Newark at 5:30 P.M. Agent Hanly of the New York office will meet him with an automobile at Newark and proceed with him to Hyde Park. Agent Ingley will return to Washington tonight, placing the papers in the Secret Service safe, and they will be delivered to your office Thursday morning unless otherwise directed by you.

initialed "W.S.B."

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THE SECRETARY OF THE TREASURY
WASHINGTON

September 7, 1938

CONFIDENTIAL

Dear Mr. President:

In order to place the Treasury in funds to provide for expenditures authorized by law, and to meet the December 15 maturity of about \$433,000,000 of Treasury notes, I propose, subject to your approval, under authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, to offer for subscription a series of 2-1/8 percent 12-14-year bonds and an additional amount of the 1-1/8 percent 5-year notes issued last June.

The bonds and notes will be offered for cash to the amount of \$400,000,000, or thereabouts, and \$300,000,000, or thereabouts, respectively, and both issues will be open for the exchange of the December notes.

The authorizing act provides that bonds and notes may be issued only with the approval of the President. Accordingly, I trust that the proposed issues will meet with your approval. It is my intention to make public announcement of the offering tomorrow, September 8.

Faithfully yours,

W. D. C.
Secretary of the Treasury.

The President,

The White House.

APPROVED:

Franklin D. Roosevelt

Sept 7 1938

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September 7, 1938.
2:09 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

W. Randolph
Burgess: Hello Henry.

H.M.Jr: How are you?

B: Well, we're well. I've got Dudley Mills sitting here and Herbert Rapp.

H.M.Jr: Have they seen each other?

B: Walter Matteson. No, they haven't seen each other since they saw you.

H.M.Jr: You're on the air, I just want to tell you.

B: That's fair enough.

H.M.Jr: And you've got an audience. So Rapp and Dudley haven't seen each other, uh?

B: Not at all, no, and I just called them individually and separately.

H.M.Jr: Well, are you going to be the mouthpiece or how are you going to work this?

B: Well, I've just - only got one instrument here.

H.M.Jr: Yes.

B: I can put them on, one after the other, or I can just tell you that they all separately polled, they saw no reason to change their advice of yesterday.

H.M.Jr: Well, do you want to put Mills on?

B: Yes. The next speaker will be Mr. Dudley Mills, President of the Discount Corporation of New York.

Dudley
Mills: Hello, Mr. Secretary.

H.M.Jr: Hello, how are you?

M: Fine, thank you. The market acted very well today, and that same insurance company came in.

H.M.Jr: Yes.

M: And they've put up the long bonds for five thirty seconds, two to five thirty seconds.

H.M.Jr: Good.

M: And the intermediates are just about the same.

H.M.Jr: Yes.

M: And the note market's moved up a little.

H.M.Jr: Yes.

M: And the rights a little.

H.M.Jr: Yes.

M: And there's a good healthy tone out there and I think that we should go right ahead with what we decided late yesterday at four o'clock.

H.M.Jr: Uh-huh.

M: That's my best judgment and Herb is right here, and agrees with me without

H.M.Jr: Without your having seen him.

M: Without my having seen him, yes. Do you want to speak to him?

H.M.Jr: Sure.

M: Right here, just a minute, please. The next speaker will be Mr. Herbert Rapp, Vice-President-Director of the Discount Corporation.

Herbert Rapp: Hello Mr. Secretary.

H.M.Jr: Hello.

R: I've spent most of my day not paying any attention to the market but looking for Dudley Mills.

H.M.Jr: What's that?

R: I've spent all my day not paying any attention to the market but looking for Dudley Mills.

H.M.Jr: Could you find him?

R: I finally found him, yes.

H.M.Jr: One George Harrison is here and insists that he wants to know how Dudley Mills' golf is.

R: Just a second, I'll ask him. (aside - how your golf is) Worse than ever is the answer,

H.M.Jr: I see. George Harrison says, "Impossible".

R: Impossible. Oh, I guess that's a good answer too. Well on this financing, I think a bond with fifty - fifty two maturity is the one that fits the need of the hour and will be taken very well by the banks throughout the country and from your approach to the subject something that will go well and also stand as well as can be expected in the face of bad news that that's the issue that should be done.

H.M.Jr: Uh-huh.

R: At the same time some notes along with it.

H.M.Jr: Uh-huh. Well - terrible if we're all going to agree, it's no fun.

R: If we agree it's no fun.

H.M.Jr: Yes.

R: Well, of course, that does make it unanimous, I guess.

H.M.Jr: Yes. Well now, who's the next speaker?

R: Why, I'll just have to refer to the Doctor here. (aside - who is the next speaker?) You've been listening to the Happiness Twins of Wall Street. (laughs)

H.M.Jr: Well all I can say is things must be picking up.

Burgess: Yes, we had a good day here today. It really looks a little better today.

H.M.Jr: I see. You know what I call them. I don't call them the Happiness, I call them the hall room boys.

B: The hall room boys?

H.M.Jr: Yes.

B: Well, the only trouble with that is they'd have to see each other, and they don't like to do that.

H.M.Jr: I see. Well now, let's just see with all this around here whether anybody wants to eventalk to you. We'll start with the Acting Chairman of the Federal Reserve Board. He doesn't even want to talk to you. Hello.

B: Yes.

H.M.Jr: What's the minimum that these things will sell at?

B: I think about a hundred and one and a half.

H.M.Jr: That is the note?

B: Oh, the note.

H.M.Jr: No, I - which will be a hundred and one and a half.

B: The bond.

H.M.Jr: Uh-huh.

B: And the note, I think, will be very little off from the present price, will be very close to a hundred and one and a quarter.

H.M.Jr: Uh-huh. Most of the people I've talked to today said I could take up to a billion.

B: Yes. Well, you could perhaps if there wasn't some shift in the news.

H.M.Jr: Uh-huh.

B: You wouldn't have a Hit - a Hitlerized bond though.

H.M.Jr: Wait a minute. Wait a minute. This thing doesn't work, this is a Morgenthau bond. They don't mix.

B: Yes, but it's Hitlerized - Hitler proof, isn't it?

H.M.Jr: Well, I'll call it sanforized.

B: Yes, that's right.

H.M.Jr: It won't shrink. How's that?

B: Yes, that's right.

H.M.Jr: All O.K?

B:

H.M.Jr: I like mine much better. I don't want your fellow, I don't want anything to do with him.

B: It won't shrink when washed.

H.M.Jr: Right. Well, I think it's sanforized. It ought to be good for -

B: I think so, yes. There's no question about it, Henry.

H.M.Jr: All right. I think it's out of the window.

B: So do I.

H.M.Jr: Well, anybody want to say anything? No, they're not quite as snappy down here, but - I don't know what you gave those boys to eat down there, but they're much more conservative in New York, anyway.

B: They always are, yes.

H.M.Jr: All right. Bell is here, we'll start - wait a minute, Harrison is raising one finger. Harrison wants to know how about raising the ante, a little more money?

B: Oh no, I wouldn't do that. I wouldn't do that. Something might break over night, you know, on this foreign news. That would be terribly hard to do, we've got our stuff all printed you know.

H.M.Jr: Well that's - that's the only reason why I'd do it just to see how good you fellows are.

B: Believe me, we'd have to be good to do that.

H.M.Jr: Well, wait a minute, I don't think you've convinced Harrison. I think all this laughter down there - he just sort of wants to dampen it a little bit with another two hundred million dollars.

B: Yes. No, I don't think that would be safe really.

H.M.Jr: You don't.

B: I think something might happen which would upset it. I think this way you've got something that's pretty bombproof and the other way I don't think you quite would have.

H.M.Jr: Well now, just a minute. Well, he just wanted to take a little - that smile off, that's all.

B: I thought that was it.

H.M.Jr: All right. Well, for more reasons than one I want this to be a success.

B: That's right. I know it. Well, it will be.

H.M.Jr: And you might count up how many this makes that you and I have done together.

B: That's a good idea.

H.M.Jr: Yes.

B: We two will count them over on our fingers.

H.M.Jr: O.K.

B: Very good.

H.M.Jr: Tell the Discount boys that they can go out now and play some more golf.

B: Very good.

H.M.Jr: All right.

B: Goodbye.

H.M.Jr: Goodbye.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, September 8, 1938.
9-7-38

Press Service
No. 14-49

Secretary of the Treasury Morgenthau is today offering for subscription, through the Federal Reserve banks, \$400,000,000, or thereabouts, of 12-14 year 2-1/2 percent Treasury bonds of 1950-52, at par and accrued interest, and an additional \$300,000,000, or thereabouts, of 1-1/8 percent Treasury notes of Series A-1943, due June 15, 1943, at par and accrued interest from June 15, 1938. At the same time, the holders of 1-1/4 percent Treasury notes of Series E-1938, maturing December 15, 1938, are offered the privilege of exchanging such maturing notes either for the Treasury bonds or the Treasury notes, the exchange to be made par for par with an adjustment of accrued interest as of September 15, 1938, and to the extent the exchange privilege is availed of, the offering of bonds or of notes may be increased.

The 2-1/2 percent Treasury bonds of 1950-52 now offered for cash, and in exchange for Treasury notes maturing December 15, 1938, will be dated September 15, 1938, and will bear interest from that date at the rate of 2-1/2 percent per annum payable semiannually. They will mature September 15, 1952, but may be redeemed at the option of the United States on and after September 15, 1950. The bonds will be issued in two forms: bearer bonds, with interest coupons attached, and bonds registered both as to principal and interest; both forms will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury notes, also offered for cash and in exchange for Treasury notes maturing December 15, 1938, will be an addition to and will form a part of the series of 1-1/8 percent Treasury notes of Series A-1943, issued pursuant to Department Circular No. 585, dated June 6, 1938. They are identical in all

respects with such notes, with which they will be freely interchangeable. The notes are dated June 15, 1938, and bear interest from that date at the rate of 1-1/8 percent per annum payable semiannually. They will mature June 15, 1943, and will not be subject to call for redemption before maturity. They are issued in bearer form only, with interest coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury bonds and the Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes, respectively, now outstanding. These provisions are specifically set forth in the official circulars issued today.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Cash subscriptions from banks and trust companies for either issue for their own account will be received without deposit but will be restricted in each case and for each offering to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by 10 percent of the amount of bonds or notes applied for. Exchange subscriptions for either bonds or notes should be accompanied by a like face amount of 1-1/4 percent Treasury notes of Series E-1938 tendered in payment, to which final coupon dated December 15, 1938 should be attached.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice, either for the Treasury bonds or the Treasury notes and with respect to the cash offering or with respect to the exchange offering of either. Subject to the reservations set forth in the official circulars, all cash subscriptions will be received subject to

allotment and exchange subscriptions will be allotted in full.

Payment for any bonds or notes allotted on cash subscriptions must be made or completed on or before September 15, 1938, or on later allotment. Treasury notes of Series E-1938, maturing December 15, 1938, with final coupon due December 15, 1938, attached, will be accepted at par in payment for any bonds or notes subscribed for and allotted. If such maturing notes are tendered for Treasury bonds, accrued interest on the surrendered notes from June 15 to September 15, 1938, (about \$3.14 per \$1,000) will be paid following their acceptance. If such maturing notes are tendered for Treasury notes, interest on the surrendered notes will be credited from June 15 to September 15, 1938, interest will be charged for the same period on the notes issued, and the difference (about 31 cents per \$1,000) will be paid following acceptance of the notes.

Treasury notes of Series E-1938, maturing December 15, 1938, are now outstanding in the amount of \$433,460,900. The offering now made will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1950-52

Dated and bearing interest from September 15, 1938 Due September 15, 1952
REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND
AFTER SEPTEMBER 15, 1950

Interest payable March 15 and September 15

1938
Department Circular No. 593
Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, September 8, 1938

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-1/2 per cent bonds of the United States, designated Treasury Bonds of 1950-52. The amount of the offering is \$400,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury notes of Series E-1938, maturing December 15, 1938, are tendered in payment and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated September 15, 1938, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semiannually on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1952, but may be redeemed at the option of the United States on and after September 15, 1950, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT.

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others

than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series E-1938 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted on cash subscriptions must be made or completed on or before September 15, 1938, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified

by the Federal Reserve bank of its district. Treasury Notes of Series E-1938, maturing December 15, 1938, with coupon dated December 15, 1938, attached, will be accepted at par in payment for any bonds subscribed for and allotted, and should accompany the subscription. Accrued interest from June 15, 1938, to September 15, 1938, on the maturing notes (\$3.142076 per \$1,000) will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

1-1/8 PERCENT TREASURY NOTES OF SERIES A-1943

Dated and bearing interest from June 15, 1938

Due June 15, 1943

Interest payable June 15 and December 15

ADDITIONAL ISSUE

1938
Department Circular No. 594

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, September 8, 1938.

Public Debt Service

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 1-1/8 percent notes of the United States, designated Treasury Notes of Series A-1943. The amount of the offering is \$300,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series E-1938, maturing December 15, 1938, are tendered in payment and accepted.

II. DESCRIPTION OF NOTES

1. The notes now offered will be an addition to and will form a part of the series of 1-1/8 percent Treasury Notes of Series A-1943 issued pursuant to Department Circular No. 585, dated June 8, 1938, will be freely interchangeable therewith, are identical in all respects therewith, and are described in the following quotation from Department Circular No. 585:

"1. The notes will be dated June 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable semi-annually on December 15, 1938, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1943, and will not be subject to call for redemption prior to maturity.

"2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

"3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

"4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

"5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form."

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest;

and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series E-1938 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest from June 15, 1938, for notes allotted on cash subscriptions must be made or completed on or before September 15, 1938, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district. Treasury Notes of Series E-1938, maturing December 15, 1938, with coupon dated December 15, 1938, attached, will be accepted at par in payment for any notes subscribed for and allotted, and should accompany the subscription. Accrued interest from June 15, 1938, to September 15, 1938, on the maturing notes will be credited to subscribers, and interest for the same period on the new notes, which will be delivered with coupon dated December 15, 1938, attached, will be charged to subscribers. The difference (\$0.314208 per \$1,000) will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the

basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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GROUP MEETING

September 8, 1938,
9:30 A. M.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Hanes
Mr. Taylor
Mr. Upham
Mr. White
Mr. Lochhead
Mr. Gibbons
Mr. Bell
Mr. Thompson
Mrs. Klotz

Magill: Mr. Graves has given to Mr. Helvering an outline of the further procedure on this decentralization of the Bureau organization. Mr. Helvering is studying it, and has manifested an interest in starting the further offices somewhat ahead of the time when Graves thought they might start it. In other words, he seems anxious to proceed. You might want to see Mr. Helvering in about a week, if you have the time.....

U.L.Jr: I've got the time.

Magill:on that subject.

U.M.Jr: Supposing we say next Tuesday, Mrs. Klotz.

(Telephone:) Hello. Go ahead. Hello. How are you? I'm in the Treasury, where are you? Rochester? Nothing? Oh. Oh, yeah. Gosh. Yeah. Yeah. Yeah. Gosh. Yes. Yes. Yeah. Really? Uh huh. Gosh, that's a shame. Yeah. Are you Yeah. Yeah. I see. Huh. Gee. Are you going to be in town tomorrow? Oh. Oh, I see. Uh huh. Will you be here any time today? Uh huh. Yeah. I kind of - well, when would suit you? What's that? Twelve? That will be fine. Thank you. Thank you.

(To Mrs. Klotz:) Hopkins. Well, let's

fix up this Tuesday, let's say Tuesday at two thirty.

Magill: Want me to let him know?

H.M.Jr: Yeah. That will be you, Hanes, two thirty.

Hanes: Yes sir.

H.M.Jr: Helvering.

Magill: Graves.

H.M.Jr: Graves. Helvering, Graves, Hanes, know about it. Tell them it's in connection with what?

Magill: Decentralization.

H.M.Jr: Decentralization, tell them. Internal Revenue. You (Mr. Thompson) had better sit in for Mr. McReynolds.

Thompson: (Nods "Yes.")

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

Magill: Mr. Oliphant has been winning some money for you, from Mr. and Mr. Raskob.

H.M.Jr: Is he collecting it?

Magill: No; he's hot on the trail.

H.M.Jr: I'm one of these cash-on-the-barrel-head fellows.

Oliphant: I think the Sheriff can make it, though.

H.M.Jr: Well, when you get it, I'll give you a bottle of Chateau du - you remember that? - Chateau du Pays?

Oliphant: That's it.

Klotz: Chateau du what?

Oliphant: Chateau du Pays.

Magill: It isn't going to be one of these empty bottles the President talked about, is it?

H.M.Jr: I'd better give him three bottles. I'll buy three - one for each.

Klots: Well, I think we'll give him one before, and then if he collects, one after.

H.M.Jr: It's good for weak stomachs.

What other good news you got?

Magill: Well, I saw your old college chum, Mr. Doughton, yesterday, and presented Mr. Hanes to him, and they embraced each other with the utmost affection, and Mr. Doughton wished to know if there were going to be any taxes next year, and hoped very much there wouldn't be.

M.M.Jr: And Mr. Hanes said there were going to be more taxes on cigarettes?

Magill: Checks.

Hanes: Checks.

H.M.Jr: (Telephone conversation with Mr. Randolph Burgess at 9:38 A. M., attached.)

September 8, 1938.
9:38 a.m.

Randolph
Burgess:

Hello Henry.

H.M.Jr:

Well, how does it look Randolph?

B:

It looks all right.

H.M.Jr:

What?

B:

The bonds are quoted about a hundred and one and a half, and the notes are quoted a hundred and one and a quarter.

H.M.Jr:

That's all right.

B:

Which are just exactly the figures that we suggested yesterday.

H.M.Jr:

All right.

B:

The reports are that most of the banks will subscribe for cash right up to the limit that we gave them.

H.M.Jr:

Uh-huh.

B:

But they aren't in the market very much for purchasing additional amounts at these prices.

H.M.Jr:

Yes.

B:

So, that cash demand, aside from the subscription, may be a little slow. The rights, of course, are off from yesterday, they're off about ten thirty seconds.

H.M.Jr:

Well, that's good.

B:

They were absurd. They were at absurd levels. So that's very nice. The bond list is off a few thirty seconds and some of the notes are. That's all right.

H.M.Jr:

Yes.

B:

So that I think it's very satisfactory, so far.

H.M.Jr:

Yes.

