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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

W 1

DATE September 21, 1938

TO Secretary Morgenthau

FROM Mr. White

Subject: How the flour shipment to Spain is to be paid for.

(1) Federal Surplus Commodity Corporation purchases flour in the open market (at a cost of roughly \$3.50 a barrel) and

(2) Resells it to the Red Cross for a price which covers only the charge of milling, domestic transportation charges, etc. (about \$1.00 a barrel).

(3) The Federal Surplus Commodity Corporation thereby sustains a loss equal to the approximate cost of the wheat that went into the making of the flour (about \$2.50 a barrel).

(4) This loss is met under authority of Section 32 of the Agricultural Adjustment Act out of funds expendable to encourage the exportation of agricultural products.

(5) The Maritime Commission is to transport the material free of charge on their ships.

(Information furnished by Mr. Tapp of the Department of Agriculture.)

September 21, 1938

I spoke to Miss Le Hand and she told me that the President said he would see me at five o'clock today.

I then said to Miss Le Hand, "Are you with the President?" and she said yes. I then told her that Jefty was coming in within an hour and I said, "Should I laugh or cry?" and her reply was, "Wait a minute." She came back to the phone and said she had spoken to the President and he had said, "I told Jefty all about the California banking situation." And then he blew his nose. So I said, "At Jefty?" and she said, "No, at you. That ended the conversation. Jefty will tell you all about it."

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JH

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, 9-2
WASHINGTON, D. C.

Walt

September 21, 1938.

MEMORANDUM NO. 17 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
midnight, September 20-21, 1938.

General Situation. The events in the European situation have marched rapidly to conclusions which are now known to have been inevitable. In a Europe of power politics, or diplomacy by intimidation, those powers with acknowledged military preponderance immediately available have won. After vain efforts to employ dilatory tactics by appealing to arbitration in settlement of the Sudeten issue the Czech Government had the choice of accepting the Chamberlain proposals without delay or of facing alone sure invasion by overwhelming German arms. The Government has chosen to recommend to the Parliamentary Committee to accept the proposals, and this Committee will doubtless approve. While it is uncertain how the people will receive the decision, it is believed the Army will loyally support the Government in maintaining order.

The justice or injustice of the Czech cause is now history; the future effects in added German strength and prestige of another Nazi victory remain to be faced. Whether Hitler will consider this increment of power a step to the next expansion of influence or will accept it as an honorable means of reentering international diplomacy as a constructive force for appeasement cannot now be known. As to the immediate future, the door at least is opened for some form of general settlement.

Official estimates of popular feeling regarding the Chamberlain proposals in France and England indicate no reaction as yet of a nature to embarrass the Governments in pursuing negotiations along the lines of Hitler's demands.

Military Situation.

Great Britain - No change.

France - The press reports that the Class of 1936, recently recalled to the colors, will be released on Septem-

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Regraded Uclassified

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ber 28. Due to a strike of building workers in Paris, all passive defense works are placed under military control in order to permit the Government to requisition the services of strikers, in accordance with emergency laws.

Germany and Czechoslovakia - No information from Germany. The Military Attache in Prague reports in a cable dated 4:00 P.M., September 20, as follows:

"Czech military measures to date consist in combatting disorders in Sudeten area and manning fortifications and AA defenses. No evidence of mobilization. Border incidents continue. A good many refugees have crossed border (Berlin says 60,000).

"Czech G-2 reports show continuation of military preparation in Germany near Czech frontier. Large units include 44th and 45th Divisions north of Zwettl and Linz and 3d and 1st Armored Divisions Dresden and Plauen areas, respectively. Extensive movement of smaller units. Heavy road and railroad transport of military units and material in Austria, where police are being organized into combat units. SA and SS formations appear with Czech refugees included in Corps opposite north Czech frontier."

Yugoslavia and Hungary - No precautionary military measures have been taken. While Hungarians claim their army has been increased by 25,000, Yugoslav information is that it has actually added 50,000 men to the colors.

Rumania - The Rumanian Army is known to be markedly inferior in materiel, organization and training, is badly staffed, and the personnel is essentially unwarlike. A State Department despatch of September 19 states in effect:

"Opinion alarmed over situation. It is felt that unhappy precedent may be set for Rumania with her large minorities. Rumor that Hungary may enter Rumania if Germany enters Czechoslovakia. However, no movement of Hungarian troops. Rumanian Government desires to take no action which might be interpreted as aligning it with either side. No confirmation as to agreement with Russia. Rumania pitifully unprepared either to attack or defend and must remain quiet and hope for peace."

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Russia - No known military change. Litvinoff's speech at the League confirms what was becoming obvious from Chamberlain's negotiations, namely, that Soviet Russia has been eliminated as a decisive factor in the concert of European powers. This is an added laurel to the victory of the Fascist States.

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Wednesday
September 21, 1938
9:08 a.m.

Sam
Lewisohn:

and Morgan.

H.M.Jr: Yes.

L: and Morgan - and their correspondence here - on a person with whom we do a lot of copper business, called The Metal Traders Company of - Limited of New York.

H.M.Jr: Yes.

L: They're a - ah - a London firm - a very large London firm who do a very large metal business and they're the agents here.

H.M.Jr: I see.

L: Now, there's one thing I do find is this: that there is a considerable American production -

H.M.Jr: Yes.

L: - which - ah - in times with prices high comes in.

H.M.Jr: I see.

L: So I wouldn't say - ah - that there was
- I don't know how much is required
for extraordinary purposes -

H.M.Jr: Yes.

L: I would doubt whether we would be stocked in this country for that article, -

H.M.Jr: Yes.

L: - in case of an emergency.

H.M.Jr: I see.

L: Of course I think there are enough mines that can produce at a slightly higher price -

H.M.Jr: I see.

L: - to furnish the requirements.

H.M.Jr: Yeah.

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L: Hello.

H.M.Jr: I hear you.

L: Now - ah - I was just thinking last night - ah - to open new trade channels -

H.M.Jr: Yes.