B: It's - the European news looks - looks, I should say, as though it would carry through all right for the next few days.

H.M.Jr: Right. Randolph, what's this I hear about Youngstown going sloppy.

B: Well, it's not going very well. It's quoted at a slight discount, we'll say half a point.

H.M.Jr: Yes.

B: The market rather expected it might go slowly.

H.M.Jr: Uh-huh. Well, they didn't yesterday. They thought it was all sold yesterday.

B: Oh, did they. I didn't get that impression.

H.M.Jr: Well, you think about it how - I want it - after this is all over I want it either through Harrison or somebody - get word around the Street, that in the future I think they should avoid the day on which United States Government offers -

B: Well, of course the difficulty there is they had to plan these things so long ahead of time.

H.M.Jr: Well -

B: That they didn't know when your offering would be. You see -

H.M.Jr: Well, they -

B: That register is three weeks ahead.

H.M.Jr: I know, but this isn't going to affect us, but it might.

B: Oh, no.

H.M.Jr: But I mean supposing it goes very badly.

B: Well, I think it's very bad for them, I think they're foolish to do it.

H.M.Jr: I do too.

B: I think it's worse for them than it is for us.

W.M.Jr: I do too. I mean - personally I - I can't imagine doing it on a day like this, but -

B: Well, I think what happened you know was that they had planned this thing three weeks ahead. That's the trouble with these - the SEC are the fellows we ought to talk to.

W.M.Jr: Well, I -

B: Because it's the law.

W.M.Jr: I'm more than willing to talk to them.

B: Yes.

W.M.Jr: But I don't think it ought to happen again.

B: No, I think we ought to try to avoid it.

W.M.Jr: I mean, we'd try - sew everything up ourselves and then -

B: Well, it runs the risk of piling up the whole market.

W.M.Jr: That's right.

B: If anything goes wrong with us.

W.M.Jr: That's right.

B: Yes.

W.M.Jr: O.K.

B: First rate.

W.M.Jr: Call me a little later, will you?

B: Yes, I will. Goodbye.

Gastoni: You've been going on quarterly financing things for four years; you'd think some of them might know it.

Ball: I think what they thought was, Mr. Secretary, your financing would be over the week-end, and would be over by yesterday.

Smith: Mr. Secretary, I talked to Swan; he knew absolutely nothing, as late as yesterday noon, when I got him on the phone. He knew nothing about this financing coming then, but even had he known, the difficulty is that they've got to put that thing in registration twenty days in advance. It comes out and the contract which they sign with Youngstown Sheet and Tube takes effect immediately upon the registration - date of registration. I went over to the S. E. C., as suggested, and talked to Baldwin Bane, who is head of the Registration Division, and asked Bane if, upon the occasion of the filing of a registration for any issue of more than ten million dollars, if he would have it fixed over there, automatically, so that you would be notified, and you can tell them, twenty days ahead, and you can delay that effective date of registration if you like. If your financing is coming on a specific date that you want to stick to, you can delay that effective date of registration as long as you like. You can delay it three, four, five, six, or ten days if you wish.

W.L.Jr: Who is Swan?

Robert: Swann is head of Smith, Barney & Company; he was formerly the senior partner of Edward B. Smith & Company.

W.L.Jr: Send the clippings of Tuesday morning, last week, of the Times, Tribune, and Wall Street Journal, in to Mr. Hanes, of our announcing the date in which we were announcing this bond issue. Every paper in New York carried it.

Hanes: That's what I told him yesterday.

W.L.Jr: You'll have the clippings. I don't know how well you know him. If you can tell him.....

Hanes: Here's the trouble, Mr. Secretary. The trouble is, they've got another issue; I think it's Atlantic Refining, he told me. These issues, they've got to space there, on account of the capital in the Street, the capital in the Street is so depleted, the underwriting capital is less than thirty million issue; forty million issue, and fifty million issue coming, one on top of the other. It kept the capital of the Street, coming one on top of the other; they've got to delay those things.

H.M.Jr: All true, but look; here is an instance. Chances are ninety-nine out of a hundred my issue is going to be a success, see? It looks as though their's is not going to be. They most likely will kick themselves for doing it on the same day. I am as much interested as anybody in Washington that the capital market be a success - private capital market, so when this thing blows over, let's see whether you and I - see whether we can't straighten this out for the benefit of the private capital; not for the United States Treasury.

Hanes: If we want to issue on a specific date we will delay their registration date.

H.M.Jr: Who should they call up, Broughton? Is he the fellow they'd be in touch with?

Bell: No, I don't think so. It would have to be you or me. Broughton doesn't do anything until you decide.

Hanes: I asked Bane if he wouldn't notify you. Then you'll know.

H.M.Jr: Here's a thirty million issue. Let's say it's sticky; I hope it isn't. As you say, two or three of those Bethlehem Steel and Pure Oil things, and goodbye private market. I am taking darned good care of myself. I've worked under the highest pressure I have ever worked to make sure this thing would go right, and I am sure it will, but I don't want to see a thirty million issue of private capital go sour. That's the whole point. But Swan - I don't know him to say that he didn't see this. I'd like Gaston to send in those clippings. You can make it caustic, according to how well you know him.

Hanes: I'd like to send it to him. They should know if if they didn't.

H.M.Jr: I can't imagine anyone getting out a thirty million issue, knowing that for three years I have financed quarterly, and the first question I'd have asked is, "What's the Treasury doing?" Wouldn't you?

Hanes: It's the first thing you want to know.

Taylor: Somebody in that group should have known.

H.M.Jr: That's the first question - "What day is the Government going to finance?"

Gaston: Anybody in the bond market would know we were going to have a big September bond financing.

H.M.Jr: All right. What else, Herbert?

Gaston: I haven't anything. There's a letter here you wanted to speak to me about sometime today.

H.M.Jr: Anything else?

Gaston: Nothing else.

H.M.Jr: George, that black book, until further notice, I think if I get that twice a week it will be enough.

Gaston: You might be interested to know Thurman Arnold has engaged Sprague as an advisor on monopolies.

Olipphant: Leon called yesterday; he didn't know about it in advance and wanted you to be told.

H.M.Jr: Well, I think if he'd asked me in advance I'd have told him I think it's the stupidest thing that I know to do. That Professor Sprague refused to serve the President of the United States - flatly turned him down on far more important interests, and handed the President a slap in the back. Whoever called up, you can tell him, with my compliments

Olipphant: He didn't know it.

White: It's not his special field.

H.M.Jr: I don't care how strong you can put it, you can tell Professor Arnold I think it's the height of stupidity, and use just that language. Huh? After Sprague refused to serve the President and the Treasury, for the Department of Justice to employ him...

Haas: I don't know whether you have seen this yet, this morning, or not. It came over a few minutes ago.

H.M.Jr: Tell Arnold that I suggest he employ Professor Kemmerer, too. I think he would be a good fellow. I think he also is an expert on the same subject. He's available. Seriously, tell him he ought to employ Kemmerer - another New Dealer.

Oliphant: If anybody can predict what the Department of Justice is going to do, he's good.

H.M.Jr: What other good news have you got?

Haas: What will be about the deadline on this material that you want - Monday?

H.M.Jr: I thought we might have a look-see at it tomorrow morning around ten.

Haas: I don't think I'll have it all in final shape.

H.M.Jr: Let's take a first look. (To Mrs. Klotz:) Put down Haas at ten tomorrow morning.

Klotz: Is that going to last more than a half hour.

H.M.Jr: No.

Haas: That's all.

H.M.Jr: And let me just get back on this business of Arnold. Doesn't - don't I - am I not correct, that Arnold suit - that Arnold has against the automobile companies, that all are ready to play ball except General Motors. Is that right? Doesn't he know that Professor Sprague is Financial Consultant to General Motors, is on General Motors' payroll? Tell him that too.

Oliphant: That's very interesting.

H.M.Jr: He's Monetary Consultant to General Motors, and on their payroll. If I read the papers correctly, the suit they have on file, everybody was ready to play ball except General Motors. Is that right?

Oliphant: They said that yesterday.

H.M.Jr: (Laughs) Am I right? I'm right on that?

Upham: That's correct. He goes down once a week.

Haas: Export Corporation is all the same thing.

Oliphant: Is the Attorney General in town?

H.M.Jr: I don't know.
George?

Haas: I have nothing more.

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

Hanes: Nothing more.

H.M.Jr: Wayne?

Taylor: Before this eleven thirty business, why, I think we'd like to talke to you, if we can, because there is a formula for purchases of materials, and so on, which is a possible formula.

Oliphant: Well, that's different, isn't it. You didn't want to mix that in?

Taylor: I don't know whether you want to mix it in or not, but I think you ought to be informed of the formula before this meeting.

H.M.Jr: Well, Feis is coming at eleven thirty. Have you heard from him?

Taylor: No, I haven't heard from him.

Klotz: I haven't heard, and I didn't call him. You said not to.

H.M.Jr: (Over telephone) Get Dr. Feis on the phone - Herbert Feis.
Well, let's see. What else?

Taylor: The other thing is that I talked to Ronald Ransom this morning, who called up, and wished to give us the message that if at any time during these next two days, it would be useful for them to take rather quick action in the market, on account

of developments from what might occur from the other side, why, that he was standing by and very ready to do it.

H.M.Jr: That's very nice.

Taylor: But he would like to have just as quick notice as we could give him of any situation which did develop.

H.M.Jr: (Telephone conversation with Mr. Herbert Feis, at 9:57 A. M., attached.)

September 8, 1938.
9:57 a.m.

H.M.Jr: Hello.
Herbert
Feis: Good morning.
H.M.Jr: Hello Herbert.
F: Good morning, Mr. Secretary.
H.M.Jr: I thought that you wanted - the State
Department wanted to come over on this Chinese
loan matter.
F: That's right.
H.M.Jr: Well, weren't you going to call Mrs. Klotz?
F: I was going to do it any minute.
H.M.Jr: Oh!
F: I was about to pick up the telephone. When -
could you see us this afternoon, Henry?
H.M.Jr: No, I can see you this morning.
F: What time?
H.M.Jr: Eleven thirty.
F: If that's your only time all right. I've
called a division meeting here.
H.M.Jr: Well, that's the only time. I - I was waiting
to hear from you people.
F: Well, eleven thirty?
H.M.Jr: Yes.
F: We'll be there.
H.M.Jr: O.K.
F: Right.
H.M.Jr: Thank you.
F: Thank you.

H.M.Jr: He's just about ready to call.

Well, come in a little bit ahead of time. I'll get rid of Mooney by that time. All right? Five minutes; can you explain it to me in five minutes.

Taylor: I think so.

H.M.Jr: Well, if not, we'll let Feis wait.

Taylor: I think we can do it in five minutes. It's a little bit

Oliphant: Or we can do it at the end.

Taylor: It's a little bit short, but we can do it.

H.M.Jr: All right. What else, Wayne.

Taylor: Nothing else. I thought that Ransom thing was good.

H.M.Jr: Very nice; that's very good. You are working on the Comptroller's Office?

Upham: That's on Taylor's chart.

H.M.Jr: When will you be ready.

Upham: They say they will have a memorandum for me today. I'm having one of my own - one or two. Will it disturb you to get a highly indiscreet memorandum at home tonight? (Laughter)

H.M.Jr: Is it amusing?

Upham: No, I think not - more on the tragic side.

H.M.Jr: Well, I'd better take it in the office then. My home is my haven of I'll see you during the day. I don't want anything tragic at home. I'll see you sometime. Let Taylor know, will you.

Upham: Surely.

H.M.Jr: And when you are ready, let Mrs. Klotz know.

Archie?

Lockhead: I don't think I have anything. There's been no changes.

R.H.Jr: (Nods to Mr. White.)

Waller: With reference to tungsten, I saw something that made me think we might investigate it a little bit further. I am preparing a memorandum on the economic aspects. It looks as though tungsten may not be as good a buy as it appears on the surface. We'll have something today.

Taylor: This formula will apply in any event.

Whiter: Just a little raindrop; for the first time the figures on export trade, which were showing persistent declines until the fourth week, or the third and fourth week of August, have shown an increase, so that it looks now as though August will show a fifteen or twenty per cent increase over last August. That is the first time it's turned. It may shift, subsequently, but that's the preliminary data.

R.H.Jr: Are you going in for raindrops?

Waller: I have no choice.

R.H.Jr: I suppose you folks noticed, in New York, the department stores, for the first week, are running fourteen or fifteen per cent ahead of the same period last year. Is that in the first week, George?

Waller: I think that's in the first week; I'll have to check.

Whiter: Well, steel, for forty-seven over the holidays is a little more than a drop, isn't it?

R.H.Jr: Yes. I have here - I am keeping on hand, the latest list of General Craig of the materials they do need. I am going to keep it on my desk. General Craig gave me a list of them.

Waller: It's fourteen per cent under, according to our figures.

R.H.Jr: No, it's on the front page of the Wall Street Journal - New York.

Haas: I'm looking at it. I'll check it, but I think they must be wrong.

H.M.Jr: They all carry the same story. This is the Tribune.

Haas: We compared the '37 - of August - prepared the comparable week in '37.....

H.M.Jr: No, this is a week later; the first week in September.

Haas: Oh, pardon me. We mustn't have it then.

H.M.Jr: It's the week later, George.

Haas: Well, then, don't bother about it.

H.M.Jr: It's the first week in September. I can't see it (in paper). Does that go by you, Harry?

White: I didn't see it.

H.M.Jr: How's the great fixer?

Gibbons: It's all fixed.

H.M.Jr: No!

Gibbons: It's for your approval this morning.

H.M.Jr: You want to do it right now?

Gibbons: Yes. All it needs, they were temporary fellows, and Guy's put them back, and just wants to wait until

H.M.Jr: You stay behind.

Gibbons: Yeah.

H.M.Jr: Wonderful.

Gaston: Is Mr. Hawley one of them?

Gibbons: I didn't see a New York paper this morning. That didn't break in the testimony, did it?

Gaston: They didn't call him. Mr. Hawley endorsed the Hines check; he's one of our Deputy Collectors in Joe Higgins' district.

Gibbons: This fellow, Hawley, is a Deputy Collector, and he's an old ball player, and he placed Jimmy Hines' bets, and he endorsed this check that "Dixie" Davis, or whoever it was, supposedly had given to Hines, and his name appeared on it, so I said, "Joe, what have we done about it?" He said he took it up with McQuillan to see what the developments were. He talked to Hawley and he said occasionally he'd see Hines and Hines asked him to place a bet, and he just telephoned the bookmaker. They were going to call him to identify his signature, and apparently they didn't do it.

H.M.Jr: This other fellow, Bernard, is that his name? He seemed to change his mind. If you will stay a minute we'll get that fixed up.

Gibbons: All they have to do now is to make up their minds which names they want. First it was five names and now it is

H.M.Jr: Six.

Gibbons: Well, the sixth now is not in Internal Revenue; it's under Mrs. Ross.

H.M.Jr: She's always willing.

Gibbons: We'll fix it all right.

Bell: In making the - closing this afternoon's cash subscriptions, do you want to say anything on the exchanges?

H.M.Jr: Yeah.

Bell: Say - two days you - have you changed your mind on that?

H.M.Jr: But I am not going to let anything go out of this office tonight until six o'clock.

Bell: Six o'clock.

H.M.Jr: Six o'clock tonight. But nothing goes out of here until six o'clock.

Bell: Now, on the allotments, may we make those Saturday? You won't be here. Maybe we can clear it by telephone around noon. We'll get the final report Saturday morning. I'll be in by one.

H.M.Jr: Sure.

Bell: We'll have to give the banks more time for distribution.

H.M.Jr: Now

Bell: Now, do you want to make any subscription for investment purposes? Twenty-five million, or something?

H.M.Jr: Got the list?

Lockhead: That twenty-five million is really the only money we've held out for reinvestment in the market.

Bell: We have a hundred million of the F. D. I. C., and a hundred million of Savings. They are all increased in the two.

H.M.Jr: I thought we ought to put Government Life into bonds, and I thought we ought to put Postal Savings in. Put them down for fifty.

Lockhead: Do you want to take the Federal Deposit Insurance?

Bell: It doesn't hurt them to have that.

H.M.Jr: Unless you want to put them down for fifty - Federal Insurance Deposit.

Bell: No, I don't want to put them down.

H.M.Jr: I think the Postal Savings, fifty, and Government Life, twenty-five.

Bell: May have a little more than that in Government Life.

H.M.Jr: Anything else? Any other funds?

Bell: That's all.

H.M.Jr: Does that clear you?

Bell: Yes, that clears me.
H.M.Jr: (Nods to Mr. Thompson.)
Thompson: (Nods "Nothing.")

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September 8, 1938.
12:56 p.m.

Walter
Matteson:

Yes, sir.

H.M.Jr:

Morgenthau speaking.

M:

Yes, sir.

H.M.Jr:

How does it look to you?

M:

Very good.

H.M.Jr:

Very good.

M:

Very good. The - from what I hear the bank generally will subscribe for the - for their limit.

H.M.Jr:

Uh-huh.

M:

The boys tell me that that's the news they get generally throughout the country.

H.M.Jr:

Uh-huh.

M:

And the early interest was just as - just as good as it's been on any - on any of the issues.

H.M.Jr:

Right.

M:

We haven't got the volume in yet because that doesn't come in until late today.

H.M.Jr:

No.

M:

They wait a little later before they put in a larger subscription.

H.M.Jr:

That's right.

M:

The early interest is good. The market backed up more than it ordinarily would to meet - to meet the new rates on account of the foreign news.

H.M.Jr:

Yes.

M:

But it recovered some of its losses and it's in pretty good shape now.

H.M.Jr:

Uh-huh.

M: I think it looks pretty good Mr. Secretary.
H.M.Jr: All right. I'll talk to you again a little
later.
M: All right, sir.
H.M.Jr: Goodbye.

51

September 8, 1938.
2:13 p.m.

H.M.Jr: Hello.

Operator: Mr. Madison. Go ahead.

Matteson: Hello.

H.M.Jr: Hello, Matteson?

M: It's going big, Mr. Secretary.

H.M.Jr: Is it?

M: Over a billion.

H.M.Jr: Uh-huh.

M: Six hundred and - the first preliminary report showed six hundred and ten on the bonds and three hundred and ninety on the notes.

H.M.Jr: Uh-huh.

M: And it's getting bigger by the minute.

H.M.Jr: Madison, when do we usually announce in Washington we close the books?

M: Yes - in the afternoon, we - we get a telegram from you and we put it in the mail.

H.M.Jr: Well, I mean, we don't -

M: And - and, as my understanding is that you give it to the Press this afternoon for tomorrow morning's papers.

H.M.Jr: But we don't have to say anything before that.

M: No.

H.M.Jr: I was kind of confused on account of

M: Yes, that's my understanding of it.

H.M.Jr: Well then I think that I am going to hold it up until quite late here, because yesterday - telling the newspaper boys what we were going to do - it was all over the Street in half an hour.

Q: Yes, yes. Well, we'll be all prepared with -
with the printing. You - you expect to close
the Exchange tomorrow night, don't you?

H.M.Jr: Yes.

Q: That'll be all right too.

H.M.Jr: Right.

Q: I've checked up on that and that'll work out
very fine.

H.M.Jr: Well, we'll - I'll do it all here at five
o'clock I think.

Q: I beg pardon.

H.M.Jr: I'll do it here at five o'clock, standard time.

Q: Yes. Yes.

H.M.Jr: I won't release anything until five o'clock.

Q: Well, that's all right.

H.M.Jr: What's the proportion of bonds to notes?

Q: Six - six hundred bonds, four hundred notes.

H.M.Jr: That surprises me.

Q: Six hundred bonds -

H.M.Jr: I thought it would be more the bonds.

Q: Yes, it surprised me too.

H.M.Jr: Uh-huh. All right.

Q: All right, sir.

H.M.Jr: Oh, wait a minute.

Q: Yes, sir.

H.M.Jr: How's that Youngstown issue?

Q: Oh, not so good.

H.M.Jr: Not so good.

M: Not so good. Well, it isn't a very high grade you know.

H.M.Jr: It isn't.

M: No. And people would have been surprised if it had gone very well, especially today, but it is not a real high toned issue.

H.M.Jr: Uh-huh.

M: And - and it was selling at a discount.

H.M.Jr: Oh really.

M: Yes.

H.M.Jr: Oh, I'm sorry.

M: Yes.

H.M.Jr: I'm sorry.

M: Yes.

H.M.Jr: Well, too bad.

M: Yes.

H.M.Jr: Thank you Madison.

M: Too bad it came out today.

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

52

September 8, 1938.
2:37 p.m.

H.M.Jr: Hello.
Randolph
Burgess: Oh, hello, Henry.
H.M.Jr: Hello, Randolph?
B: Yes, sir. I've got some new figures for you.
H.M.Jr: Yes.
B: On the bond -
H.M.Jr: Yes.
B: One billion and seventy -
H.M.Jr: Yes.
B: On the notes 703.
H.M.Jr: You know, that surprises me on the notes.
B: That there weren't more of them.
H.M.Jr: No, that there's that many.
B: Oh, that there's that many.
H.M.Jr: Yes.
B: Yes, that is -
H.M.Jr: That's a real surprise.
B: That shows that there's a real demand for it.
H.M.Jr: Yes.
B: Now the prices continue just about where they have been, about a point and a half premium on the bonds and about a point and a quarter on the notes.
H.M.Jr: Uh-huh.
B: They're closing near their lows of the day, I mean the general bond list.
H.M.Jr: Yes.

B: But I think that's all right. They're adjusting to this new one a little bit.

H.M.Jr: Yes.

B: Very interesting that the price of the new one and the price of the forty nine fifty three, the old two and a half.

H.M.Jr: Yes.

B: Are staying together as they are.

H.M.Jr: Is that right?

B: Yes.

H.M.Jr: Are they together?

B: They're almost exactly together, they've stayed right together all day.

H.M.Jr: That is funny, isn't it?

B: Very funny. I think the new one's worth more, so there's a good arbitrage charge there for a fellow.

H.M.Jr: Uh-huh.

B: There's the new one - the new one - if you think it over is a year shorter maturity.

H.M.Jr: That's what you call a hot tip from the Vice-President of the Federal Reserve of New York.

B: That's right. You try it and make some money on it.

H.M.Jr: Well, I'm amazed at the subscription to the notes.

B: Yes, I think it's larger than would be expected.

H.M.Jr: Yes.

B: So there isn't very much in that with a rise

H.M.Jr: It just shows it's good medicine to have two pieces of paper.

B: That's right.

H.M.Jr: Yes.

B: That's right. Well, I think it was perfect, I don't think you could have done it any better.

H.M.Jr: No.

B: I think the decision was absolutely correct.

H.M.Jr: And with that Youngstown - sour as it is, it - I suppose all the papers, like New York Times, will carry an editorial tomorrow saying how much smarter the Secretary of the Treasury is than the combined forces of the best brains of Wall Street. (laughs) I can just see that - headlines - in New York Times tomorrow.

B: Yes. The Journal of Commerce had an editorial this morning.

H.M.Jr: Yes.

B: About the cautious Treasury, you saw it?

H.M.Jr: I know, but did you see that little snooty one in the Times this morning?

B: Yes, I did.

H.M.Jr: Yes.

B: Yes. Oh, well, that's to be expected.

H.M.Jr: Yes, and that'll be backed up by one of Arthur Krock's things that I'm the best Secretary of the Treasury since -

B: I suppose so, yes.

H.M.Jr: Since - since Joe Kennedy.

B: The Youngstown thing - I talked with the underwriter fellows and they - they don't think it's so bad.

H.M.Jr: Yes, but selling below par.

B: Yes, they pointed out that this is something the insurance companies can't take, so it has to go more slowly.

H.M.Jr: I know.

B: The issue I guess is about half sold.

H.M.Jr: Can you imagine mine going below par, today?

B: We wouldn't feel so cheerful, would we?

H.M.Jr: No. Well -

B: No. You're announcing the closing of the exchanges for tomorrow, aren't you?

H.M.Jr: That's right.

B: Yes.

H.M.Jr: Well, you know what Barnum says.

B: That's right.

H.M.Jr: O.K. All right.

B: Agree with him, this time, anyway.

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

B: 'Goodbye.

53

September 9, 1938.
9:21. a.m.

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello!

Randolph
Burgess: Hello Henry.

H.M.Jr: Well the last one we did together was a great success.

B: It certainly was.

H.M.Jr: Yes.

B: The boys on the exchanges are all going for bonds, aren't they?

H.M.Jr: Yes.

B: It's ten to one here.

H.M.Jr: Well, that's what I hoped for.

B: Yes. Is it about the same in the rest of the country apparently?

H.M.Jr: Well, I haven't seen anybody today.

B: I haven't checked with that either. Our figures, this morning, are a billion and a half with the billion on the bonds and notes on cash.

H.M.Jr: How much?

B: One and a half billion.

H.M.Jr: Uh-huh.

B: And one billion.

H.M.Jr: Uh-huh. Well, it's - the whole thing was very pleasing in view of the situation and I don't think it was over priced either.

B: No, I don't think it was. After all it's only quoted at one and a half points premium.

H.M.Jr: Yes.

B: And with the market - reached the way it was yesterday, it was a perfectly clear indication that we - we - that we had to price it well.

H.M.Jr: Yes. And I'm glad the rights sold off as fast as they did.

B: So am I, I'm delighted.

H.M.Jr: Well, this leaves it in a nice position for December.

B: I think it's very pretty.

H.M.Jr: And we can cross that bridge when we come to it.

B: That's right, yes.

H.M.Jr: And I'm curious to see now what will happen to the excess reserves and if they do fall off, of course it will aggravate the discussion on gold in the general funds.

B: Yes, it will.

H.M.Jr: But we'll see.

B: That'll be very amusing.

H.M.Jr: Yes. And we'll see.

B: Yes.

H.M.Jr: All right.

B: Very good Henry.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Goodbye.

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September 9, 1938.
9:23 a.m.

Operator: I'll put Rentschler right on.
Gordon
Rentschler: Hello Henry, good morning.
H.M.Jr: Hello Gordon, how are you?
R: Fine. I understood the boys wanted to buy some
of your bonds.
H.M.Jr: Yes, they're falling all over each other.
R: We had two hundred and thirty three million go
in through here.
H.M.Jr: Is that right?
R: Yes.
H.M.Jr: For the bonds?
R: That's for both, mostly for the bonds though.
H.M.Jr: Good.
R: Mostly the bonds.
H.M.Jr: Well, it was a great success.
R: I imagine you've got a big over-subscription.
The market is on the way down a little bit again
this morning.
H.M.Jr: Well -
R: Which is all right.
H.M.Jr: Good. We got - we got them priced right.
R: Yes, I think it's all right. We've been buying
the two and a half on the scale down.
H.M.Jr: You have.
R: Haven't got very many. I guess we've got six or
seven million dollars worth of them on the scale
down. There are more of them coming in on the
market now.
H.M.Jr: You mean the forty nine fifty threes?

R: No, that was the fifty - fifty twos.

H.M.Jr: Oh, you mean the new ones?

R: Yes, we're buying the new ones.

H.M.Jr: Oh, you're buying the rights?

R: No, we're buying - we're buying bonds when delivered.

H.M.Jr: Oh, I see.

R: See - as of the 15th.

H.M.Jr: I see.

R: So some of them that are expecting to get - that either have exchanged for their rights.

H.M.Jr: Yes.

R: And exchanged into the bonds, are now selling bonds and probably some of these dealers are selling ahead of time.

H.M.Jr: Uh-huh.

R: But whatever they're doing, we're sitting there taking them in.

H.M.Jr: Well, that's very interesting.

R: - I think it's a chance to get - well, we got some just now as low as nine.

H.M.Jr: Is that right?

R: We paid as high as eighteen yesterday, but it's only six or seven millions altogether and we're taking them as they go down.

H.M.Jr: Uh-huh.

R: Which - it'll dry up, I think we might have a little more of that today and maybe a little more tomorrow until we find out what's going on in Europe.

H.M.Jr: Well I wouldn't be surprised.

R: I think that some of the more cautious people will feel that that's a wise thing to do.

H.M.Jr: Uh-huh.

R: On the other hand, we've got enough room to want to get some of these in.

H.M.Jr: Uh-huh.

R: So that it fits our book if we want to let them come out.

H.M.Jr: Good.

R: I don't know how many will come out, but I don't think it will be very long - very long party.

H.M.Jr: Uh-huh.

R: There's not very much interest in the notes this morning.

H.M.Jr: There's not.

R: They're sticking around an eighty-six to eighty-seven yields against eighty-two the other day, -

H.M.Jr: Uh-huh.

R: And not particular interest in - not much interest in them one way or the other.

H.M.Jr: Well, from our standpoint the thing was very satisfactory.

R: Oh, yes, from your standpoint Henry, it's a very - it's a marked success. I doubt - I don't know what your will be, but they will probably be quiet small won't they?
/allotments

H.M.Jr: Well, we won't know until tomorrow noon, when the stuff

R: But if we had taken the gains, two hundred and thirty three millions going into our own shop.

H.M.Jr: Yes.

R: That's a third, a little bit better than a third of the whole issue.

H.M.Jr: Yes.

R: And for cash. Why that represents - it must be that across the country you would have a very heavy over-subscription.

H.M.Jr: Well, we won't get the final figures until noon tomorrow.

R: Yes, you won't - I doubt very much if you'll have them until noon tomorrow, will you?

H.M.Jr: Yes, we'll have them by noon. We -

R: The machinery all worked very easily.

H.M.Jr: Pardon me.

R: The machinery worked all right.

H.M.Jr: Perfect. Perfect.

R: Henry, have you got any news from abroad this morning that we haven't got?

H.M.Jr: No. No.

R: Excepting that sterling is off again a little bit. We have nothing and our boys are just sitting tight and have nothing at all other than what the newspapers are giving us.

H.M.Jr: No, I have nothing Gordon.

R: I see.

H.M.Jr: Well, take care of yourself.

R: All right Henry. I think this is a very good job fellow.

H.M.Jr: I - I'm satisfied.

R: I'm glad you got this money ahead of time. If anything does happen over there, why you're that much to the good and if it doesn't why everybody will be happy about it.

H.M.Jr: That's right.

- 5 -

R: I think it's - I think it's worked out very well.
H.M.Jr: Well, cheero.
R: All right, thanks very much Henry. Bye, Bye.
H.M.Jr: Goodbye.

GROUP MEETING

September 9, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Lochhead
Mr. Upham
Mr. Gibbons
Mr. Hanes
Mr. Bell
Mr. Thompson
Mrs. Klotz

H.M.Jr: (To Mr. Thompson:) Now, you stay behind a minute;
I want to ask you something.

Thompson: (Nods "Yes.")

H.M.Jr: Dan?

Bell: I have nothing. I assume you got word this morning
that the appointment is off until Monday.

H.M.Jr: Yes. Last night they phoned me.

Bell: Had word at the White House this morning it was
postponed.

H.M.Jr: I'd like to go ahead with you and Haas at ten
just the same. George, will you be ready at ten?

Haas: Yes sir.

H.M.Jr: I think you are interested in that, too, aren't
you?

Taylor: What's that?

H.M.Jr: Haas' figures, at ten.

What else, Dan?

Bell: That's all.

H.M.Jr: And then my understanding is that you'll call me at the farm, what time, Washington time, tomorrow?

Bell: Probably around two o'clock.

H.M.Jr: Oh, oh - no sir. I'm asleep at that time.

Bell: Well, we'll get the report - the report is due here at one.

H.M.Jr: Well, at one. That's two o'clock on the farm. That is the absolute deadline. Or I'll talk to you either at one or at three.

Bell: Your time?

H.M.Jr: Your time.

Bell: That's all right.

H.M.Jr: One or three - which do you want?

Bell: Of course, I'd like to have one, but I'm not sure all the figures will be in exactly at one. Now, we'll probably have all of them, but Frisco. We could come near enough.

H.M.Jr: Oh, Frisco doesn't count.

Bell: We can come near enough at one, I think. One per cent is going to mean quite a lot. You can't juggle the figures between one per cent anyhow. One per cent is going to mean about sixty million dollars.

H.M.Jr: You can call me at one, and if it isn't all right....

Bell: I think we will have enough figures to call you at one, Washington time.

H.M.Jr: Washington time, one o'clock, and if it doesn't work, you can call me again at three.

Bell: All right. We'll have plenty to do around here.

H.M.Jr: Huh?

Bell: All right.

H.M.Jr: That goes to Gaston, too, for the announcement tomorrow.

Gaston: Yes, I plan to be here tomorrow afternoon.

H.M.Jr: Well.....

Gaston: You get the emphasis?

H.M.Jr: Yeah, I get it. Well, I'm available at one and three, gentlemen, but not between. All right?

Bell: O. K. by me, yes sir.

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

Gibbons: This name

Gaston: Tentative.

Gibbons: This name they were all bothered about - there isn't such a fellow by the name they mentioned in the Sub-Treasury. They didn't know him at all.

H.M.Jr: You mean the fellow

Gibbons: Yeah - that they wanted to put back. They haven't discovered who he is yet.

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

Gibbons: No.

H.M.Jr: You've got an appointment?

Upham: Yes.

H.M.Jr: What time?

Upham: Eleven thirty, I believe.

H.M.Jr: Eleven thirty. Mr. Taylor, will you come in, on your chart - eleven thirty?

Taylor: (Nods "Yes.")

H.M.Jr: All right.

Upham: This is Mr. Eccles' birthday, if you are interested.

H.M.Jr: Yeah. What will we do with the flags?

Bell: Put them up a notch.

H.M.Jr: Where is he?

Upham: He's out West.

H.M.Jr: Send him a telegram of congratulations, Mrs. Klotz.

Upham: The Bank Commissioner of Connecticut - the Connecticut Bank Commissioner has made a speech criticizing very severely your eighteen-month average. He would not follow it on bonds.

H.M.Jr: Doesn't like it? What does he want, a longer average?

Upham: No, market value.

H.M.Jr: That's..... Oh, we get back to that after a while, but I may

Upham: Oh, I don't think it's of any great importance. I thought you'd be interested.

H.M.Jr: As a matter of fact, it's one of the best things ever done around here. Eighteen months.

Olliphant: Did it ever go out?

H.M.Jr: It must have - they are criticizing it.

Upham: It must not have been put in effect yet, because the people who are figuring the eighteen months average.....

Olliphant: are waiting eighteen months?

H.M.Jr: Oh well, something will happen; I am not going to run the Comptroller's Office, and I know Mr. Taylor's not going to run it, and one of these days, we'll get angry and put somebody in there to run it.

Taylor: That's the only thing to do.

H.M.Jr: If it gets down to it, I've got to be a bank examiner besides everything else, but (To Mrs. Klotz:)

And you might write Mr. Smyth a note. He had an operation.

Upham: He's not doing too well.

H.M.Jr: Well, then, I might drop around to see him next week. What hospital is he in?

Upham: Walter Reed.

Oliphant: Who's that?

H.M.Jr: Smyth, from Uvalde.

Upham: They don't want anyone to see him until next week.

H.M.Jr: Anything else?

Upham: No.

Lockhead: Not much activity. The sterling has settled down to 4.82 3/8, without very much activity, and the Bank of England reported that most of their operations had been for accounts of central banks. They had not stated which central banks, but it was natural to suppose that they would be Scandinavians.

H.M.Jr: Where is your steamship list?

Lockhead: (Hands H.M.Jr. three sheets of paper.)

H.M.Jr: Now, I told the Spanish Ambassador last night - he went up today to sign some contract with New York - I told him you (Oliphant) would be glad, in order to save him the embarrassment of being seen, to go up and see him, at the Embassy, see, but I told him I thought we had a plan, so if you want to go over with me again today

Oliphant: I'd like to, before you..... I'd like to go over it again.

H.M.Jr: Well, let's just see - two o'clock?

Oliphant: Fine.

H.M.Jr: Two o'clock. All the Spaniards come in at two o'clock - anybody interested in Spanish gold.

Upham: When are you leaving?

H.M.Jr: About three. What's that to you?

Upham: You wanted that memorandum from the Comptroller before you left, on Friday.

H.M.Jr: Well, I am seeing you at eleven thirty.

Upham: Oh yes, but it's not that memorandum. It will be ready by three.

H.M.Jr: Don't be so tragic, Cy.

Upham: It is tragic.

H.M.Jr: The one you wanted to send to my house?

Upham: Surely, but it's not the one from the Comptroller. It's the one from me.

H.M.Jr: Which is the tragic?

Upham: The one from me.