L: I mean I don't want to hit any group alone - I always have found - I know in the platinum game and I know enough about these different games to know that to open new channels for anybody to butt into a long established business is very very very very hard -

H.M.Jr: I see.

L: - and usually doesn't get anywhere.

H.M.Jr: Uh huh.

L: Ah - that's been the experience. I think that's a possible example. I know people flocked to the platinum business. In fact I know some people who wanted to - a very large people - who wanted to supercede the usual channel through which platinum was distributed.

H.M.Jr: I see.

L: They couldn't do so.

H.M.Jr: Uh huh.

L: Now - ah - easily. I mean it could be done of course - ah - We'd be very glad to see if we could establish any new channels in a quiet way.

H.M.Jr: Uh huh.

L: But I'm just giving you the low-down.

H.M.Jr: Uh huh.

L: We don't - of course we don't dare talk to these people.

H.M.Jr: No.

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L: - the metal traders.

H.M.Jr: Who?

L: Because those are our friends it might - ah - it could be a mistake to do so.

H.M.Jr: Well, would you mind strictly for me and only for my use - sort of preparing a little summary of this?

L: Would you like for me to send you a memorandum?

H.M.Jr: Very much.

L: I'll do so, Henry.

H.M.Jr: And I'll treat it strict-

L: Can I - where can I send it to?

H.M.Jr: Well, you send it to me and - ah -

L: At the Treasury or at your house?

H.M.Jr: No, at the Treasury and it'll - just mark it outside, "Attention of Mrs. Klotz" - K-l-o-t-z.

L: "Attention of Mrs. - "

H.M.Jr: "...Klotz."

L: T-l-o-t-z?

H.M.Jr: "K" like in Kitty.

L: Oh, "K" like in what - Kitty? Klotz?

H.M.Jr: Yes. K-l-o-

L: t-z?

H.M.Jr: Yes.

L: Mrs. Klotz - "Attention Mrs. Klotz"?

H.M.Jr: Yes. And then it goes to her room. She's my secretary.

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L: I see. And address it to you? -

H.M.Jr: Yes.

L: "Attention Mrs. Klotz"?

H.M.Jr: Yes.

L: I'll get you a memorandum.

H.M.Jr: Will you do that?

L: But the low-down - I just want to give you this, Henry.

H.M.Jr: Right.

L: - is that usually to open these new trade channels is an awfully difficult game.

H.M.Jr: Right.

L: All right.

H.M.Jr: Thank you, Sam.

L: And Henry, if you change your mind -

H.M.Jr: Yes.

L: - why just let us - give us a ring.

H.M.Jr: O. K.

L: We may not be able to do it but you don't be afraid to give us a ring.

H.M.Jr: That's right.

L: All right.

H.M.Jr: Thank you. Goodbye.

GROUP MEETING

September 21, 1938.
9:30 A. M.

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

H.M.Jr: (Very low.) Have you got, Dan, a figure to show of the billion four hundred million - those gold certificates that we deposited - how much of those

Bell: A billion four.

H.M.Jr: When we transferred all this gold. I'm going to ask you that. I'm going to ask you that at ten fifteen.

Bell: Let me try to figure it out.

H.M.Jr: I'm going to ask you that at ten fifteen. I'm having a meeting, and I want to ask you all a question about the gold and what is the position since we transferred that gold - how much is used - the whole question, is it or isn't it?

Bell: All right. You're going to ask me the question, whether this is gold sterilization.

H.M.Jr: I am going to ask you to explain the mechanism and how much of that gold has been absorbed and how much has not been absorbed, and how much it is.

Bell: I'll need a little time on that; I'd better go now and do it.

H.M.Jr: Well, you've got forty-two minutes.

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Bell: Well, that will be time.

H.M.Jr: Archie, do you know the answer?

Lochhead: I suppose it's going to be an assumption.

Bell: It's a question of using the gold first or using the cash balances first.

H.M.Jr: You've got what I want?

Bell: I think so.

H.M.Jr: Well, we've got some smart boys here - I mean that are coming.

Bell: Well, they don't understand all this. (Laughter) They don't know.

H.M.Jr: Dan, you've got no hearings have you; you can stay a while?

Bell: I have one at eleven; it can be postponed, if your meeting is going to last longer.

H.M.Jr: Well, I think you'd better postpone it; these people are coming from out of town. I am sorry; I should have told you. I should have told you.

Bell: It's all right. (Leaves.)

H.M.Jr: (Side conversation with Mrs. Klotz.)
(Nods to Mr. Thompson.)

Thompson: I'm all clear; everything is going along nicely.

H.M.Jr: (Whispers to Mrs. Klotz.)
Harry?

White: I told Mr. Chen I would call him up this morning and let him know what time today we would confer. The reason I didn't make an appointment with him ahead of time, I didn't know how rapidly you wanted to push this.

H.M.Jr: I'd like you to push it, after this meeting. I think you'd better concentrate on woodoil.

White: We are working on it already - Oliphant and I. Then you want us to push things faster?

H.M.Jr: Yes. Can't go too quickly.

White: Well, we can have something pretty definite to tell you, possibly tonight - this afternoon.

H.M.Jr: I hope, if things should quiet down, to leave here either Thursday night or Friday morning for the farm, see?

White: Think you might settle this before?

H.M.Jr: (Over telephone:) Tell Burke I may want him Thursday afternoon, please.

White: When would you want to see him?

H.M.Jr: I might go up to Poughkeepsie and I might see him a couple afternoons up there. See? Huh?

White: Yes. Did Archie speak to you about a physician for him - for treatment?

Lochhead: Oh, I hadn't said anything about it. His condition - he looks pretty good.

H.M.Jr: Well, if he wants to know which is the best doctor for diabetes we'll get Dr. Parran to tell us.

Lochhead: He looks like he's in pretty good condition.

H.M.Jr: He doesn't look like a man that's suffering from anything except

White: Maybe it's his political life.

H.M.Jr: his political troubles. I guess he's got those, all right.

What else, Harry?

White: That's all.

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

Gibbons: Got the radio station.