H.M.Jr: We'll take it during office hours.

Upham: You may have to be a bank examiner yet.

H.M.Jr: Don't threaten me. The first thing you know, you'll be in there. (Laughter.) Lots worse could happen.

Gaston: Second the motion.

H.M.Jr: Taylor?

Taylor: I'd like to second the motion you just made.

H.M.Jr: All right.

Taylor: Well, I'm planning to leave tomorrow, for an indefinite period.

Klotz: (Laughs) I don't like the way he said that.

H.M.Jr: Be back about the first of October?

Taylor: Unless summoned earlier.

H.M.Jr: Well, make it the third, that's a monday. Is that about what you had in mind?

Taylor: (Nods "Yes.")

(Mr. Kieley comes in and speaks to H.M.Jr.)

H.M.Jr: Is he in an awful hurry?

Kieley: (To someone waiting outside:) Are you in an awful hurry?

He'll wait.

H.M.Jr: Is that about what you had in mind?

Taylor: I'll be easy to get at.

H.M.Jr: I won't bother you.

Taylor: I haven't been out in a long time; maybe they won't let me stay there.

H.M.Jr: But that's about what you had in mind? Is that about right?

Taylor: Yes, about right. And I've got a couple of things I'd like to talk to you about before I leave.

H.M.Jr: I have nothing after Upham's appointment, so why don't you stay behind. All right?

Taylor: Uh huh.

H.M.Jr: John?

Hanes: Nothing, Mr. Secretary.

Haas: I have nothing.

Gaston: I'd like to be able to tell the boys something - some rough figures about the financing this morning, so as to give the afternoon papers a little smell of it; if it wasn't any better than the figures we had last night, it would be all right. Do you have anything additional this morning, Dan?

H.M.Jr: I think we'd better wait until tomorrow, noon hour. When we give them a figure they only carry it once. I'd rather have it all at once.

Gaston: All right.

H.M.Jr: What?

Gaston: All right. The only thing, the afternoon papers just don't get a smell on this thing.

Bell: The trouble is, last night it was about six times over-subscribed, and tomorrow it's going to be about eight - close to nine times - seven, I mean, or eight. So I don't know - there will probably be a million dollar difference in the figures, in the amount.

Gaston: Any better at noon today?

Bell: We wouldn't get any report until tomorrow.

Gaston: We don't get any report until tomorrow?

H.M.Jr: (Telephone conversation with Mr. Ronald Ransom at 9:45 A. M., attached.)

September 9, 1938.
9:45 a.m.

Ronald
Ransom:

Good morning.

W. H. Jr:

How are you?

R:

Fine, thank you.

W. H. Jr:

I wanted to thank you for your generous offers of cooperation.

R:

All right, sir. You know they're always available.

W. H. Jr:

And - I don't think we're going to need it though.

R:

Well I don't think so either. It looks to me like the situation went across very nicely.

W. H. Jr:

Right.

R:

We are deciding this morning on the question of exchange. I've got it all set up so we can have -

W. H. Jr:

What are you thinking of doing on the exchanges?

R:

George Harrison suggested that we might go into the bonds.

W. H. Jr:

Yes.

R:

Mr. Szymczak seems to think that perhaps we could put more pressure on the note end of it. Now that was the situation yesterday. There was only two that expressed any particular views to me and the rest of them asked for some time to think it over during the evening.

W. H. Jr:

Would you like to know what the Treasury thinks?

R:

Yes, I would.

W. H. Jr:

Well, if it doesn't make any difference over there, we - from our standpoint, we'd rather see you take all bonds.

R:

You had.

W. H. Jr:

Yes.

R:

I don't, personally, think it makes a particle of difference. If it does, it's for some reason not

now known to me. I've had Preiser and Goldenweiser studying it, over the evening.

H.M.Jr:

Yes.

R:

But it looks to me as if that's a perfectly satisfactory solution and I'm glad to know what you -

H.M.Jr:

Well, I mean we don't feel strongly, but from our standpoint, and the amount of notes outstanding, we'd rather see you take bonds.

R:

Yes, we've got a right substantial amount of those notes. I think Czymczak's view might have been - I'm speaking, of course, confidentially - I don't want to quote a gentleman, unless he prefers to quote himself.

H.M.Jr:

Yes.

R:

I think his view was that we had put a good deal of pressure on the note market trying to maintain our own position without affecting reserves at all, and therefore it might be easier if we did not - if we took notes now when we could.

H.M.Jr:

Yes.

R:

Rather than to keep a continued pressure up for them. That - if it was a question of bills I'd have a definite purpose, but being between this note and this bond which isn't a long term bond, it doesn't seem to me to make a great deal of difference to us. It makes some to you people. That seems to me to be -

H.M.Jr:

Well, we'd rather - we'd a little bit rather see you take bonds, but it's - it isn't a vital matter.

R:

I see. Well, I'll let you know the decision and, personally, I think that's as good a way to handle it as any other.

H.M.Jr:

Thank you very much.

R:

O.K.

H.M.Jr:

Goodbye.

20.Jr: No, I think we'd better wait. The publicity value, from our standpoint, to get whatever - eight or nine or ten times - they only carry it once, and I'd rather wait until we get it.

Caston: Oh, if we could estimate.....

W.L.Jr: Oh, get a good murder story for them.

Caston: Whom will you select? Do you have any purpose?

W.L.Jr: Cy, I think.

Caston: Cy - that's easy.

Thompson: You can't get anybody to murder me.

W.L.Jr: You're a candidate.

Caston: Do you want to go to any of these political matters now? I have these two files on San Francisco and Arkansas. The substance of the San Francisco case - in neither case did we find any violation of the law as to coercion of political contributions. In the California case they found, as a violation of the law - our men found that two Deputy Collectors were officers of State-wide democratic organizations, and a letter was sent to the Collector and those two Deputies, censuring them for that activity and requiring them to resign their political positions or their Treasury positions.

W.L.Jr: Have they?

Caston: The file here doesn't show.

W.L.Jr: Would you have Thompson send out - I want an answer Monday, yes or no, have they or have they not - by Monday. That is for California.

Caston: California - the two Deputies.

W.L.Jr: Well, give them till Tuesday morning - to answer Tuesday morning whether they have followed out our orders. We'll give Thompson till Tuesday morning to clear it up.

Caston: "Without delay," is the words used here.

H.A.Jr: And Arkansas?

Gaston:

Arkansas. Homer Adkins, of course, was personally active in the campaign for Mrs. Carraway's renomination. The only criticism there was that he appeared to have been seen about where Carraway had quarters, and to receive telephone calls in his own office. The way it came up, in the last investigation, was on a letter from Senator Sheppard, inviting us to investigate his files, and two of our men went up there and went over their files, very carefully, and analyzed them, and they saw no reason to - they found nothing in addition to what they had learned in a previous investigation out there, which we made as a result of a complaint of a rival candidate, and the recommendation of the men acting in Mr. Irey's place was not to make any further investigation. There wasn't - there again, there was no charge of improper solicitation or coercion; it was just a question of the activity of Adkins, the Collector, and that had been gone over pretty carefully.

H.A.Jr:

Irey's people said there was nothing to it?

Gaston:

The two men who looked over the records recommended no further investigation.

H.A.Jr:

Now that Irey's back, ask him to review it personally for me and to give me a memorandum on it. Tell him I want an answer by Tuesday morning.

What else have you?

Gaston:

Well, I have drafted part, but not finished, a letter to Senator Sheppard, which I have been showing to Mr. Oliphant. I can easily complete that this morning.

H.A.Jr:

Will you?

Gaston:

Yes.

H.A.Jr:

What else?

Gaston:

These two....

Oliphant: Apropos of nothing at all, I want to report to you an important reform by Hughes, that under that Act, there's been a total of about - the exact figure, thirty-two billion dollars worth of valuables, of various sorts, shipped, without insurance at a premium saving in the neighborhood of about two hundred thousand.

H.M.Jr: Apropos of nothing.

Oliphant: Apropos of nothing at all. I think that two hundred thousand ranks a bottle of wine.

(Laughter.)

H.M.Jr: Apropos that makes four bottles of wine.

Taylor: Send around a case.

H.M.Jr: Apropos of nothing at all. - I suggest that you investigate whether the Surplus Commodity Corporation can buy Lloyds of London.

All right.

Oliphant: Well, I don't need to investigate that - didn't buy anything.

H.M.Jr: All right.

Haas: Will Lloyds sell it to him?

H.M.Jr: All right.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS.
Friday, September 9, 1938.
9-8-38

Press Service
No. 14-51

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-1/2 percent Treasury Bonds of 1950-52 and of 1-1/8 percent Treasury Notes of Series A-1943 closed at the close of business Thursday, September 8, for the receipt of cash subscriptions.

Cash subscriptions for either issue addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Thursday, September 8, will be considered as having been entered before the close of the subscription books.

The subscription books for both issues will close at the close of business tonight, September 9, for the receipt of subscriptions in payment of which Treasury Notes of Series E-1938, maturing December 15, 1938, are tendered.

Exchange subscriptions for either issue addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, tonight, September 9, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash subscriptions and the bases of allotment will probably be made late on Saturday, September 10.

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Saturday, September 10, 1938.

Press Service
No. 14-52

Secretary of the Treasury Morgenthau today announced the subscription figures and the bases of allotment for the cash offering of 2-1/2 percent Treasury Bonds of 1950-52 and of 1-1/8 percent Treasury Notes of Series A-1943.

Reports received from the Federal Reserve banks show that cash subscriptions for the offering of Treasury bonds aggregate \$4,485,000,000. Subscriptions in amounts up to and including \$1,000 were allotted in full and those in amounts over \$1,000 were allotted 10 percent, but not less than \$1,000 on any one subscription.

For the offering of Treasury notes cash subscriptions aggregate \$3,051,000,000. Subscriptions in amounts up to and including \$1,000 were allotted in full and those in amounts over \$1,000 were allotted 11 percent, but not less than \$1,000 on any one subscription.

Preliminary reports of exchange subscriptions, in payment of which Treasury Notes of Series E-1938, maturing December 15, 1938, were tendered, indicate that a substantial part of the maturing notes have been exchanged for the new issues, and that over 90 percent of the exchanges are for the bonds.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

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September 12, 1938.
10:08 a.m.

Operator: Go ahead.

A. Lochhead: Hello.

H.M.Jr: Hello.

L: Yes, sir. Now, I did want - I wasn't speaking to you about the foreign situation, because although that's still nervous, yet it's - there's nothing very much to be done there. It's around four eighty one.

H.M.Jr: Well -

L: Sterling.

H.M.Jr: Is gold below parity?

L: Is gold below parity - you mean gold parity?

H.M.Jr: Yes.

L: Well, not - you see they - - closed about -

H.M.Jr: Below shipping points?

L: It was down just about - yes, it might be under the gold shipping points.

H.M.Jr: Well, what are they doing?

L: Well, the market has gone up again since that time.

H.M.Jr: Oh!

L: It's up now - it went up as high as four eighty one and seven-eighths.

H.M.Jr: Oh!

L: And it's steadying down again.

H.M.Jr: I see.

L: Now England said the markets were very nervous over there. They said the professional activities are being restricted to a minimum.

H.M.Jr: Yes.

Q: But they ^{said} grave warnings, through the Press, had caused additional tension in all centers.

W.H.Jr: Yes.

Q: And they had done about seventeen million dollars this morning.

W.H.Jr: Uh-huh.

Q: Now, the next thing though was on the bonds. The bond market turned a little bit weak at the opening.

W.H.Jr: Yes.

Q: And now has become quite weak. They're off anywhere from - well, up to a half a point about.

W.H.Jr: Yes.

Q: Your ^{new} two and a halves - let's see, they closed at 101.47.

W.H.Jr: Yes.

Q: They're quoted par 18 to 20.

W.H.Jr: Yes.

Q: That's about twenty four thirty seconds off. The new note is quoted about par 8 to 10.

W.H.Jr: Uh-huh.

Q: That's about twenty thirty seconds. Burgess said that there was a lot of selling of the people that got their subscriptions, and that caused the weakness in the market with the dealers stepping aside and no bids being around.

W.H.Jr: Yes.

Q: They spoke about possibly having an order - maybe of Government life. In the meantime, asked what they were doing there, and they apparently have started - going to do some switching. That is they'll buy some bonds and sell out - maybe sell out some bonds against their short notes.

Mr. J: Well, their switching - I get so sick and tired. That never helps the market any.

Q: Well, as I say, it - possibly not in the long run. At the moment though there's nothing to stop them from doing that though. It would put some steadiness in the market.

Mr. J: Well -

Q: Now the only point is that Burgess was rather upset a little while ago - I didn't speak to him personally, and I didn't know - I didn't think it was necessary for us to put any orders in, because, I mean I didn't want to force an order of four or five million because I figured they could at least do that much at any time.

Mr. J: What - what's Burgess upset about.

Q: Well, he said because the market has gone off about twenty to twenty two thirty seconds.

Mr. J: Well -

Q: And I questioned him right away what they were going to do, you see.

Mr. J: Let - you stay on the wire. Do you know how to get the operator, and I'll talk to Ransom.

Q: You'll talk to Ransom.

Mr. J: Yes.

Q: O.K.

Mr. J: Stay on though, and listen.

Q: All right.

Operator: Operator.

Q: Operator, will you get Mr. Ransom?

Q: Yes.

Mr. J: And leave us on the wire here.

Q: All right. Just a minute, please.

W.H.Jr: Who's in there with you, Archie?

L: Harris is in here with me.

W.H.Jr: Oh, yes.

L: (aside. Ask Kieley to come in here and see if he can get this thing working.)

Q: I'll have him in just a minute.

W.H.Jr: Where is he?

Q: He's down in the other room. His secretary has gone to get him.

W.H.Jr: - Oh, - those people, they're never - what other office?

Q: Just about two doors away. I'll have him in just a minute.

W.H.Jr: Archie?

L: Yes, sir.

W.H.Jr: Tell Harris, or somebody, as soon as the averages come in at eleven o'clock to shoot them into you.

L: Right. We just got a flash just now. The market is a little bit better than the lows, and it's up about four thirty seconds from the lows.

W.H.Jr: Uh-huh.

L: See, the new two and a half's are now quoted sixteen twenty four. That was against twelve twenty, and

W.H.Jr: Well, that switching business is - is the stupidest way to handle a market.

Q: Hello. I have him now Mr. Morgenthau.

W.H.Jr: All right.

Q: Go ahead.

H.M.Jr: Hello, Ronald.
Ronald: Yes, how are you this morning?
H.M.Jr: Henry Morgenthau.
R: Yes.
H.M.Jr: Archie Lochhead is on the wire, in my office. He's listening in.
R: Yes.
H.M.Jr: He tells me that the Government - the new Government - the new notes are quite weak.
R: Yes.
H.M.Jr: And I'd like to do something to keep them - well, put a cushion underneath.
R: I had a call in for George Harrison. I've just talked to Burgess and I was calling George back, when you called me, to tell him that I thought, under no circumstances, ought he let that new issue break through par.
H.M.Jr: I didn't hear you.
R: I say I was calling George Harrison to tell him that I did not think he ought to let the new issue break through par.
H.M.Jr: That's right.
R: And the New York bank has already this morning, put in orders for five million.
H.M.Jr: Yes, but Ronald, they're switching, they're selling bonds and buying notes and that doesn't help the market anyway.
R: Not a bit. Not a bit.
H.M.Jr: And I'm so sick and tired of this switching. If they want to help, let's go in and buy some.
R: That's right.

H.M.Jr: Now I think that on a day like this, I'm perfectly willing to take ten million.

R: Yes.

H.M.Jr: I'll take either the new bonds or the new notes, I don't care which.

R: Yes.

H.M.Jr: I prefer the bonds.

R: Yes.

H.M.Jr: Hello.

R: Yes, I heard you.

H.M.Jr: But if you want us to take the bond and you take the note, I'll divide it any way you say.

R: Well, suppose we operate on joint account, as we have in the past.

H.M.Jr: Well, I think that's fine and we'll go fifty-fifty.

R: That's right.

H.M.Jr: I'm good for ten and if you use that up they can call me.

R: O.K. We'll put it in on the same basis.

H.M.Jr: But, I'd like to operate in the new bonds and the notes.

R: Yes.

H.M.Jr: 'See?

R: To support them.

H.M.Jr: What's that?

R: To take care of those two issues.

H.M.Jr: Don't you think so?

R: Yes, I agree with you fully.

H.M.Jr: We're good for ten, and I don't care - the bond or the note. We a little bit prefer the bond but we'll go fifty-fifty, whatever you buy.

R: Well then, after we buy, we'll sit down and clear it up.

H.M.Jr: And I'll call up again in about an hour.

R: O.K. I was calling George Harrison to suggest the same thing to him when you called me.

H.M.Jr: And I'll leave it with you.

R: O.K. O.K. I'll get him right away.

H.M.Jr: All right.

L: Hello.

H.M.Jr: Now, in a few minutes call up Burgess, see?

L: Right.

H.M.Jr: And tell him that I want these orders under the market and I don't want him to be/mealy-mouthed about it. too

L: You say you want them under the market?

H.M.Jr: Yes -

L: Well, when you mean that -

H.M.Jr: Yes, I don't want to run the market up.

L: No, I see, Yes. You are - it's a question of supporting orders, but you don't want to credit - but you don't want to back away though too much.

H.M.Jr: No, I - stop this switching.

L: I see.

H.M.Jr: That's all.

L: Well, of course, what they'll probably do just now, is to buy bonds today, get the maturities of this week, and then it's a question whether or not they'll renew their maturities or just let them go against these bonds.

H.M.Jr: Well anyway, they've got ten million, see?

L: Right. They've got ten million from us, and we're going, as I understand it, ⁵joint account, and sort them out later on in the day to find out who takes which.

H.M.Jr: Yes. And, for you, in case you can't get me on the phone right away, you can have in your vest pocket an order for another five million.

L: O.K. Well, I think this will be plenty to take care of it.

H.M.Jr: What?

L: I think it'll be plenty to take care of it.

H.M.Jr: All right.

L: It's just a question of doing something on it.

H.M.Jr: All right.

L: Now, I've got the averages in. The stock market is very dull, very quiet, in fact they're fractionally up point - up 04.

H.M.Jr: Yes.

L: The rail's off a little bit.

H.M.Jr: How many shares -

L: But only a hundred and thirty thousand. You see, in market it's not a question - it's just more or less paralyzed rather than excited.

H.M.Jr: Right.

L: Your commodity index is up a shade 4705, that's up 16.

H.M.Jr: All right.

L: So, as I say, I think everybody's just going to sit and wait for that Hitler speech and even after it comes out it's not going to settle a thing.

H.M.Jr: Right.

L: All right then, we'll get right after this other end of it.

H.M.Jr: All right.

L: Right, sir.

September 12, 1938.
11:39 a.m.

L: Lochhead: Hello.
H.M.Jr: Hello.
L: Lochhead speaking.
H.M.Jr: Yes, Archie.
L: A much better tendency now.
H.M.Jr: Yes.
L: Just as soon as they went into the market and inquired about bonds it started in tightening up. And your two and a halves are now quoted 24 bid 26. That's par 24 26, which of course is 12 thirty seconds up, that's just half the loss.
H.M.Jr: I see.
L: And everything along the line the same way. Now, as far as we know, we haven't gotten a single bond.
H.M.Jr: Uh-huh.
L: And we did get an order in from Federal Housing to buy two hundred and fifty thousand dollars worth of bonds this morning, so we put that over and I don't think we've even gotten those.
H.M.Jr: Yes.
L: So the picture is changed altogether as soon as some action was taken.
H.M.Jr: Hello.
L: Yes.
H.M.Jr: Go ahead, Archie.
L: So as I say, that picture is changed entirely. A much better sentiment as soon as they found out that there was some support in the market.
H.M.Jr: Uh-huh.

L: Now, in the meantime, the insurance companies are also credited with doing a little buying now, or trying to do a little buying.

H.M.Jr: Good.

L: The stock market is turned up.

H.M.Jr: Yes.

L: It's up a point and 13 - .13.

H.M.Jr: Yes.

L: Commodity index is holding up fairly well 47.08 - that's up 12, and the foreign exchanges are practically doing nothing. The Bank of England explained that little upturn in sterling this morning, on two counts. First of all the news that Goering was meant to be sick. He had a fever I see, in the paper, and secondly that the - France was - got more optimistic, but it didn't hold - it's the sterling - it's holding about 4.80 and 7/8ths to 4.81, but there's very little doing on this side, but the bond market, however, is much better than when we spoke before. That's the main point.

H.M.Jr: Well, did - you spoke to Burgess?

L: I spoke to Burgess on that, and they - but as I say, the whole point is we - as soon as they looked around for bonds they - they disappeared.

H.M.Jr: Good. All right.

L: O.K. sir, there's nothing else you want just now - is there?

H.M.Jr: I wish - well, I'll talk to Moffatt myself and I'll call you a little later.

L: All right. Goodbye.

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September 13, 1938.
9:10 a.m.

H.M.Jr:
Ronald
Ransom:

Hello.

Good morning.

H.M.Jr:

Hello Ransom.

R:

The day, on the whole, yesterday, seems to have been as satisfactory as could have been hoped for.

H.M.Jr:

Yes, I was - I was well pleased.

R:

Well that's fine. I'm glad you were.

H.M.Jr:

Everything under - under the circumstances are fine. I don't think that - the only New York paper that gave us a break was the Tribune which said that the bond market closed up.

R:

Yes.

H.M.Jr:

If you read the New York Times you'd think the bottom had - with that five o'clock.

R:

Yes. Well, the Washington Post gave us a break on it, too.

H.M.Jr:

Did it?

R:

Yes. They said that the market reflected the European tense - the tenseness of the European situation, but after the official close rebounded, or words to that effect.

H.M.Jr:

Well, they get the same news service as the Tribune does.

R:

Yes. Well, that's better. Now after today, I don't think anybody knows just what that brings forth, but my own guess would be that there would be quite a - considerable more optimism loose in the land.

H.M.Jr:

Optimism?

R:

Yes.

H.M.Jr:

I hope you're right. I don't know. We'll watch.

Q: Well, I don't think it's justified at all. I think it's one of those situations where a man has been pointing a loaded gun at a fellow, and saying, "I'm going to shoot it Tuesday or Monday."

W.H.Jr: Yes.

Q: And just doesn't quite actually do it, don't you see? So I think today, I don't expect anything good tomorrow frankly. I'm a pessimist about the rest of the week.

W.H.Jr: Yes.

Q: But I think we're going to have a reasonably good day today.

W.H.Jr: Good. Now, Ronald.

Q: Yes.

W.H.Jr: I would very much like to have you come to my office at ten-thirty this morning.

Q: Yes.

W.H.Jr: It's very confidential.

Q: Yes.

W.H.Jr: And all I want to say, over the phone, it has to do with the Pacific coast.

Q: Yes, I see.

W.H.Jr: Now, -

Q: I would like, anyway, to see you. I had a long talk with Harrimer, over the phone, last night, and I'd like to talk with you.

W.H.Jr: Well, there are going to be other people here.

Q: Yes. Well then after that, if I could have a minute with you.

W.H.Jr: But I didn't know what - you divide up the country by members or not.

Q: They open up -

H.M.Jr: No. Your Board responsibility.

R: No, no. Not at all. We're not geographically divided at all.

H.M.Jr: Then it's not necessary to bring anybody along.

R: No. That - that covers the situation.

H.M.Jr: Fine. Well, if you hear - you use my private elevator, don't you?

R: Yes.

H.M.Jr: Well then I'll have the fellow show you right in.

R: I'll be up at ten-thirty.

H.M.Jr: Thank you.

R: Thank you.

September 13, 1938.
9:22 a.m.

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

Randolph
Burgess: Hello Henry.

H.M.Jr: Hello, Randolph?

B: Yes, sir.

H.M.Jr: How's the Government bond market?

B: It opened way above last night's stock exchange closing prices, and about even with the late closings.

H.M.Jr: Yes.

B: But there's just appeared on the ticker an item that there's been border troubles at Czechoslovakia, and cables from the Bank of England on the same thing.

H.M.Jr: Yes.

B: Indicating the pressure on the exchanges, and the market has dropped three or four or five thirty seconds, and we're putting in some orders with the Discount boys, and so - so it has some support in it.

H.M.Jr: Yes.

B: Now, I want to be sure we agree with you on - on general policy here, Henry.

H.M.Jr: Go ahead.

B: First as to yesterday - Sproul's sitting beside me, by the way.

H.M.Jr: What?

B: Alan Sproul is sitting beside me, so we'll have continuity here.

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

B: (laughs)

W.M.Jr: How do you spell it?

B: Well, it's a good word, isn't it?

W.M.Jr: Yes. A fifty-nine cent word.

B: Well now yesterday, you may think from the fact that we only bought half a million that we were idle, but as a matter of fact we had a great deal to do with yesterday's market.

W.M.Jr: I'm not complaining about yesterday.

B: No, I - I just wanted to be sure you understood it.

W.M.Jr: That's all right. Yesterday was yesterday. I've got only one complaint.

B: Yes.

W.M.Jr: The New York Tribune treated us fine. They said the bond market closed up at the end of the day.

B: Yes.

W.M.Jr: The New York Times doesn't seem to know that - that you fellows did anything.

B: Yes.

W.M.Jr: Now, I don't see - know who sees the Presses - who sees the representative of the New York Times.

B: Well, we've talked about that time after time, about watching the - the over the counter market, as well as the Exchange.

W.M.Jr: Well, the Tribune writes up at the end of the day that the market closed up, the Times - you'd think that the market closed the bonds. When you see the New York Times fellows why don't you take them aside and talk to them.

B: Yes, we will. Yes, I noticed that this morning too.

W.M.Jr: Will you do that?

Q: Yes. Yes.

W. J. Jr: Educate them.

Q: Yes. Yes. Now, what we did yesterday was at two times of the day put in - put in orders.

W. J. Jr: Yes.

Q: And that was the basis for a turn in the market.

W. J. Jr: Yes.

Q: And other fellows came in and bought.

W. J. Jr: Good.

Q: When they saw the market was holding, so there was quite a lot of buying from outside.

W. J. Jr: Good.

Q: The selling was largely from the weak buyers of the new bonds, some of these speculator fellows and some fellows selling their subscriptions. Now, in some ways it's an awful good thing for some of those to take a licking because, as you know, there's a lot of speculation on these things and - and those boys ought to get their fingers burnt, once in a while, otherwise it just grows and grows.

W. J. Jr: Yes. Listen old man, I'm in an awful hurry.

Q: Oh, all right.

W. J. Jr: And I don't know whether you're talking for Sprouls' benefit or mine, but in any event let's get down to business.

Q: All right. Well now, our proposal is, that we ought to have in orders on these notes at about a hundred and a quarter, and on the bonds at about par and a half. How does that strike you?

W. J. Jr: I'm not going to argue with you.

B: You think that's - not high enough?

H.M.Jr: No, that's all right.

B: Yes.

H.M.Jr: That's all right. You mean you're going to put a firm order in there?

B: That's right. Buy considerable wad at that price.

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

B: Yes.

H.M.Jr: Now, let's leave it this way. If something - you can contact today, if you will, Archie Lochhead.

B: Very good.

H.M.Jr: And if you think that the thing is getting out of hand, tell him and he'll come in and have me call you.

B: Very good. That's fine, Henry.

H.M.Jr: But I have something today that - I mean - tremendously interesting - the Government bond but I can't watch it as closely as I'd like to.

B: That's all right.

H.M.Jr: So the responsibility rests between you and Lochhead.

B: All right.

H.M.Jr: And if - if the thing is getting out of hand, you call him.

B: Very good.

H.M.Jr: All right.

B: All right, Henry.

H.M.Jr: And you -

B: apprehensive.

H.M.Jr: And you and I and Sprouls will carry on, and God
bless you.

B: That's fine.

H.M.Jr: All right.

B: Thanks, Henry.

H.M.Jr: Goodbye.

B: Goodbye.

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September 13, 1938.
10:35 a.m.

H.M.Jr: Hello.

Operator: Mr. Moffatt. Go ahead.

H.M.Jr: Hello.

Moffatt: Good morning, sir.

H.M.Jr: How are you?

H: Did you get those?

H.M.Jr: Yes.

H: Well, that's good.

H.M.Jr: I was tremendously interested and appreciative of your sending them.

H: Oh, not at all.

H.M.Jr: And I would like to have the cable back - the one that Kennedy sent, in which I imagine he mentioned what the ultimatum was.

H: Oh! Now wait a minute. Kennedy - well that's very vague. I think I've got that on my desk probably.

H.M.Jr: Well, if you had it and could send it over to me.

H: Yes.

H.M.Jr: And I'd have the whole picture, because it's like reading a continued story and having missed the first chapter.

H: I don't think it was ever frightfully definite, but you can get the sense from the way their minds were running.

H.M.Jr: Well, -

H: Then all of a sudden they began to speak of the word ultimatum, which I think is a misnomer. All right, I'll get at that and send it over.

H.M.Jr: Now, - are there any Kennedy or Bullitt cables today?

H: No. Bullitt called up late last night.

H.M.Jr: He did.

H: And merely said this, that the general impression was vague - Hitler's speech had been expected. Prague didn't completely shut the door saying that there was a limited optimism in French circles.

H.M.Jr: I see.

H: As a matter of fact we've been getting a little more optimism out of Paris than out of London.

H.M.Jr: Well, that checks with what the Bank of England told the Fed, this morning.

H: Yes.

H.M.Jr: I mean - they say that the French seemed to take it for granted that it's coming and they're very calm.

H: Yes.

H.M.Jr: And that's reflected in the French foreign exchange.

H: Uh-huh.

H.M.Jr: But the English are at the height of their nervousness.

H: Yes.

H.M.Jr: And that's - but the French are much quieter.

H: Yes.

H.M.Jr: So that's that, but if - if there is one back of that, would you send it?

H: Yes, I'll - I'll get to work there, Henry. Right away.

H.M.Jr: And if any Kennedy or Bullitt cables come in today, if you would send them over to the house tonight I'd appreciate it.

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M: Oh, I see. Good. All right, sir.
H.M.Jr: That gives me a chance.
M: Yes.
H.M.Jr: Thank you so much.
M: Righto.

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September 13, 1938

12:30 pm

Governor Ransom stayed behind to tell me he had a long discussion yesterday with Marriner Eccles over the handling of the Government bond market and for the first time he finds himself in complete disagreement with Eccles.

Ransom's position is that in view of the European situation, the Federal Reserve should do everything to assist in maintaining the Government bond market. Eccles' position is that they should not increase their present portfolio by one dollar.

I have seldom seen Ransom so emphatic and so worked up over anything. He says, as far as he is concerned, he does not care how many hundreds of millions of dollars it costs, but he feels it is their responsibility to maintain the Government bond market in view of the present European situation. He said that Eccles wanted me to think over what possible explanation we can give to the public in case they should increase their portfolio.

I told Ransom that he and I agreed 100% that I would think the matter over, but in the meantime 'let's take care of the market' and he said, 'I have given Burgess an order of \$40,000,000, joint account 50/50 for the Federal Reserve and the Treasury, to keep the market orderly and to keep the new bonds from going below par. I said, 'Fine!'

oOo-oOo

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September 13, 1938.
12:53 p.m.

H.M.Jr: Hello.

Operator: Governor Ransom.

H.M.Jr: O.K. Hello.

Ronald Ransom: I've just gotten word about what was happening in the bond market which obviously reflects this Sudeten ultimatum.

H.M.Jr: Yes.

R: I talked to Burgess and told him for heaven's sake to stand under it. He said he was.

H.M.Jr: Yes.

R: And I think the situation is in hand but should anything develop from your end of it, where you think it is, will you let me know?

H.M.Jr: At once.

R: O.K. then that's fine.

H.M.Jr: How are you getting along on the other things?

R: I just got back. We had some guests for luncheon, over here, and I've got to get rid of them, and I've got a Board meeting at two thirty.

H.M.Jr: Oh, I see.

R: And I'll give you a ring.

H.M.Jr: And - right. I had a chance to talk to the President two minutes ago.

R: Yes.

H.M.Jr: I reported what he did.

R: Yes.

H.M.Jr: What he did this morning.

R: Yes.

H.M.Jr: He was delighted. He thought - I mean he's delighted that we did just what we did.

R: You mean that you took that action?

H.M.Jr: Yes.

R: I see.

H.M.Jr: I told him exactly what we did and he said,
"That's fine. That's right."

R: I see.

H.M.Jr: Yes.

R: O.K. I'll let you know after our meeting.

H.M.Jr: After your meeting?

R: Yes.

H.M.Jr: Thank you.

R: All right.

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September 13, 1938.
1:48 p.m.

H. H. Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H. H. Jr: Hello Randolph.

Randolph
Burgess: Hello, Henry.

H. H. Jr: How much is it costing you?

B: Well I haven't had a report for a few minutes.
There's Sproul and Matty largely working.
We're right in there.

H. H. Jr: Well, are you in there with them?

B: Oh, yes, absolutely. We're in there at a half
and a quarter. Half on the new bonds -

H. H. Jr: You don't know how much it cost you?

B: No, I don't know. I haven't had a report for a
few minutes, Henry. Let me call you back though,
may I?

H. H. Jr: I wish you would.

B: Sure. Right.

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September 13, 1938.
1:52 p.m.

Randolph
Burgess:

expensive. Four hundred and ten thousand
so far.

H.M.Jr:

Oh, hell there -

B:

There are other bids that have come in above ours.

H.M.Jr:

Yes.

B:

So that there are buyers there. Behaving pretty
well I think.

H.M.Jr:

I think that's fine..

B:

So it's selling above - the bond's selling above
par and a half and the note above par and a quarter.

H.M.Jr:

O.K. Randolph. Thank you.

B:

All right.

H.M.Jr:

Goodbye.

B:

Oh, Henry.

H.M.Jr:

Yes.

B:

This - this thing of mine is all buttoned up.

H.M.Jr:

Oh!

B:

Over at the City Bank.

H.M.Jr:

Well, I congratulate you and will send myself
flowers.

B:

Well, sir, I just can't tell you how I feel about it.

H.M.Jr:

Yes.

B:

I'm very grateful.

H.M.Jr:

Well, you know how I feel. Will it be in the
papers tomorrow?

B:

Yes, it will be in the papers tomorrow morning.

H.M.Jr:

All right. You - I'll send you roses and you can
send me lilies.

- 2 -

B: All right. All right.
H.M.Jr: O.K. Goodbye.
B: Goodbye Henry.

67

September 13, 1938.
3:54 p.m.

W.H.Jr: Hello.
Walter
Matteson: Hello.
W.H.Jr: What's the trouble Matteson, I couldn't get you.
W: Well, I - I'll tell you sometime.
W.H.Jr: You will.
W: I - I have to leave my desk.
W.H.Jr: I see. Well, I - I thought you were - got me
under. Well, if they had told me that I wouldn't
have worried. I thought ^{that} the market was so bad
that you had fainted.
W: No, I - I waited as long as I could.
W.H.Jr: Well -
W: The - with this - with this bad report, the latest
one, that the Czechs had ignored the ultimatum, the
market seemed to take another - another break.
W.H.Jr: Yes. Well now may I tell you how I feel without
getting down to the thirtyseconds?
W: I see.
W.H.Jr: This is the day for the United States Government
to show that they've got guts.
W: That's right.
W.H.Jr: And I want to show it, and I want you fellows to
stand there and take these.
W: All right.
W.H.Jr: And I know that Mr. Ransom feels the same way.
W: Yes.
W.H.Jr: Now please go in there and take care of the
Government market and, today of all days, we want
to demonstrate to the world and - that we have
the wherewithal to do it.
W: Yes.

H.M.Jr: Now, I'm not -
H: Well, we thought we had done a pretty fair job.
H.M.Jr: Oh, you haven't done - you haven't done anything.
H: Up to half past four. I mean as to the time.
H.M.Jr: Yes. Well now, but -
H: The longer we stay in there, it's often happened -
the more bonds we urge out.
H.M.Jr: I know. I know, but you're talking - but don't
split thirty seconds, and let's show a little
strength and courage.
H: All right.
H.M.Jr: Will you please?
H: All right, you betcha.
H.M.Jr: All right.
H: You betcha.
H.M.Jr: Thank you so much.
H: All right.
H.M.Jr: And - hello.
H: Yes.
H.M.Jr: Any time you want it the Treasury will pay for a
private toilet for you, with a telephone.
H: All right.
H.M.Jr: All right?
H: All right.
H.M.Jr: We'll put a telephone in the toilet.
H: All right.
H.M.Jr: O.K. Goodbye.