H.M.Jr: Oh, did you? When?

Gibbons: Yesterday.

Klotz: I never got to tell you.

Gibbons: Mrs. Klotz didn't get time to tell you.

H.M.Jr: Where?

Gibbons: Over - right outside the Army. Twenty thousand for the land, a hundred sixty-eight for the station.

H.M.Jr: How many miles from Washington?

Gibbons: I think twenty-two miles - right adjacent to the Army.

H.M.Jr: On the Potomac River?

Gibbons: Near Fort Myer. The Coast Guard is perfectly satisfied.

H.M.Jr: Are you accepting the congratulations as a New York Democrat? It's wonderful, what you did up there. Which side were you on? (Laughter)

Oliphant: Both.

H.M.Jr: Huh?

Gibbons: Did O'Connor win in the Republican primary?

Lochhead: Yes, he won in the Republican

Gibbons: That's fine; he may still come down.

Oliphant: He loses all of his Committees.

Gaston: Don't say anything until you write it out, and let us look it over, Steve.

Gibbons: All right.

H.M.Jr: Anything else?

Gibbons: I'm glad that's over.

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Lochhead: This situation isn't clearing up, as far as definite news is concerned. The exchanges are a little uncertain - gone down to about 4.82 on sterling; the situation is clearing up a little though. There's rumors of a split in the French Cabinet today, with the franc under pressure.

H.M.Jr: You know we were forecasting that last night. You fellows surprised?

White: There was one angle of your comments which was very interesting and novel.

H.M.Jr: Are you ready, at ten fifteen, for your lesson?

Lochhead: (Nods "Yes.")

H.M.Jr: Are you ready at ten fifteen?

White: On the problem you said, yes. There were a couple other problems we wanted to raise at the same time.

H.M.Jr: All right?

Lochhead: (Nods "Yes.")

H.M.Jr: What do I do with this (paper)? We'll have a couple minutes after this.

(Nods to Mr. Upham.)

Upham: I think everything is all right. We have a telegram from the west coast, which will be in, in a moment.

H.M.Jr: You will have a couple minutes, afterward.

Upham: You want to give me a couple minutes today, for this Prentiss program?

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

Hanes: (Nods "Nothing.")

Viner: (Nods "Nothing.")

H.M.Jr: George?

Haas: Nothing, this morning.

H.M.Jr: Were you sick yesterday?

- Haas: Yes, a little.
- H.M.Jr: I think your boys, including yourself, are doing a good job on this weekly business forecast.
- Haas: Thank you.
- H.M.Jr: I happen to agree with you. (Laughter.)
- Haas: I know; I feel like you, though; I'd much rather write the other kind.
- H.M.Jr: I've told Professor Viner of this new work you have done on inventories and new orders. He said that is the thing he's been crying like a baby for since 1934, and likes very much to see it. "Interesting, if true," is his comment.
- Haas: That's the way we feel about it.
- H.M.Jr: Also, the one on the individual companies, on this.
- (Mr. Kieley comes in; hands Mr. Upham a paper; puts envelope on H.M.Jr's desk.)
- H.M.Jr: Anything else, George?
- Haas: No, there's nothing else. There's something I think you ought to probably assign someone to carry the ball on. There's going to be some changes, undoubtedly, in the Social Security Act. We are working up a memorandum on it for you. The problems involved are administrative, tax problems, fiscal problems, etc. This memo we're working up will be a basis for familiarizing yourself and somebody else whom you will assign the problem, but I think somebody else should be assigned to carry the ball.
- H.M.Jr: Let Viner and Haas both read my memo that's going out at two o'clock. Let the two of you see that. We've got a very nice gentleman, by the name of Hawks, a barber in California, one-chair barber - owns his barber shop, a couple lots; is sixty-one years old. He's written me six questions on the thirty dollar a week plan. We've answered it; we think it's all right. As long as - I'd like both of you to take a look at it, but let me in on it; I'd also like it to go out this afternoon, unless you think it shouldn't go out at all, and that's still possible.

Haas: Uh huh.

H.M.Jr: (To Mr. Gaston:) Go ahead.

Gaston: Guy Helvering, as you know, is going this afternoon to Salina, Kansas. You may recall that when they laid the corner stone of that building, we wrote a speech for the Deputy Collector of Internal Revenue, who represented the Treasury Department, incorporating a letter of greeting from you, and now Guy's had notice that he is to make a speech, representing the Treasury Department, and he wants some similar word from you, and we are working on something of the kind.

H.M.Jr: Fix it up.

Gaston: All right. I'll send it in.

H.M.Jr: All right; fix it up.

Gaston: This is the dedication of the completed building.

H.M.Jr: All right. All right.

Gaston: I haven't anything more.

H.M.Jr: (Looks at Mr. Oliphant.)

Oliphant: Apropos of what George mentioned, I passed on to Hanes yesterday, the fact that Wilcox, who used to be Assistant General Counsel, and now is with Social Security - he courageously came over yesterday - it took a good deal of courage on his part - he's very much disturbed about their plans greatly to increase the coverage without any very serious consideration of where the additional funds are to come from.

H.M.Jr: All right. Anything else?

Oliphant: There is one thing I'd like just a minute or two on.

H.M.Jr: Now, we can have a few minutes, see? White, you're coming in at ten fifteen, aren't you?

White: Yes.

H.M.Jr: Archie, you're coming in at ten fifteen; and I want Upham, and Hanes, and Gaston.

Viner, you coming at ten fifteen?

Viner: (Nods "Yes.")

Gaston: Did you say me?

H.M.Jr: Yes.

September 21, 1938

A prolonged meeting in Secretary's office on subject of the Treasury's gold policy, held at 10:15 a. m., is filed in Stabilization folder under this date.

Present at this meeting were:

Mr. Lochhead
Mr. Bell
Mr. White
Mr. Viner
Mr. Riefler
Mr. Harrison
Mr. Goldenweiser
Mr. Williams
Mr. Stewart
Mr. Warren

RE GOLD POLICY

September 21, 1938.
10:15 a.m.

Present: Mr. Lochhead
Mr. Bell
Mr. White
Mr. Viner
Mr. Riefler
Mr. Harrison
Mr. Goldenweiser
Mr. Williams
Mr. Stewart
Mr. Warren

- H.M.Jr: The reason I asked you gentlemen down here was, I wanted to talk a little bit, and one of the things I wanted to examine was our method of handling gold, in view of the tremendous amount of gold which is coming in. And I asked Mr. Bell if he wouldn't prepare a little statement going back to the day when we desterilized a billion four, and bring it forward from that date. And I think he's ready to do that.
- Bell: I'm ready to give a rough net position, Mr. Secretary, if we can check the figures later on; I had to do it in a hurry.
- H.M.Jr: Well, there are no bookkeepers here, so
- Bell: On April 14 you said that you were - after conferring with the Board of Governors of the Federal Reserve System, you were discontinuing the inactive gold account, and on that day we deposited a billion 392 million dollars in the Federal Reserve Banks. We already had in the Banks 141 million, making a total of a billion 533 million dollars available for spending in the Federal Reserve Banks.
- I've taken this position from that date to September 14, and the reason for the September 14 is to get the picture just before our financing. Between April 14 and September 14 we had prepayment of War Loan accounts of 241 million and we had deposits by the Commodity Credit Corporation and the Reconstruction Finance Corporation of about 315 million, making a net addition to our balances in the Federal Reserve Banks of about 550 million dollars, or a total available for expenditure of two billion and 88 million.

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On September 14 we had 346 million dollars in the Federal Reserve Banks, so we have withdrawn in that period about a billion and three quarters. So that we - during that period you might say that we spent more than the billion 392 million dollars in gold that was deposited.

But we ought to look at what that was spent for. We spent 602 million dollars for new gold, we retired a debt of 386 million dollars, and we financed the deficit to the extent of about 750 million dollars.

Now, I suppose you'd like to have the position since September 14. Well, we got - we took from the market in the new issue cash to the extent of 542 million dollars and income taxes to the extent of about 66 million dollars.

H.M.Jr: That is, out of the 800 million subscription, 542 was cash?

Bell: Yes, sir, so that we have taken out of the market 608 million dollars in that period net, and 108 million dollars was for the purchase of new gold, so that we have increased our balances between the 14th and the 19th by 500 million dollars.

Now, I suppose that if you wanted to take the entire period and get the net position, we had a billion 392 million of gold as a deposit, we have today, or the 19th, 710 million dollars, so that we have in effect spent 682 million dollars of gold in that period. But that should be further offset by this cash on September 15, so far as the market is concerned.

H.M.Jr: He's your witness, anybody who wants to examine him.

Goldenweiser: Just one question to clarify a point. You say you retired debt between June and September. You mean the total amount of debt?

Bell: That's the debt that was drawn out of the market.

Gold'r: Oh yes.

Bell: Not thinking of the gross debt now.

Gold'r: I see. This is the extent to which you retired bills,

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you mean.

Bell: Yes, largely bills. Some little other things.

Riefler: Well, the picture today is an account in the Fed of how many millions - 800 and

Bell: 840 million.

Riefler: 840 million. And gold available for deposit of how much?

Bell: 710.

Riefler: 710.

Bell: That will be increased about 50 million as of yesterday.

Viner: That's fifteen hundred millions of Government cash that's not with depositories.

Bell: Yes.

Goldenweiser: To clear up a technical point, may I ask another question?

H.M.Jr: That's the purpose - I mean let's first have a - understand it. I mean I think there's been quite a little mix-up. That's what I want to clear up.

Gold'r: The figure that you publish in your daily statement of the amount of gold includes in addition to that 710 millions something like 140-some that was left over from the ...

Bell: Devaluation, that's right.

Gold'r:devaluation, and some of that is earmarked against National Bank notes?

Bell: No, that's all been dismantled.

Gold'r: That's all finished.

Bell: Yes. That's for industrial loans, Philippine deposits, one or two other small items. It's all

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earmarked.

Gold'r: It's all earmarked?

Bell: Yes, sir. The 23 million dollars earmarked for the Philippine deposits has in effect been outlawed by Congress. They refuse to appropriate the money, although the basic law was put through about three years ago.

Gold'r: How much is that?

Bell: 23 million dollars.

Gold'r: And the rest is earmarked for what?

Bell: Largely industrial loans - Federal Reserve.

Gold'r: Oh yes, it's the remnant between

Viner: F.D.I.C.

Bell: Originally 139 million dollars. It's now been reduced by 20-some million dollars.

Gold'r: All right, thanks.

Williams: Did you say how much gold had come in since April?

Bell: About 710 million dollars; that was the 19th. Gold coming in at the rate of about 150 a week now?

Lochhead: At least that. We're having a very - this last week and the coming week we'll have very heavy gold shipments; I would say run at least 150.

Bell: Slowed down the last couple days.

Lochhead: The actual operations have been slowing down, but of course there are so many engagements of gold on the water that it will not show up for at least a week.

H.M.Jr: Well, the question I want to put to you gentlemen: Does anybody see any reason why we should change our method of handling the gold? (Silence) Let's put it this - how could we handle it differently, Dan?