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September 13, 1938.
4:14 p.m.

H.M.Jr: Hello.

Operator: Mr. Matteson. Go ahead.

H.M.Jr: Hello.

Walter
Matteson: Well, we bought about twenty five million.

H.M.Jr: How much?

M: About twenty five for today.

H.M.Jr: That's all right. It doesn't frighten me a bit.

M: I thought -

H.M.Jr: Matteson, in the foreign exchange market we're going to shut down four thirty Eastern Standard Time. Five-thirty New York.

M: Yes.

H.M.Jr: We think that's long enough to operate.

M: All right. We'll stop at five-thirty.

H.M.Jr: I think - we'll ^{run} / this thing till five-thirty.

M: The market - the market is a little bit clean. We bought them at - the bonds at 13, 14, 15 and 16.

H.M.Jr: The market is clean you say?

M: It's - it's getting a little bit cleaner than it was.

H.M.Jr: Good. In other words it's -

M: The - the stuff that was hanging so heavily doesn't seem to be quite so much in evidence now.

H.M.Jr: Good. Good.

M: I doubt if we'll get over five million more.

H.M.Jr: Good.

M: Today.

W.M.Jr: I wouldn't be opposed, if by any chance, tomorrow morning, that the skies brighten. I'm not saying they would, and I don't know, but let's say that the thing looked brighter and the market ran up a half a point, I wouldn't be loath to sell a few again.

Q: You would be disposed to follow it through?

W.M.Jr: I'd be disposed to sell a few. To sell.

Q: Yes.

W.M.Jr: To do a little selling.

Q: I see what you mean, yes.

W.M.Jr: If the market, say ran up a half a point tomorrow.

Q: Yes. Yes. We were very fortunate that way, once before.

W.M.Jr: Yes.

Q: Yes.

W.M.Jr: If it's a real demand tomorrow, I don't want it if it's just a one way traffic.

Q: Oh, yes. Yes.

W.M.Jr: All right?

Q: That's fine.

W.M.Jr: All right.

Q: We will keep it in mind. We did that before you remember.

W.M.Jr: I know.

Q: Yes.

W.M.Jr: Thank you.

Q: All right, sir.

September 13, 1938.

Operator: Operator.

H.M.Jr: Knoke.

O: Right. Mr. Knoke.

H.M.Jr: Hello.

Knoke: Yes, Mr. Secretary.

H.M.Jr: Archie's sitting here. We thought if we ran until five-thirty New York time that would be enough.

K: Well -

H.M.Jr: What?

K: Yes, I think so. Ample.

H.M.Jr: Don't you think so?

K: Yes, sir.

H.M.Jr: We'll have the CIO down on us if we operate any longer than that.

K: As a matter of fact, it seems to me that five-fifteen is ample late enough.

H.M.Jr: Do you?

K: Well, that is - we've just - I don't think it will change the trend any, the change - the trend is weak. Sterling is offered and the longer we wait the more we get.

H.M.Jr: Oh, I'd keep open until five-thirty, your time.

K: All right.

H.M.Jr: What?

K: Yes, I - it doesn't make much - I think it's coming in - in dribblets now, so it won't make much difference, anyhow.

H.M.Jr: You be near the telephone tonight.

K: Yes. Well I won't be in the bank. I'll be at home that long.

H.M.Jr: That's what I mean.

K: Yes.

H.M.Jr: All right.

K: Yes, sir.

H.M.Jr: All right.

K: Goodnight.

H.M.Jr: Goodnight.

September 14, 1938.
12:27 p.m.

Operator: Go ahead.

W. J. Jr.: Hello.

Donald
Wansom: I just told Allan Sproul again, that under no circumstances to let this new bond - this new note break through par.

W. J. Jr.: That's right.

W.: Whatever it took to do it, to do it.

W. J. Jr.: That's right.

W.: He said we'd done about twenty six million today, and I told him that disturbed me a whole lot less than the fact that it was getting down closer to par all the time.

W. J. Jr.: That's right. I'm with you a hundred per cent. Now, we've given them an order to buy for us twenty five million, I think.

W.: Yes. Well that ought to help.

W. J. Jr.: And - no, I mean the first twenty five and I'm going to give them an order now for another twenty five. In other words, we're good for fifty.

W.: I see. Well, I haven't figured it out, but we'll be good for whatever you are, to the point where we at least get through pay day.

W. J. Jr.: Well, we're good for fifty.

W.: Yes.

W. J. Jr.: And I'm going to have Archie call them right away.

W.: All right, I wish you would. Now, tomorrow, by a coincidence, we're going to be able to have the whole executive committee, the open market committee, here - meeting with us at nine-thirty. George Harrison and John Sinclair, who are somewhere in the Chesapeake, and called me yesterday, and I suggested they come on in - let's sit down and talk this thing over, because there are a good many right important questions of policy involved, of course from our own point of view, but in the

interval and through pay day, the only instructions I know how to issue to the New York bank is to keep these things from breaking par.

Q. Jr:

That's right.

A:

And if they break par, God knows it's contrary to the most positive instructions.

Q. Jr:

Now, while I've got you, there's two other things. In the first place I understand that Nettleson would normally retire on the first of January, due to his age.

A:

Yes, I know that problem.

Q. Jr:

And I'd like to ask you people to consider to keep him on for another twelve months.

A:

Yes, I think that ought to be done.

Q. Jr:

I think it would be stupid not to.

A:

I think so.

Q. Jr:

So would you consider that?

A:

Yes, I personally would favor it, and I'll see that it comes up tomorrow for discussion.

Q. Jr:

Now the other thing, I got your letter this morning.

A:

Yes.

Q. Jr:

And I've asked the chief examiner to prepare me a memorandum on just where - on just where - if and when that bank - the most recent report - whether it was or was not a copy given to your organization in San Francisco and one here. He claimed it was, see? So I've told them to give me a written memorandum at two fifteen.

A:

That's very interesting.

Q. Jr:

Not later than three o'clock, you'll get - hear from my ^{answer} but I said I want to know exactly what disposition was made of that report as far as the Federal Reserve System was concerned.

A:

Quite interesting.

H.M.Jr: And - so between now and three o'clock you'll get an answer.

R: In the meantime Marshall Diggs tells me that the dividend was paid.

H.M.Jr: That's right. And -

R: All right, sir.

H.M.Jr: Thank you.

R: That's that.

H.M.Jr: That's that.

R: All right.

H.M.Jr: Now wait a minute.

R: Yes.

H.M.Jr: There's a big difference. The dividend was declared.

R: Oh, well - Oh, well, I stand corrected. I think that point's important.

H.M.Jr: Oh, it's very important.

R: Very. I stand corrected.

H.M.Jr: It's been declared.

R: Yes.

H.M.Jr: But it has not been paid.

R: That's right.

H.M.Jr: What?

R: That's much more important.

H.M.Jr: Which is quite a difference.

R: It's a considerable difference.

H.M.Jr: All right.

R: Dollars and action both.

H.M.Jr: Well I'm tickled to death/^{that}you're there, and
you're taking the action that you are on the
bond market. We'll play right along with you.

R: Fine. Thank you.

H.M.Jr: Goodbye.

September 14, 1938.
12:31 p.m.

W.H.Jr: Hello.

Operator: Mr. Matteson. Go ahead.

W.H.Jr: Hello. Hello, Matteson?

Walter Matteson: Yes, sir.

W.H.Jr: I just got through talking to Governor Ransom.

W.H.Jr: Yes, sir.

W.H.Jr: And I've told him that the Treasury - that we're good until further notice, for a total of fifty million dollars.

W.H.Jr: That's right.

W.H.Jr: Now, that means our total authorization to you is fifty million.

W.H.Jr: Yes, sir.

W.H.Jr: And he says he'll go right along with it, so you've got a total authorization then of a hundred million.

W.H.Jr: Yes, sir.

W.H.Jr: Now I don't want to - I'm with Governor Ransom a hundred per cent - I don't want to see those new bonds go below par.

W.H.Jr: You betcha.

W.H.Jr: And I don't want to see the new notes go below par.

W.H.Jr: No, you're right, sir.

W.H.Jr: And we've got plenty of money here. When our fifty's gone, I've got more.

W.H.Jr: Yes. I wasn't scared. I just wanted to keep you posted.

W.H.Jr: Well I appreciate it and I've just recommended to Governor Ransom - I understand your term expires on January 1?

W: Yes.

H.M.Jr: I've recommended that I would like to have you continue for another twelve months.

W: That's fine.

H.M.Jr: And he said he was entirely in favor with it, and would take it up tomorrow.

W: Well, that's very splendid of you.

H.M.Jr: Well, I want you there for another twelve months.

W: You've - you've been very good to us.

H.M.Jr: Well, you've - you've given us good cooperation and it's the only way I can show my appreciation.

W: You've been very fine, and I appreciate it too.

H.M.Jr: Fine.

W: Thank you, sir.

H.M.Jr: Goodbye.

September 14, 1938.
3:54 p.m.

Operator: Go ahead.
Alan Sproul: Hello.
H.M.Jr: Hello.
S: Hello, Mr. Secretary, this is Alan Sproul of New York.
H.M.Jr: How do you do?
S: I just wanted to present my credentials over the telephone.
H.M.Jr: Yes.
S: To tell you that I had gone to work today.
H.M.Jr: You have.
S: And - after losing Randy Burgess.
H.M.Jr: Oh!
S: And I hope that I'm - when we get through this period, if we do shortly, that I may be able to come down and present them in person, if -
H.M.Jr: Yes.
S: That's suitable to you.
H.M.Jr: Well, the sooner the better.
S: Well, as soon as I can see my way clear to get away from here, then I will try to make an appointment with your office.
H.M.Jr: I wish you would. I didn't realize - has Burgess left already?
S: Yes, he left as of the close of business last night and was at the City Bank today.
H.M.Jr: I didn't realize that.

- A: Well we - he and - we wanted to chop it off cleanly and shortly so there would be no mixture between the business here and the business there.
- W. J. Jr: Oh, I thought he'd take a - at least a breathing spell.
- A: Well, he thought he'd have some vacation, and that he wanted to stay on the payroll some place.
- W. J. Jr: I see. I see. I didn't realize that. That he'd go that fast.
- A: Yes, he's over there today.
- W. J. Jr: Gosh! Well anyway, we'll have to get acquainted and I'm sure we can work together, and the sooner you come down the better.
- A: Thank you, Mr. Secretary, I'll do that and I'm sure we can work together also.
- W. J. Jr: How did things go today?
- A: Well, we had a pretty active day. We bought about forty million.
- W. J. Jr: Yes.
- A: But I think we were able to take care of the market in good shape, and the latest word now is that the market is looking better.
- W. J. Jr: Good.
- A: Some good news has come in. I don't know whether it's interpreted as good news from the other side, and the market is looking up.
- W. J. Jr: That's the bond market?
- A: The bond market. Yes. The - and the new note market too, they're now being quoted around twelve and thirteen.
- W. J. Jr: Is that right?
- A: And the bonds at eighteen to twenty.

W. V. Jr: Uh-huh.

S: Which is about the best we've had for some time today.

W. V. Jr: Well, if those bonds should be very strong tomorrow or next day - I mean really strong, I don't see any reason why we couldn't sell some of what we bought.

S: No, neither do I, and we have in mind your suggestion of yesterday of a two way market.

W. V. Jr: Yes.

S: And it's quite possible they may be strong tomorrow or the next day because all of the free riders and those who bought in anticipation of a quick profit should be - are out by now.

W. V. Jr: And if there was some real demand tomorrow why I'd let them have some.

S: Well, I think we may be able to do it. We'll do it if we can.

W. V. Jr: Yes, if there happens to be a real demand.

S: Yes.

W. V. Jr: All right. Well, I'll be seeing you soon, and the best of luck, and you'll get all - our cooperation from this end.

S: Thank you.

W. V. Jr: All right.

S: Good night.

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September 14, 1938.
4:08 p.m.

Mr. Knoke: Hello.

Mr. Secretary: Mr. Knoke. Go ahead.

Mr. Knoke: Hello.

Mr. Secretary: Yes, Mr. Secretary.

Mr. Knoke: How do you like my market when I want to put sterling up?

Mr. Secretary: Oh, fine, but I think you ought to say our.

Mr. Knoke: That do you mean ours. How do you get that way?

Mr. Secretary: Well, I'm on record that I suggested the - no, excuse me, I shouldn't say that either. I wanted to do it differently, I wanted to - to -

Mr. Knoke: But where did the suggestion come from?

Mr. Secretary: Well, I stand back, it came from you.

Mr. Knoke: Yes, you'd better. Yes, sir. 4.70 and 1/16th when I asked Archie to put it up.

Mr. Secretary: Well -

Mr. Knoke: That's when we started.

Mr. Secretary: I think the - all I think - I offer my congratulations.

Mr. Knoke: Well, I just wondered.

Mr. Secretary: The result is splendid.

Mr. Knoke: I called up Chamberlain and told him to hop in an aeroplane.

Mr. Secretary: There's only just - I hope that aeroplane won't drop in the channel or something of that kind.

Mr. Knoke: Well, if it does they can send Eden over to take his place.

Mr. Secretary: Well Eden doesn't want to talk to Hitler.

Mr. Knoke: I know. Well, I just wanted to call up and say I was very much pleased and it looks - we'll hope

now we can all get a good night's rest.

K: Yes, I think it really looks better.

H.M.Jr: Right.

K: Thanks for calling.

H.M.Jr: Goodnight.

K: Goodnight.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, September 14, 1938.

Press Service
No. 14-58

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2-1/2 percent Treasury Bonds of 1950-52 and 1-1/8 percent Treasury Notes of Series A-1943.

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

2-1/2 PERCENT TREASURY BONDS OF 1950-52

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 459,237,600	\$ 46,801,800	\$ 9,150,800	\$ 55,952,600
New York	2,036,058,700	304,609,100	283,941,200	488,550,300
Philadelphia	287,513,250	30,005,100	6,388,200	36,393,300
Cleveland	269,438,950	28,228,950	3,656,000	31,884,950
Richmond	141,925,250	15,064,250	4,933,800	19,998,050
Atlanta	127,211,100	14,861,450	1,601,000	16,462,450
Chicago	458,647,650	47,636,350	57,788,700	105,424,050
St. Louis	104,021,150	11,876,750	4,662,400	16,539,150
Minneapolis	58,237,700	6,201,500	1,923,500	8,125,000
Kansas City	89,527,750	9,686,850	14,347,600	24,033,450
Dallas	82,253,600	8,904,950	3,372,300	12,277,250
San Francisco	390,254,950	29,469,000	5,115,100	34,584,100
Treasury	82,936,000	8,337,050	358,500	8,695,550
TOTAL	\$4,487,353,650	\$461,681,100	\$397,239,100	\$858,920,200

1-1/8 PERCENT TREASURY NOTES OF SERIES A-1943

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 221,601,200	\$ 24,688,500	\$ 2,055,500	\$ 26,744,000
New York	1,310,911,000	155,856,000	16,312,500	171,868,500
Philadelphia	174,600,600	19,342,500	353,500	19,696,000
Cleveland	196,955,600	21,941,800	1,604,000	23,545,800
Richmond	100,267,800	11,373,100	737,000	12,110,100
Atlanta	95,547,800	12,303,000	195,000	12,498,000
Chicago	351,015,500	39,472,300	3,512,400	42,984,700
St. Louis	86,307,300	9,990,900	522,500	10,519,400
Minneapolis	46,043,000	5,315,700	190,500	5,506,200
Kansas City	70,863,200	8,094,300	680,600	8,754,900
Dallas	59,914,300	6,950,500	60,000	7,010,500
San Francisco	243,629,900	26,922,500	433,500	27,356,000
Treasury	1,267,000	139,200	207,000	346,200
TOTAL	\$3,061,925,200	\$342,090,300	\$ 26,850,000	\$366,940,300

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Monday
September 19, 1938
9:16 a.m.

H.M.Jr: Hello.

Operator: Mr. Moffat.

H.M.Jr: Hello.

Jay Pierrepont

Moffat: Good morning, sir. I take it you didn't get back last night.

H.M.Jr: No, I didn't. The plane couldn't bring me.

M: Too much clouds?

H.M.Jr: Pardon me?

M: Ah -

H.M.Jr: Too much rain, the clouds were too low.

M: Yeah.

H.M.Jr: Ah - Mr. Moffat, will it be convenient for you to drop over here some time this morning?

M: Ah - surely.

H.M.Jr: How is eleven o'clock?

M: Ah - I think very good.

H.M.Jr: And then -

M: I can bring those two messages which I have.

H.M.Jr: Right. And then maybe...

M: And there may be some more in before then.

H.M.Jr: That's what I thought.

M: Yes.

H.M.Jr: And -

M: All right, sir. Call it eleven then?

H.M.Jr: Yes, we'll call it eleven o'clock.

M: With pleasure.

H.M.Jr: Thank you, sir. Hello. Hello.

M: Yes.

H.M.Jr: Could you just tell me this, ah - what - ah - what the headlines of the newspapers carry as to what they think the English and French have done - is that -

M: We haven't gotten in anything yet on what the English and French have done but from what got in the day before,-

H.M.Jr: Oh.
why

M: /- nothing surprises me.

H.M.Jr: But, I mean the headlines - you have no confirmation.

M: Well, do you see, the thing broke up at midnight and we have had nothing in yet.

H.M.Jr: I see.

M: But from the way the thing was going the day before I am not surprised at the headlines.

H.M.Jr: Right.

M: Yes.

H.M.Jr: I'll see you at eleven.

M: Eleven o'clock.