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- Bell: How could we handle it differently?
- H.M.Jr: What are the alternative methods of handling it?
What would be the alternative methods?
- Bell: Well, at the present time we're just allowing it to accumulate as free gold in the General Fund, for the reason that there is no need for it, from the Treasury standpoint, in the Federal Reserve Banks; we have plenty of balances. If we continue to - we can continue to do that, or when our balances in the Federal Reserve Banks - normal procedure, we would deposit that gold in the Federal Reserve Bank as and when we need it. Or we could deposit it, of course, immediately, although we do not need it and it would have no effect on the money market, on the reserves.
- Gold'r: It would make absolutely no difference to anybody, would it?
- Bell: That's right, except maybe psychologically on the minds of some people outside.
- Harrison: It would tend, however, to overcome the question in the minds of a lot of people as to whether or not you're really sterilizing gold again and what the significance of that is. Therefore, you might raise the question: so long as it makes no difference to you or any of us in this room whether the gold is actually in the Treasury account or whether it's in the Federal - as long as it makes no difference, you might conceivably argue that you would remove the question, the doubts in the minds of some people by resorting to your old practice before you had an inactive gold account of depositing that gold after it accumulates to a certain figure, with the Federal. Now, whether you do it every hundred millions or every two hundred millions is a matter of insignificance.
- H.M.Jr: Well....
- Gold'r: Used to be around 200, didn't it?
- Bell: No, we didn't have any policy with respect to accumulation. One time we had a policy of keeping about 30 million dollars in the Federal Reserve Banks and our

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gold ran anywhere from 10 to 30 million, but of course, since the large expenditures, why, we have kept around a hundred million dollars in the Federal Reserve Banks, allowed our gold to fluctuate within that figure up to the time we started desterilization.

- Gold'r: We did have about 200 millions at the time you desterilized; had 200 millions in addition to the inactive account.
- Bell: That's right, yes, sir.
- H.M.Jr: Well, this thing, at the rate we're going, would show up on our statement very soon a billion dollars, wouldn't it?
- Lochhead: Yes, another week, I think, will show a billion dollars.
- Bell: Another week? 760 last night.
- Lochhead: On well, we're talking two different figures. I figure gold in the General Fund, which comes to 828 million. You deduct from that. But the main figure that shows up here is 828. They always look at the large one.
- Bell: Yes.
- H.M.Jr: And when that figure crosses a billion I think a lot of these financial writers will get started writing, and so forth. I just wondered whether it's worth it. I mean what's to be gained by leaving it there rather than just let it flow in? I mean have this mark of a billion and then they immediately begin to question and write and - I think you're foolish to - I think we ought to be able to make up our own mind without letting the people force our hands.
- Gold'r: Well, Mr. Secretary, as a very minor suggestion, I should think it might be worth while to have the figure that appears there agree with your free gold and take out of it the earmarked amount, that 140.
- Bell: Of course, the 140 is set out separately in your balance, and in your working balance is the free gold available for use.

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- Gold'r: Nevertheless, that is the figure on which people's attention.... It isn't a big item, but I just thought as a minor thing that does increase your figure by 140 millions where it isn't necessary. the figure on which the newspapers will pounce. Would it be a very complicated matter to eliminate that?
- Bell: No. We'd have to join it
- Lockhead: On the other hand, that would only give a respite of about a week, we'll say; in other words, might cut it down by a week by making that change, but in a week that would be over.
- Gold'r: Very minor point, but I just thought it was worth doing.
- Williams: And people might want to know why you did it. Might reduce the figure, but might start discussion.
- H.M.Jr: As to why we did that.
- Williams: Yes.
- Harrison: Mr. Secretary, it seems to me - without going into the merits or demerits of the April program, nevertheless it was a program that was decided upon and accepted - it seems to me that if you allow your free gold in the General Fund to accumulate to too great a figure, say a billion dollars, you're going to invite, whether you like it or not, a lot of comment, possibly criticism, and question as to whether you're offsetting what was done in April or whether you're not. As long as it makes very little difference to you whether it's in the Reserve Banks or in the Treasury and as long as the program has been adopted and has not been revoked or modified, I should think that it would cause less question, less confusion in the public mind, if you deposited some considerable part of that free gold in the Federal Reserve Banks rather than to allow it to accumulate to a figure that's going to be pointed out with questions.
- H.M.Jr: Well, if I was going to do it, what's running through my mind would be that we just wouldn't put any more

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in the General Fund; any that comes in, just deposit it straight, and leave there as a "kitty" whatever it is, 800, 900 million dollars; leave it there, and now anything that comes in let it go directly in the Federal Reserve System.

Riefler: Let it fluctuate a little, so people don't get a fixed figure.

H.M.Jr: Eight or nine hundred million.

Riefler: Fluctuate a little both ways.

Bell: Might do this both ways. It isn't as drastic as what you propose.

H.M.Jr: Is it more drastic?

Bell: No, it is not. We have three Banks to which we'll have to transfer now from time to time. One is the Federal Reserve Bank of New York, because it is paying for all this gold. The other two are Minneapolis and Atlanta, in which cases we have been requested to keep certain definite balances, certain minimum balances, because of their reserve position. You could, instead of transferring from other Federal Reserve Banks, transfer it from the gold fund. And New York would eat up a substantial amount. I suppose within the next week or ten days you'd eat up two or three hundred million dollars of that gold. And the other two or three banks would eat up maybe 30 or 40 million.

H.M.Jr: We take that from the General Fund?

Bell: Just take it from the free gold and do that from time to time, so the public would get used to seeing this gold used from day to day, and then you'd be back in the old normal procedure. I think they'd forget it soon.

Viner: I don't quite follow that. As you pay for the incoming gold, you're getting free gold, new free gold, to an equivalent amount.

Bell: But paying it - for it by depositing gold in the Federal Reserve Banks.

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- Viner: So you're using your free gold to pay for additional incoming gold, so it wouldn't increase your figure.
- Bell: Well, we'd be creating additional expenditures, so we'd be meeting additional expenditures in that fashion; otherwise, we'd be drawing from other Federal Reserve Banks.
- Viner: Do we publish a figure of our dealings with particular Federal Reserve Banks?
- Bell: Not particular, but the total.
- Harrison: But we do.
- Bell: Yes, you do, that's right.
- Riefler: How soon will you be needing this anyhow on the expenditure program? I mean you won't be able to leave that eight or nine hundred millions there very long, will you?
- H.M.Jr: Couple months.
- Bell: Of course, if you allowed it to accumulate, incoming gold would probably eat up your balances in the Federal Reserve Banks, and then you would not only be depositing gold to purchase the new gold, but you'd be depositing gold to meet the excess expenditures.
- Riefler: You'll be doing that fairly soon, won't you?
- Bell: Well, as soon as the gold eats up the balance.
- Williams: Well, isn't it a question of how much you expect to borrow? The two things are interrelated.
- Bell: Well, the free gold that was in the General Fund on August 31 was used as a part of our General Fund balance in considering our financial position for the next nine months.
- Harrison: Mr. Bell, isn't this a picture that some of the public look at - say that in the past week the Treasury has taken out of the market, say, some 600 million of excess reserves, quite properly as we should have in

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the ordinary course of your business - in addition to that a lot of people say, "Well, they have also taken out some 700 million in gold that they are not putting back." That's the way they argue. The accumulation of those figures with an increasing amount of gold in the General Fund will, I think, inevitably sooner or later lead to the criticism or the comment anyway that you are now really reversing your April program. And I just don't think it's worth it; it raises too many questions at a time when there is no need to raise questions.

Viner: But the choice between these procedures will not affect the volume of excess reserves.

Harrison: Not at all.

Viner: So if the public will carry their analysis one step further, they'll see it doesn't make any difference.

Bell: They stop there; that's the trouble. If they carry it on, they see we spend the gold.

White: They don't. They look at the gold in the General Fund. They don't stop to think what it means.

Harrison: They really don't.

Lochhead: I think a few letters have been received in regard to that, besides two or three newspaper comments.

Gold'r: It seems to me, Mr. Secretary, there are two separate questions. One question is what your borrowing policy is to be, whether you want - in considering the amount of balances that you want to have, whether you want to have larger balances because you choose to have some gold in your General Fund, or whether you do not. If you decide that you do not, that you consider that gold as a part of your general balance, then the substance of the matter is clear. You just simply have your - pursue your long-established policy of trying to have balances of about a billion, and it doesn't make any difference in reality whether you keep it in the Federal Reserve Bank or whether you keep it in your own account.

Now, if that principle is clear, that this is the

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policy you wish to pursue, then the matter of whether you deposit in the Federal Reserve Bank makes no difference to the informed; and if you wish to satisfy the uninformed, you might as well keep it all in the Federal Reserve Banks.

- White: There is only one small argument on the other side, for whatever it's worth, and that is, it might be regarded that a substantial portion of this gold that has come in and is coming in is of a nature which will or may flow out very quickly within the next month or two if things should calm down. In that event, it would look as if that were a sterilizing operation, which you forsook for another policy months ago. I don't think that's worth very much. I'm more impressed with Harrison's position.
- H.A. Jr: Whose position?
- White: Harrison's: that this will run counter to a policy already established.
- Bell: I'd hate to see a set policy of depositing all the gold in the Federal Reserve Bank as it comes in. First thing you know, that becomes a set policy, and then change it in a small way and you stir up more comment as to what is being done.
- Lochhead: You think the other would be better?
- Bell: I'd like to see you go back to the old normal procedure of depositing as and when you need it, building up your balances.
- Lochhead: You suggested another thing: to deposit it in New York and Atlanta as they had ...
- Bell: That is, as part of that program.
- Viner: On that basis you build up the amount of gold in the General Fund even more, because there is a bigger balance now in the Federal Reserve than we need.
- Lochhead: Mr. Bell said he would deposit it with New York and Atlanta, one or two of those others that needed it; that we build up the general deposits of all the Federal Reserves, but in the normal course of business.

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Bell: Instead of having inter-bank transfers, I'd have gold deposits.

H.M.Jr: Well, will New York need some gold shortly?

Bell: Yes, sir. Their balances were 150 million dollars Monday night. They spent 50 million yesterday for gold, will spend more today. So they'll soon be below 50 million dollars in balances.

H.M.Jr: Well, it's kind of just going around the bush, isn't it?

Harrison: Well, as of yesterday, as I got the figures, there was 176 millions in gold on the water, of which, however, a good part was previously acquired. Some small part of it is for earmark for other accounts. But it's going to be a conspicuous figure as it comes in in that amount, and is going to again call the attention of everybody to the whole gold problem. It will invite them again to look at your account and they'll see that that's going up and approaching the billion dollar mark.

Now, even if you go back to the policy of depositing only as you need it, it does seem to me that occasionally when your gold in the General Fund gets to such a huge amount, you might transfer a block of it, say, to New York or some place where you'll need it in a short while in any event, anticipate you need it somewhat, in order to avoid the comment that's bound to come if that figure gets too high. And even if it gets no higher I think you'll probably get the comment; I don't think you'll have to cross the imaginary figure of one billion to get the comment. Even if it goes no higher, with the huge amounts of gold that are in process of coming in, people are going to become gold-minded again, they'll begin to analyze the program and policy.

Now, whether you're sterilizing or not - you can debate that forever - depends entirely on the Secretary's mind, whether in fact he is borrowing more than he would otherwise borrow merely because he's got - has not transferred the gold to the Federal Reserve Bank.

Viner: I'd say the question of sterilization isn't involved here. We're sterilizing whether we do or do not

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transfer the gold from here. As long as we are keeping balances with the Federal Reserve that we do not need for current purposes, we are sterilizing.

- White: Harrison's position is correct: that if that results in the Secretary's mind in an increase in borrowing - it's not likely to, but if it did it might make a difference; but it won't actually -
- Harrison: But supposing he has a program of a billion dollars, a minimum of a billion dollars of working balances, and by a billion dollars he means available balances in the Federal Reserve Banks.....
- Viner: Oh, oh, yes.
- Harrison: ... and doesn't consider what he's got here; then he would be borrowing more from the market than otherwise he would be borrowing.
- Viner: That's right.
- Harrison: And then you're really, whatever you call it, sterilizing just exactly as you did when you had an inactive account.
- Viner: Yes.
- Bell: That would mean a change in his announced policy.
- Viner: Yes.
- Bell: Because he told the public when he borrowed in September that he'd have to borrow about two and a half billion dollars in new money during this year, and the reason he was taking the 800 million was that he was trying to get about a third of it at this time. Now, in that cash balance at that time and in the picture was 500 million dollars of free gold. To sterilize that gold, he'd have to borrow three billion or more, he'd have to change his announced policy.
- Williams: Doesn't that mean that you definitely contemplate using this free gold at some period?
- Bell: That's right, it does.