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PURCHASES OF TREASURY BONDS AND NOTES IN THE OPEN MARKETDURING THE PAST WEEK

<u>Issues Purchased</u>	<u>Monday</u>	<u>Tuesday</u>	<u>Wednesday</u>	<u>Saturday</u>	<u>Total Purchases</u>	<u>Federal Reserve System's Share</u>	<u>Treasury Share *</u>
1-1/8% Tr. Notes 6/15/43	-	5,201,000	11,620,000	3,181,000	20,002,000	20,002,000	-
2-1/2% Tr. Bonds 1950/52	500,000	17,725,000	21,600,000	4,145,000	43,970,000	9,815,000	34,155,000
2-1/2% " " 1949/53	-	250,000	4,075,000	1,570,000	5,895,000	5,855,000	40,000
2-3/4% " " 1951/54	-	-	-	570,000	570,000	-	570,000
2-3/4% " " 1945/47	-	-	900,000	-	900,000	900,000	-
2-3/4% " " 1958/63	-	2,000,000	-	-	2,000,000	-	2,000,000
3% " " 1946/48	-	-	300,000	-	300,000	300,000	-
2-3/4% " " 1956/59	-	-	500,000	-	500,000	-	500,000
2-3/4% " " 1948/51	-	-	100,000	-	100,000	100,000	-
2-1/2% " " 1945	-	-	150,000	-	150,000	150,000	-
3-3/8% " " 1940/43	-	-	100,000	-	100,000	100,000	-
3-3/8% " " 1941/43	-	-	150,000	-	150,000	150,000	-
3-1/4% " " 1944/46	-	-	100,000	-	100,000	100,000	-
4% " " 1944/54	-	-	100,000	-	100,000	100,000	-
3-1/4% " " 1943/45	-	-	150,000	-	150,000	150,000	-
3-1/8% " " 1946/49	-	-	-	45,000	45,000	45,000	-
TOTALS	500,000	25,176,000	39,845,000	9,511,000	75,032,000	37,767,000	37,265,000 *

* \$25,000,000 was purchased for the account of the Government Life Insurance Fund and \$12,265,000 for the account of the Postal Savings System.

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Tuesday
September 20, 1938
3:25 p.m.

Ambassador
William
Bullitt:

Hello, Henry. How are you?

H.M.Jr:

I'm all right, Bill. How are you?

B:

Fine. Fine.

H.M.Jr:

Ah - Bill, I wonder how much you can tell me on this telephone - ah - as to what the outlook is for the next twenty-four hours.

B:

Well, Henry, I think it may be very sour.

H.M.Jr:

Pardon me?

B:

I think it may be very bad.

H.M.Jr:

You think it may be?

B:

I think it may be very bad.

H.M.Jr:

It may be very bad?

B:

Yes.

H.M.Jr:

I see.

B:

I can't guarantee that it will be very bad -

H.M.Jr:

No.

B:

- but I didn't expect it to be very good and it may be very bad.

H.M.Jr:

I see. Well, ah - nobody knows yet what the Czechs are going to do, do they?

B:

No - ah - I have a word that seems to indicate that the thing will be dilatory.

H.M.Jr:

That it'll be dilatory?

B:

Yes.

H.M.Jr:

Uh huh.

B:

And - ah - in that case your friends are very likely to have some marching started.

H.M.Jr: Some more what?

B: Some marching started.

H.M.Jr: Oh yes. I get you. I get you.

B: And - ah - therefore - ah - it's quite difficult to predict anything - ah - rosy.

H.M.Jr: I see. Well, I don't feel very rosy myself and that's why I called you.

B: Yes. Well, Henry -

H.M.Jr: Yes.

B: If you've got anything to do that doesn't accord with the maintained I would not do it. I would wait.

H.M.Jr: I'm sorry. I didn't get that, Bill.

B: I say, if you've got anything to do -

H.M.Jr: Yes.

B: - that isn't in accord with what's being maintained -

H.M.Jr: Yes.

B: I would not do it now - I would wait.

H.M.Jr: Well, I have nothing. We're - we're - the Treasury's in beautiful shape.

B: Yes.

H.M.Jr: And - ah - we have nothing pending other than our day to day operations.

B: Yes.

H.M.Jr: And it's just - we're - it's simply our day to day operations.

B: Yes.

H.M.Jr: And - ah - of course, as you know, the flow of gold this way is something tremendous.

B: Yes. Terrible.

H.M.Jr: And - ah -/ outside of that I have no commitments.

B: Well, that's fine.

H.M.Jr: No.

B: How is the President? In good shape?

H.M.Jr: Pardon me?

B: How is the President - in good shape?

H.M.Jr: The President?

B: Yes. Is he looking well?

H.M.Jr: He's looking very well and he's in very good humor and he's very much relieved about - over Jimmy's operation -

B: It seems to have gone well?

H.M.Jr: Entirely well.

B: That's fine.

H.M.Jr: And - ah - if you want me to I'll see whether I can switch you over to Miss LeHand. I don't know whether I can or not.

B: You probably can't.

H.M.Jr: Do you want me to try it?

B: I'd love it if you could.

H.M.Jr: Let me see whether I can do it.

B: Yes.

H.M.Jr: Wait a minute. If you'll stay on I'll see.

Hello. Hello.

Operator: Operator.

H.M.Jr: See whether Ambassador Bullitt could talk to Miss LeHand, will you?

O: Yes, I will. Right away.

H.M.Jr: Thank you.

O: All right.

B: Thanks Henry. That's fine.

H.M.Jr: All right. Good luck.

B: Goodbye boy. - I'm much obliged.

H.M.Jr: Goodbye.

B: Goodbye.

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Tuesday
September 20, 1938
3:34 p.m.

H.M.Jr: Hello.

Operator: Mr. Moffat. Go ahead.

H.M.Jr: Hello.

Jay Pierrepont

Moffat: Good morning, Mr. Secretary.

H.M.Jr: Good afternoon. (Laughs)

M: What?

H.M.Jr: Good afternoon. (Laughingly)

M: Oh yes.

H.M.Jr: Moffat, I thought you'd like to know - I just called up Bullitt -

M: Yes.

H.M.Jr: - because I was kind of worried.

M: Yes.

H.M.Jr: And I asked him how much he could tell me over the phone.

M: Yes.

H.M.Jr: So he said that he feels very blue about the next twenty-four hours.

M: Yes.

H.M.Jr: And that - ah -

M: Based on the Czechs' refusal to make a decision?

H.M.Jr: Well, he didn't say more than that.

M: More than that. Yes.

H.M.Jr: What he did say was that if the Czechs continue their dilatory tactics -

M: Yes.

H.M.Jr: - there might be marching.

M: Uh huh. That's the - that's the tenor of - that's what he sent in today.

H.M.Jr: I see. And that - he furthermore said that if I had any important commitments to make not to make any.

M: Uh huh. Yes, it looks to me extremely as if it were clouding up again badly.

H.M.Jr: Yes.

M: And the intervention that we mentioned last night on the part of those other two powers seems to be closer and closer.

H.M.Jr: The intervention?

M: I mean that Poland and Hungary would make their demands.

H.M.Jr: Oh, Hungary and Poland?

M: Yes. - Enter into the picture.

H.M.Jr: Yeah. Well, I don't like to permit myself to have - ah - ah - hunches -

M: Yeah.

H.M.Jr: But - ah - I think it's as serious as it's been any time.

M: So do I.

H.M.Jr: What?

M: So do I. The Czech was in just before lunch -

H.M.Jr: Yes.

M: And he said that his personal opinion was that despite a certain amount of that the decision would be that Czechoslovakia would fight and - ah - he implied that even if the present government didn't that - ah - it wouldn't last and that another government would.

H.M.Jr: Uh huh.

M: - which was strange talk for an official.

H.M.Jr: Yes. Well, I don't know where I got it but if - if Benes should resign then the army would take it over, wouldn't they?

M: I think that would be with the present Chief of Staff probably in command of the situation.

H.M.Jr: And then if the army took it over they'd fight, wouldn't they?

M: Yes, they would fight - I think that could be definitely assumed.

H.M.Jr: And as I remember it last night you and I both felt that - ah - the Czechs would not give in.

M: That's my feeling and I haven't changed.

H.M.Jr: You haven't changed?

M: Even - even if there is an appearance -

H.M.Jr: Yes.

M: - of giving in at one time -

H.M.Jr: Yes.

M: - I still feel that it would be more appearance than real.

H.M.Jr: Well if anything important comes anytime up until ten o'clock tonight would you let me know?

M: Right. And if there's anything very real shall I - shall I stop by?

H.M.Jr: I'd appreciate it.

M: Good. All right, sir.

H.M.Jr: I'll not be in bed tonight -

M: All right.

H.M.Jr: - at seven o'clock because I'll be up.

M: All right. Fine.

H.M.Jr: I'm going to go to bed earlier.

M: Good. Good.

H.M.Jr: Thank you.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: September 20, 1938

TO Secretary Morgenthau

FROM M. A. Harris

Treasury bonds and notes were in good demand today, particularly bonds, and the market was active. Closing quotes for bonds were up 12/32nds to 18/32nds but off 1 and 2/32nds from their highs. Notes closed 2/32nds to 6/32nds higher.

The Federal Reserve System sold today \$20,250,000 various Treasury bonds as follows:

\$ 4,250,000	2 1/2s of 1950/52	• 101.2
3,000,000	"	• 101.3
2,000,000	"	• 101.4
1,500,000	"	• 101.5
500,000	"	• 101.6
500,000	"	• 101.7
3,000,000	3 1/4s of 1944/46	• 108.28
1,000,000	2 1/2s of 1945	• 104.30
1,000,000	2 1/2s of 1948	• 103.22
1,000,000	2 3/4s of 1951/54	• 101.22
2,000,000	2 3/4s of 1958/63	• 101.8
500,000	"	• 101.12
<u>\$20,250,000</u>		

Recapitulation

Treasury bonds and notes purchased last week by the Federal Reserve System in support of the market \$ 37,767,000

Sales by Federal Res. System yesterday \$14,200,000
 " " " " " today. 20,250,000

Total Sales \$ 34,450,000

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Friday
September 23, 1938
2:15 p.m.

Archie
Lochhead:

Mr. Ransom.

Ronald
Ransom:

That's good.

L: Ah - I was - just thought I'd speak to you -
just checking up after I spoke to the Secretary
in regard to the bond market.

R: Yes.

L: Of course you know he's up on the farm this
afternoon.

R: Well I hoped he'd get away.

L: Yes, he managed to get away all right and when
he called up around/noon time to check -
about

R: Yes.

L: I told him that of course the situation abroad
was rather uncertain at the moment -

R: Yes.

L: But that the government bond market was acting
fairly reasonably -

R: Yes.

L: And it naturally is - New York was watching the
market quite closely and I said I understood between
us all that if the market went down they'd be pre-
pared to go in again.

R: I talked to them this morning - checked with them
after they had had sufficient time to make an
appraisal of the situation -

L: Yes.

R: And told them I thought they had a rather simple
task to perform - that if it started going off
badly they certainly should support it and if it
started up on a bulge of any kind they might get
a chance to unload which would put them in a better
position for the next attack.

L: Right. Right. As I said, I think the thing is all set up very nicely just now.

R: Yes.

L: The only thing I was going to speak to the Secretary - was to say that the market went down and they bought bonds.-

R: Yes.

L: Ah - he said that he thought we ought to understand that the Federal probably would take on what they had sold out before they asked us to go half and half again.

R: In other words - ah - it looks then that we should buy ten today and sell five tomorrow - we'd split the five.

L: Ah - well, no, we're not - I'm not saying about splitting the sales; I mean splitting the purchases.

R: Well, that's right, but -

L: In other words, ah - we've bought roughly - seventy million dollars worth of bonds of which we each took thirty-five. -

R: Yes.

L: I'd say roughly -

R: Yes.

L: Now the Federal, in the run-up in the last two days, got rid of their thirty-five.

R: That's right.

L: So therefore, if we were buying again, he thinks that probably you ought to bring your total up to what our total is.

R: I see.

L: You see, in other words, what the standing total is.

R: I see.

L: And I said I thought that would be perfectly natural to do - that that's probably the way you'd work it.

R: Well, I - I think that's immaterial. I think any way he wants to work it -

L: Yes.

R: - is all right.

L: Yes.

R: Ah -

L: You see, in a way there - ah - we - we're both buying bonds - we're buying them just now out of investment funds.

R: Certainly.

L: And if the market goes down it's a proper excuse for going in and buying.

R: Yes.

L: So if the market goes up - just a small upward movement - it's kind of hard to justify pulling them out of an investment account and selling them again. I think

R: /You're entirely right.

L: Yes.

R: You'd want to be trading in and out -

L: That's it.

R: - of those accounts.

L: That is - that's it. We want to stand by and we'll stand by - I mean on a down side we can use those funds. On the up side it's a little more difficult to put them out -

R: Yes.

L: And we don't want to try to do it just on small fluctuations.

R: Well I'll tell you what I'll do, so that there can't be any misunderstanding. I'll talk now to George Harrison or Sproul or both of them.

L: Right.

R: And I'll ask one of them to call you back.

L: Right.

R: And tell them, speaking for myself - I'll in the meantime speak to the other two members of the executive committee who are here -

L: Yes.

R: And - ah - that seems to be a perfectly reasonable basis and I'll just have Sproul or Harrison confirm it with you so that you'll know they're operating on that basis.

L: Fine. Then we'll know just how we stand - anything coming ----- there won't be any misunderstanding.

R: That's fine. Fine.

L: Now the thing is - is this working out - very nicely. Of course you know the arrangement in New York is close enough that we talk up and can talk perfectly frankly -

R: Yes.

L: But it's nice - I mean, the Secretary wanted me to speak to you so we'd have that understanding.

R: Well, that seems to be reasonable. And after I've talked to the other two men here I'll call you back myself. But in the meantime I'll have Sproul call you.

L: All right. Thank you very much.

R: Now, may I ask you something?

L: Yes.

R: The European situation, so far as we can judge it from the Ticker and talking to New York was at a point - is at a point rather, that looks to me like it's very delicate and very difficult.

L: Yes. I think it is. The ah - the market hasn't shown - ah - as much upsetment as probably the news might indicate.

R: I should think that's true.

L: In other words, you know that they talked to the Bank of England - ?

R: Yes.

L: Now, you remember that Bolton over there spoke about the fact that if things are as bad as this you might have a "state of emergency" - I think it's usually termed.

R: Yes. Yes.

L: Now that's a grave - pretty serious statement.

R: Yes.

L: And I do discount it a little bit because of the fact that Bolton, who we know that he's sitting in as an exchange man -

R: Yes.

L: - right in the center of Europe -

R: Yes.

L: And he's being hit right and left. I mean, in other words he can't step aside and look at it; he's got so much excitement there that I think that he puts a little bit more importance -

R: Yes.

L: - than maybe another man over in the Treasury who is given the reports second-hand would have.

R: Well, let's say, than Butterworth would have as an observer.

L: That's right.

R: Yes.

L: Now then, my feeling is: if it was - if the

market was interpreting the same as he was -

R: Yes.

L: - we would have had more pressure this afternoon than we had.

R: I should think -

L: So far we've only bought about two and a half million dollars worth of sterling.

R: Well that cut out -

L: You know that is - that is nothing, you see. So I'm a little hopeful that maybe he is - ah - a little more despondent than is necessary.

R: Yes.

L: After all we have to try to be optimists.

R: Yes. We have to try to be. There are days now though when it's darn hard for me to accomplish that feat.

L: I know it is. It's a - it's a state of not mind over matter but maybe matter over mind, is that it?

R: That's right.

L: (Laughs)

R: Well, I'll call you back.

L: All right. Thank you a lot.

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Friday
September 23, 1938
3:03 p.m.

Archie
Lochhead:

Hello.

Operator:

Operator.

L:

Will you please transfer a call in here on my wire - Mr. Lochhead speaking.

O:

Yes, Mr. Lochhead. Just a minute now. Here we are. Go ahead.

L:

Hello.

Ronald
Ransom:

Ronald Ransom, Archie.

L:

Yes, Mr. Ransom.

R:

I've talked to George Harrison and Mr. Szymczak and Mr. Davis and Mr. Harrison had just previously to that talked to Mr. Sinclair. So that means five members of the executive committee.

L:

Yes.

R:

And it's perfectly satisfactory to us to go ahead. The figure that I have before me is 37 million 265.

L:

I see.

R:

- ah - that we were apparently able to sell, but that figure is subject to some slight variation.

L:

Oh yes. Yes, it's just a general thing.

R:

Yes, but whatever it was, after we get back to that - if we have to get back to that, then we'll start in on joint account.

L:

That's right.

R:

- until you gentlemen want to call it off.

L:

That's right. I think that's the general understanding.

R:

That's fine.

L: Well, I think that's a very nice arrange - the way you have it just now - I think it's a good idea to give the Federal a little more freedom to go in and out the market.

R: Oh, by all means. The Secretary agreed with that fully the other day.

L: Yes. I mean for the first time now - I mean you're not only buying you're selling.

R: That's right, but we haven't yet changed the level of the portfolio because -

L: No.

R: - to do that indicates a change in excess reserves policy.

L: Yes. Oh, I see that. I mean that's another step. But I mean without doing that -

R: Oh no.

L: - you've now managed to - ah -

R: Within the frame work of the fixed portfolio we can operate both ways.

L: That's right. It gives you much more freedom.

R: That's o.k.

L: Well, all right. Well, thank you very much for calling.

R: Thank you.

L: You're welcome.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau

DATE: Sept. 24, 1938

FROM A. Lochhead

A check of the Government Bond market before the opening this morning disclosed that brokers were prepared to quote wide spreads between bid and asked prices and the indications were that the market would open at least half a point under last night's close.

Mr. Ransom, of the Federal Reserve Board, called and said that he had already spoken to the Federal Reserve Bank of New York and had given them instructions to be prepared to give active support if necessary. I questioned Mr. Ransom on the amount they would be prepared to handle and pointed out to him that in view of the present disturbing news from abroad, if the Federal Reserve Bank of New York showed any hesitation in operations, or confined the operations to small amounts, it would be difficult to control the market and asked if the system was prepared to take a considerable amount of bonds if necessary. Mr. Ransom assured me that they would be prepared to make large purchases and mentioned that even if they used up \$100,000,000 today it would not cause him to lose any sleep.

He thought that we would be interested to know that a short time ago he got in touch with Mr. McKee, who was on vacation, and asked him his idea as to the amount that should be used in supporting the Government market. Mr. McKee mentioned an amount of \$100,000,000, to which Mr. Ransom replied that that would only be "chicken feed" in a situation such as this. Mr. McKee immediately said that the \$100,000,000 would only be for a start and that he was perfectly willing to go up two or three hundred million dollars without any hesitation.

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This memo does not take into account the weakness of the markets today as declines ranging from 12/32nds to 24/32nds for bonds and 2/32nds to 11/32nds for notes cancels last week's net gains. Reports indicate that selling was largely in small lots and came mostly from banks throughout the country.

In support of the market today, the Federal Reserve System purchased \$9,862,000 of Treasury bonds and \$700,000 of Treasury notes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau

DATE: September 26, 1938

FROM M. A. Harris

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

The trend of the market was higher earlier in the week accompanying an easing in the tension abroad and lower the latter part of the week due primarily to renewed apprehension concerning the European situation. Thus, again the market has been completely under the influence of foreign news.

Beginning Monday prices moved steadily higher through midday Wednesday with demand coming principally from banks throughout the country, although some insurance company and foreign buying was reported. This buying demand was mainly for the intermediate and long bonds and the 1 1/8% notes. By midday Wednesday the new 2 1/2% bonds were quoted 101.16/32nds bid, or about 1 1/8 points above the low reached a week before and the 1 1/8% notes were 100.23/32nds bid, compared with the low of 100.5/32nds bid the previous week. Other issues were correspondingly higher.

On Thursday and Friday the market was much quieter with prices easing each day. The market was much more cautious with investors preferring to remain on the sidelines. Selling was mostly in small lots. At the opening on Saturday losses ranged to 1/2 point when over-the-night news was especially alarming. However, these lower prices brought out little selling and the market worked itself back during the two-hour period

Corporate Bond Market

Prices moved higher the first three days and lower the last three days so that the changes from the previous week are negligible. However, it might be said that the market as a whole closed the week a shade higher. Higher prices were the result of the easing of the tension abroad and lower prices followed after the Chamberlain-Hitler conference. Volume was heavier on the upturn than on the downturn. The last three days found an absence of buyers from the market, particularly for the second grades, and fairly large price concessions resulted on small lot sales.

Federal Reserve System Account

On Monday the System sold \$14,200,000 of various issues of Treasury bonds. These bonds represented a part of the \$37,767,000 bonds purchased the previous week in support of the market. The balance of these purchases, \$23,567,000, and \$40,983,000 of Treasury bills purchased on Tuesday, were used in replacement of the \$64,560,000 weekly bill maturity. On Tuesday the System sold \$20,250,000 more bonds, replacing \$10,000,000 of these with bills. The balance, \$10,250,000, was sold for delivery during the current statement week. An offsetting purchase of \$550,000 Treasury bonds was made on Saturday when the System again entered the market due to declining prices. The balance, \$9,700,000, will be replaced before Wednesday.

Treasury Accounts

The only transaction during the past calendar week was a purchase of \$700,000 of 2 3/4% Treasury bonds of 1958/63 for the account of the Government Life Insurance Corporation.

of trading to close only a shade lower than on Friday.

For the week as a whole net gains ranging from 7/32nds to 19/32nds were recorded by Treasury bonds and the average price for those issues not due or callable after 8 years rose about 13/32nds. Treasury notes closed the week 1/32nd to 5/32nds higher, the average gain being about 3/32nds.

Dealers' Portfolios

Holdings of U. S. Government securities and guaranteed issues by reporting dealers remained about unchanged each day during the past week from the holdings reported on September 17, 1938.

(in millions of dollars)

	<u>Holdings Sept. 17</u>	<u>Holdings Sept. 24</u>	<u>Change</u>
Treasury bonds	4 21.1	4 23.0	4 1.9
Treasury notes (1 year)	4 46.8	4 46.3	- 0.5
Treasury notes (1-5 years)	- 1.7	- 3.4	- 5.1
Treasury bills	4 7.6	4 8.6	4 1.0
H. O. L. C. bonds	4 5.5	4 6.1	4 0.6
F. F. M. C. bonds	- 3.8	4 0.2	4 4.0
	<u>4 78.9</u>	<u>4 80.8</u>	<u>4 1.9</u>
	<u>Total holdings by dealers</u>	<u>Holdings of Treasury bonds by dealers</u>	
September 19	4 75.9	4 24.6	
20	4 82.5	4 23.8	
21	4 80.4	4 23.2	
22	4 87.6	4 29.6	
23	4 83.2	4 25.1	
24	4 80.8	4 23.0	

New Security Issues

Corporate financing during the past week consisted of one small issue amounting to \$89,350. Municipal bond awards totaled \$13,100,000.

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September 27, 1938

Mr. Lochhead's conversations with Mr. Ransom on support of Government bond market, as dictated by Mr. Lochhead.)

Mr. Ransom called me this morning and said that in view of the disturbed conditions abroad there would probably be pressure on the Government bond market again this morning and that he had discussed this question with the Federal Reserve Bank of New York.

They felt that it would be natural for the market to go off, say, $1/4$ th or $1/2$ of a point a day in the present situation and he said that seemed to be all right and asked me if I agreed with this thought.

I told Ransom that although it would be natural for the market to go off somewhat, on the other hand if it was allowed to go off $1/4$ th or $1/2$ a point, the new $2\frac{1}{2}$'s would be quoted below par as they are only selling at about par $10/32$'s at last night's close. I said that the breaking of par for these new bonds would have quite a strong psychological effect on the bond market and I did not feel that they should allow the bonds to go through par without making a determined effort. I suggested that the Federal Reserve Bank of New York be given instructions to maintain the new bonds at above par, even though it required a sizable amount of purchases, until such time as I had a chance to clear this question with the Secretary. Mr. Ransom agreed to give the necessary instructions to the Federal Reserve Bank of New York.

I conferred with the Secretary who confirmed that he did not wish to see either the new bonds or the new notes go below par before he had been consulted and had personally given his approval. I notified Mr. Ransom to this effect and Mr. Ransom later advised me that at a meeting of the Board of the Federal Reserve they had agreed to this policy and felt that a very strong effort should be made to hold the bonds above par.

It was agreed that the bonds would not be allowed to go below par before the Secretary was consulted and before the Board was given notice and allowed to re-examine the situation.

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Wednesday
September 28, 1938
9:10 a.m.

L. W.
Knoke: Good morning, Mr. Secretary.

HMJr: Hello, Knoke. Knoke - Hello?

K: Yes, sir.

HMJr: What's your feeling? - Do you think there's anything that we can do other than what we are - in regard to sterling?

K: No.

HMJr: What?

K: No. I don't think there is anything we can do.

HMJr: Well that's the way I feel. I was talking to Archie and ah - ah - I don't see - the next few days we can do anything but what we have.

K: No, I don't think so.

HMJr: Well, that's all I wanted to know.

K: That is my very definite opinion.

HMJr: Well, that - that's all. I just wanted to check with you.

K: It looks pretty hopeless, doesn't it?

HMJr: I wouldn't say that. It looks bad, but ah - I think there's still a faint hope.

K: I like the President's second message very much.

HMJr: Oh, I do too. I like the second one enormously. Well, carry on.

K: Yes. All right, sir.

HMJr: Goodbye.

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Wednesday
September 28, 1938
10:59 a.m.

HMJr: You fellows were very bold and bought nine million dollars worth and then George Harrison almost had heart failure.

Ronald Ransom: We did a little better this last - the last figure was twenty-two million.

HMJr: Uh huh.

R: But that - that - that doesn't disturb anybody's thought over here the least bit.

HMJr: Well, I just want to congratulate the Board.

R: Thank you.

HMJr: And ah - ah -

R: At the moment it's a very thin market, but the bonds - the new bond is up twelve thirty - it is twelve thirty-seconds which is up seven above last night's close; and the notes par three which is up one.

HMJr: Well you may get a chance this afternoon to sell something.

R: Well, we thought we could, and we told George to sell something but ah - possibilities show a plus sign on the day's work.

HMJr: That's right.

R: Yeah.

HMJr: You're a man after my own heart.

R: All right. That suits you, does it?

HMJr: Oh, fine.

R: And we'll still operate on joint account then, will we?

HMJr: You bet.

R: (Laughingly) All right. Thank you. You think this report of course is authentic? -

HMJr: Oh yes.

R: And not -

HMJr: Yes. Because that was announced by Chamberlain in Commons.

R: I see. Well I've been on this phone with New York and I haven't got a chance to get any -

HMJr: No, no. He - Chamberlain announced this - in the House of Commons.

R: Yes.

HMJr: So that's - ah -

R: Well, they can't sit down at a council table and get up with a war very well.

HMJr: Oh - but I wish it would take place in Holland instead of Germany.

R: It's going to - the meeting is to be in Germany?

HMJr: In Munich.

R: In Munich?

HMJr: Yes.

R: Well, I'd rather it'd be in Holland too, but maybe Holland doesn't want them.

HMJr: Well -

R: I think the President did a perfectly magnificent job!

HMJr: Yes he did.

R: It was fine. And Chamberlain's speech was the best I ever heard.

HMJr: That's right.

R: O.K. Thank you.

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September 28, 1938.
12:12 p.m.

H.M.Jr: Hello

Operator: Governor Harrison. Go ahead.

H.M.Jr: Hello George.

Harrison: Hello Henry.

H.M.Jr: How are you?

H: Well I'm all right. We had a pretty active first half hour this morning.

H.M.Jr: So I heard.

H: But we came thru all right.

H.M.Jr: Yes.

H: Bonds are up quite a bit now. We bought about 22 million 800 thousand the first half hour.

H.M.Jr: Good for you.

H: Of which 15 million 306 were bonds, mostly of the new and the old two and a halves.

H.M.Jr: Fine.

H: And the market is breaking clean away from us at a - par six which is what we were buying them at.

H.M.Jr: Yes.

H: And we were about to reduce when the news came out.

H.M.Jr: I see.

H: A lot of these fellows whip-sawing us because they saw we were well above the market.....

H.M.Jr: Ah-ha.

H: ...and they were buying bonds and turning around and dumping them in on us.

H.M.Jr: I see.

H: So we were going down to par three.....

H.M.Jr: Yes.

H:when the news came out and immediately bonds jumped. Now we've sold back a little of the bonds.....

H.M.Jr: Good.

H:already at par 20.

H.M.Jr: Good.

H: And I told them not to press them at all but if they were scarce and couldn't be found to let them have them.

H.M.Jr: Why not?

H: Ah - saving a few million on the day's transaction.

H.M.Jr: Ah-ha. Well that sounds very good.

H: It sounds very good. Now we'll just see what kind of a day we have tomorrow.

H.M.Jr: That's right.

H: But it looks much better.

H.M.Jr: Well I'm delighted you people stepped in and - ah - we've got to keep the government bond market from fluctuating too much.

H: Yes but I think that these days even a half point fluctuation can't be called awful much when you consider what markets are doing all over the world.

H.M.Jr: True.

H: And they're up now about a half point from last night's close or above the lows of this morning.

H.M.Jr: True.

H: But the feeling, of course, is much better.....

H.M.Jr: Good.

H: ...although there's a lot of tension still waiting to see what happens tomorrow morning.

H.M.Jr: Right.

H: But I think the President's address rates credit. I think he's probably responsible for this thing as much as anybody.

H.M.Jr: I think he absolutely is.

H: Don't you?

H.M.Jr: Oh yes.

H: I think so.

H.M.Jr: Yes.

H: I think it's been a great job he's done in two notes.

H.M.Jr: Yes. Well thanks George and anything else.....

H: Well if there's anything you've got let me know. Call me up any time - I mean if you've got anything on your mind.

H.M.Jr: I haven't just now.

H: Ah-ha. I don't think there's anything we can be doing about sterling other than what we're doing.

H.M.Jr: I don't either. I talked to Knoke this morning.

H: Sterling is up now to nearly 73.

H.M.Jr: Well let's watch it.

H: Oh yes, well we're doing that.

H.M.Jr: Righto.

H: All right sir.

H.M.Jr: Goodbye.

H:

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September 28, 1938.
3:57 p.m.

H.M.Jr: Hello

Operator: Governor Ransom. Go ahead.

Ransom: Hello.

H.M.Jr: Hello Ronald.

R: Yes.

H.M.Jr: Well you had a good day to-day I hear.

R: I think we did. I'm entirely satisfied - hope you are.

H.M.Jr: I'm entirely satisfied.

R: Yes.

H.M.Jr: I think it's all right.

R: Worked out all right.

H.M.Jr: And you fellows are making a little money.

R: (Laughs) Well I'm sorry that's an incident to it because I'm always afraid we're going to get criticized for trading in and out where there's a profit in it but I don't know that anything can be done about it. We'll take a loss someday maybe and there we are.

H.M.Jr: I'd rather be criticized for profit than a loss.

R: Yes, and I'd rather be criticized for keeping the thing orderly in a day of dis-order, regardless of whether we made a profit or a loss.

H.M.Jr: I think the system did a swell job to-day.

H: Well we are still on it - watching it and seeing what can be done. I think tomorrow may be a calmer day.

H.M.Jr: Did you hear anything more from Marriner to-day?

R: No I have not. I've been waiting a call on him, haven't heard a word. Ah - he called me after you called me.....

H.M.Jr: Yes.

R:and said that he would get by airmail sometime to-day this document.....

H.M.Jr: I see.

R:and that he would call me. As a matter of fact when he called this fellow back he had a rather long-winded explanation; he told him to cut it out to the fewest possible words; there's some technical disqualification or something of that kind and he said he expected to get it by airmail to-day and he would call us.....

H.M.Jr: Good.

R:so that the Board could take action on it to-day. He seemed to think, yesterday afternoon, that we ought to make it effective as of Friday which I believe is the 30th - is that correct?

H.M.Jr: That's correct.

R: Now I think we're in this situation. The moment we get advice from him that he's resigning because he's technically disqualified (laughs) we're almost obliged to accept it as of that date.

H.M.Jr: Well a day or so doesn't make any difference.

R: No but.....

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

R:that's ours in that case.

H.M.Jr: You - you people....

R: Yes. Now I think first we'll have to follow the usual routine. There'll be a little press release saying.....

H.M.Jr: Sure.

R: ...that he has resigned and we've accepted it.

H.M.Jr: Sure.

R: And in that I want it to stand out that Marriner recommended - somewhere - I don't know how to express it yet.

H.M.Jr: I think that would be fine.

R: Yes I think it ought to definitely show that it was upon his recommendation.

H.M.Jr: I think that's fine.

R: Well I - what does Europe look like to you at the moment?

H.M.Jr: Well it's encouraging but I've got my fingers crossed. I hope it isn't a trick.

R: I hope not. I think Chamberlain's and the President's magnificent telegram got Mr. Hitler in - he's in a pretty tough spot.

H.M.Jr: Yes, he is.

R: And if he brings the world to war in the light of those two statements he's got - it's going to be hard to get his own people to follow him.

H.M.Jr: That's right.

R: Because the German people are not Hitler.

H.M.Jr: That's right.

R: I'm encouraged to that extent.

H.M.Jr: Yes I am too.

R: Thank you, Mr. Secretary.

H.M.Jr: Goodbye.

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September 29, 1938.
9:28 a.m.

J. Pierrepont

Moffat: Hello

H.M.Jr: How are you?

M: Fine, thanks.

H.M.Jr: Ah - Mr. Moffat, is there anything that I ought to know or could know that's going on that isn't in the papers in regard to the Munich conference?

M: Ah - we don't know very much as yet.

H.M.Jr: Ah-ha.

M: There's been such a that all our Ambassadors have gone - went home last night to get some sleep.

H.M.Jr: I see.

M: Ah - we have a message from Mr. Kennedy which I'll be delighted to send over.....

H.M.Jr: Yes.

M: Ah - just indicating immense relief for the moment not realizing, of course, that there were still hurdles to go forward but the whole indication - let's enjoy this respite while we can and then he said, like they say in the movies, "I'm now going to sign off and go home and get six sleep for the first time in eight days".

H.M.Jr: I see.

M: And that's been a little bit the trend of the messages we've had in.

H.M.Jr: I see.

M: I'll make up an envelope, if you'd like, and send over what we have.

H.M.Jr: I'd appreciate it.

M: But it lacks both the information and the drama of earlier days.

H.M.Jr: Well.....

M: But I'll send it over anyway.

H.M.Jr: Yes, the only other contribution I have to offer is - ah - ah - take the liner Rex.....

M: Yes.

H.M.Jr:they've stopped all ship to shore telephones.

M: They have.

H.M.Jr: They've put them in again and they are permitting their passengers to telephone.

M: I see.

H.M.Jr: Just a little thing but.....

M: Yes but it's all.....

H.M.Jr:it just shows that.....

M:- it fits into the picture.

H.M.Jr: Yes.

M: Now what's - ah - what's sterling doing? Anything interesting ?

H.M.Jr: Ah - it's holding very steady around 474 - 475.

M: Right.

H.M.Jr: And yesterday, for instance, they were able to sell about as large a proportion of gold as they bought.

M: Yes.

H.M.Jr: And - ah - of course sterling is not back 15¢ yet.

M: I know - it was the most extraordinary thing I've heard of.

H.M.Jr: And then you see the price of gold in London got down on the 28th to 34.25.....

M: Yes.

H.M.Jr:and to-day it's up to 34.56.

M: Oh yes.

H.M.Jr: So - ah - but that end is much - is much better.

M: Right.

H.M.Jr: And - ah - but - ah - I don't know how you feel. I've got both my fingers crossed.

M: So have I because I cannot - cannot see that the Czech problem is being really considered.

H.M.Jr: You don't think so?

M: What I mean to say is I wonder what's going to happen. Ah - there's got to be a further compromise between the two points of view.

H.M.Jr: Yes.

M: And the decision once more is put up to the Czechs.

H.M.Jr: Yes.

M: Ah - supposing this time they stand firm. Then where is the picture? I'm - I'm naturally much more optimistic but I'm not one of these people that throws up their hat and says it's all over.

H.M.Jr: Yes. Do you take any stock in this talk of withdrawal of foreign troops from the soil of Spain?

M: Ah - I see to-day that it spread rather the way I thought it would be; that Mussolini is prepared to do so and to throw it into part of a bigger settlement.

H. M. Jr: I see.

M: In other words, that he is thoroughly ready to do it but - ah - wants to get the there-fore.

H.M.Jr: I see.

M: It is true, on the other hand, that Franco is desperately anxious not to get involved. He has given orders that, in case of war, all Italian and German troops will be withdrawn 130 kilometers from the French frontier and is not going to allow Spain to be brought into the picture or used as a base, if he can possibly avoid it.

H.M.Jr: Well that's a good sign, isn't it?

M: Yes - yes.

H.M.Jr: Well if you'll send over.....

M: I'll - I'll send Parsons over in just a few minutes with the pertinent messages.

H.M.Jr: I thank you.

M: Right.