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- Williams: Sometime within the year, the fiscal year.
- Bell: That's right.
- Riefler: If you should adopt your policy of replenishing balances at individual Reserve Banks as they became deficient and avoiding inter-bank transfers, how soon would it take - and also that would involve both buying of new gold and the deficit expenditures - how soon would it take to absorb the 800 millions?
- Bell: Well, it would probably take something over two months - two months and a half. You'll have a substantial deficit in October because of your interest payments.
- Viner: And they'd begin going down almost immediately.
- Bell: Well, after your income tax period is over, around the 26th, somewhere around there, you'll have a small deficit. But beginning in October, you'll have a substantial deficit; you may have as much as 350 million.
- Viner: In addition to that there would be these transfers to the particular Federal Reserve Banks that had deficiencies.
- Bell: That's what would cause your deficiencies in Federal Reserve Banks: your excess in expenditures plus your gold expenditures.
- Riefler: Wouldn't that get rid of it as quickly as you wanted to? Don't want to do something startling.
- Bell: Get rid of a substantial amount of it by the end of November.
- Viner: That's fast enough, isn't it?
- Gold'r: May I ask another question. The amount of gold that your estimate of two and a half billions of new money that you'd have to borrow before the end of the fiscal year - did that include an estimate of how much gold you'd have to buy?

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Bell: No, it did not, because we considered that as part of our working balance.

Viner: Because we're not sterilizing any more.

Harrison: Mr. Bell, when you made the desterilization in April, was there any statement to the effect that you would not sterilize any more until further notice, or something like that?

Bell: "Discontinue the inactive account."

Harrison: I see.

Bell: That's the announcement.

Harrison: Just as a matter of bookkeeping, you've done so.

White: That's what gives potency to your (Harrison) point, I think. The distinction between an inactive account and a general account - gold in the general account, is so slim that it opens that possibility of criticism.

Bell: Of course, they'd make the same argument if a deposit had been made in the Federal Reserve Banks.

White: But they don't. The very point - the public doesn't regard that in the same light, though theoretically they should.

Gold'r: Has your policy about balances ever been made public - what policy you have about keeping your working balance up?

Viner: Mr. Secretary, you occasionally do say something about the size of the balance you're aiming at, don't you?

H.M.Jr: I haven't recently.

Bell: Did last fall, I believe: always have around a billion.

H.M.Jr: But I haven't said

Bell: ...since this new program has started. Secretary has not.

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- Harrison: Well, you said it pretty nearly when you said you'd have to borrow - what was it, two billion four? - through the rest of the fiscal year; you contemplated ending up with a billion dollar balance.
- Bell: That's about right, yes. About a billion three. But it's
- Viner: But the question is, did he say so?
- Harrison: Hasn't that been said?
- H.M.Jr: I said that what we were doing now - we were borrowing about a third of our needs.
- What I'd like to get over - I think the important thing to get over on the constructive side to the public is that we're going to use this gold and not hoard it, and we're going to use it as part of our spending program. And I think the sooner we get that over, the better. It's just a question, what signal can the Treasury give that we expect to spend that gold?
- Viner: Well, I don't think you ought to give
- Harrison: Putting it in the Federal is the only way.
- Viner: Yes, but I don't think you ought to give any marked signal or make the transfer sudden, or else you're casting doubt on your statement of last April that you had abandoned the sterilization program. In other words, if you were now to say that you were going to use this gold, you're merely repeating what you promised in April.
- H.M.Jr: Let's put it this way. As I'm listening here, there are two things we can do. We could say, "Beginning Monday, any new gold that comes in, let it flow directly into the stabilization - into the Federal Reserve System." And I take it that if we did that, then we wouldn't have to transfer gold from the General Fund.
- Bell: Well, eventually.
- H.M.Jr: But not so soon.

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Riefler: In October.

H.M.Jr: What?

Riefler: In October you would.

H.M.Jr: Or we can continue to take it into the General Fund and then draw it out, deposit it as necessary. Just a question of which would seem best in the minds of the persons who are interested in this thing. I don't mean the man on the street, but I mean a fairly intelligent person. Which seems the most logical and the simplest? I mean there's no sense of surrounding it with any mystery. Let's do the thing. We want to let them know we're not trying to sterilize, going to use this thing; give some signal which should register what we're trying to do. But I'm fearful if we don't do something now they'll get the wrong signals.

Riefler: Well, the simplest way to do that, I should think, would be to let the gold that comes in be turned directly over to the Federal, in the district that it comes in.

H.M.Jr: You mean not let it run through the General Fund.

Riefler: Not let it run through at all. And you'd soon be taking out of the General Fund on the deficit.

Lochhead: One objection to that would be, if you just take the new gold that comes in and then just deposit that, then you establish a rigid figure.

Riefler: I say you'd soon be drawing down that figure because of the deficit.

Lochhead: That's a different thing. You're going to do two things at the same time. Are you going to put in all the gold that comes in and in addition to pay out in gold the amounts that are paid out for the deficit? You'd have to do both of those, because if you're just going to let the gold go through, you'll have a rigid figure.

Riefler: That's right.

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- Harrison: The way you have always done it, as I understand it - the gold that comes in will, if only even for an instant, have to come through your General Fund. Therefore, when you made your deposit with the Federal, if you wanted to avoid rigidity, instead of redepositing with the Federal the dollars and cents value of the gold, you would deposit a round amount somewhat equivalent to the amount of gold coming in that week. You would avoid some rigidity that way. And then ultimately, and sooner rather than later, you would have to deposit more out of the General Fund in the Federal Reserve Bank in order to finance your deficit.
- Bell: That's right.
- H.M.Jr: How would you (Stewart) do it? Very quiet.
- Stewart: My suggestion would follow along that line; I think that it should be a round amount in excess of your receipts, a round - deposit a round amount in excess of your current receipts, so you are gradually building up to a position which would meet your future requirements, but not timed precisely with your requirements.
- H.M.Jr: Just enlarge a little bit.
- Stewart: Just assume that whatever current shipments arrive in the General Fund are immediately deposited with the Federal. Instead of being deposited in precise amounts, follow the suggestion of making it round amounts, but make that round amount in excess of the current receipts.
- Viner: If ten million comes in, deposit fifteen.
- Stewart: You're steadily eating into the accumulated amount on hand.
- H.M.Jr: You'd do it that way.
- Viner: So there won't be a definite time schedule of your deposits, so it doesn't look like a change of plan. What they'll notice is an irregular disappearance of gold - in the amount of gold in the General Fund.
- Bell: That's all right. That would work very well.

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- H.M.Jr: Just a moment. Would that go to particular Banks just the same?
- Bell: Goes to the Federal Reserve Bank of New York.
- Viner: You needn't do that.
- Bell: Might go to Frisco, because they're getting in some gold.
- Viner: You can put in gold to the amount of the imports in the places where the gold comes in, and this excess you can deposit anywhere you like, if you have any reason to.
- Bell: That's largely New York. What I'm thinking of is, the New York balance is going to be down to a minimum; then we've got to deposit back not only to meet gold payments but also ordinary payments of the Government.
- Viner: That's also a drain on New York, is it?
- Bell: Yes. Now, the only other two Banks - Minneapolis and Atlanta - also deposit gold there. That would allow all the other Banks to operate on their present cash balances.
- Harrison: Let's be specific. This week, as I understand it, you'll get about 76 millions of gold net, for which you'll have to pay. There's 176 millions on the water, but a good part of it is either paid for or for somebody else's account. Now, you get 76 millions this week. You can decide, "Well, we'll redeposit 80 millions, or 90 millions, in the Federal Reserve Bank," any round figure over the amount of imports that you want to, and where you put it will depend on where your requirements are.
- Bell: That's it.
- Lochhead: Well, instead of deciding on any set figure, Mr. Bell could arrange those transfers as they were most convenient without saying, "We're going to deposit - if 75 comes in, we'll deposit 80." Just simply leave it, "We're going to deposit more than 75," and the amount deposited in excess of 75 would depend very much on what you had to do.

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Bell: When I need the money and where.

Lochhead: Where you need the money.

Viner: But you would want the correlation between the inflow of gold and the change in the deposits at Federal Reserve Banks.

Bell: That's right.

Gold'r: I should think, Mr. Secretary, if you adopt that policy, it might be a good idea to make a statement to the press to the general effect that you are pursuing a policy of keeping an adequate balance to meet all possible requirements, and that whether you keep that balance in the Reserve Bank or in the Treasury is a matter of convenience and bookkeeping, and that all of that money is available in the end for meeting expenditures. I don't see why the public can't be expected to be intelligent enough to understand a simple statement like that.

H.M.Jr: I don't think they would.

Viner: They'd look for more meaning in the statement.

Harrison: The less you say, the better.

Bell: Yes. When they ask you questions, just say it's contemplated as a normal procedure.

Harrison: Just doing a normal job.

Stewart: Isn't it true, Mr. Secretary, that the reason this question comes up is that these receipts coming in since April have been in excess of what was anticipated, so you're trying to get back to a position where the magnitude isn't as great?

H.M.Jr: Oh yes. I mean I wouldn't ask you people down here if we had a flow of gold today - say, what it was in June. No.

Stewart: That makes me wonder

H.M.Jr: No, I mean this is simply - the fact that the volume is - we've never had it

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Stewart: Of course, the volume is in such magnitude now that you're quite free to make such adjustments as you wish without paying too much attention to exact amounts, because without the precision of small amounts it is easier to correct it, I should think, during a period of considerable gold flow than when you had a diminution of gold flow. So I should think the prompter the better.

H.M.Jr: I should think so; particularly this week. I mean it's coming so fast and I want to continue to show to the world this front: that this doesn't worry me, that we're handling this thing as a day-to-day operation, and let it come till hell freezes, we'll take it. That's what I keep saying. I mean that; it isn't an idle gesture. But I want to do it - but I don't want other people to begin to worry. Then if they begin, I don't want them to be worrying the President about it. But I'm sure if that thing crossed a billion there would be a lot of people, other Princeton residents besides Professor Riefler here coming down here to see - does he still live at Princeton? - ...and people like that coming down here to advise him how to do it. I mean I just - we just had to write a letter answering Sir Henri Deterding, who had a scheme on how to handle gold. And those things - I just want to forestall them, that's all. And the main thing is to tell the world that we're ready to take this and know how to handle it.

Of course, we don't want to do anything to disturb the excess reserve picture - disturb it in the least. This financing, by the way - Dr. Goldenweiser, are your reserves going to drop - I mean the amount of excess reserves, are they going to drop? When does the next figure come out? Little over three billion last time.

Gold'r: I think there'll be a new figure tomorrow morning.

H.M.Jr: How much will that be down?

Gold'r: Be down five or six or eight hundred million.

H.M.Jr: Where you are. That will start it off.

Viner: This won't change it.

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- Harrison: It won't change it, but it will invite attention to that figure.
- H.M.Jr: But this will start - that will be the touch-off. Warren, do you want to say something?
- Warren: I think that movement of the excess reserve figure has been so generally expected that I would be surprised if it would receive any more than routine comment.
- H.M.Jr: I hope you're right, but I disagree with you.
- Gold'r: Mr. Secretary, I still think that it would be well to make a statement about it, because after all when you make a statement you make it to a few very intelligent people who know how to write. You've got Gene Duffield and you've got the people in the various papers, and if you tell them that this is absolutely all there is to it - they know this technique as well as the people in this room know it, and they'll write it in those papers in that way. And I think it will - I think it will stop most of the newspaper talk about it.
- H.M.Jr: Well, I think the way to do the thing isn't for me to give a statement - I give so few statements on gold - but would be to have Gaston explain it to the people with Bell sitting there. Between Bell and Gaston, let them explain it. If I give it - I don't want to formalize it.
- Gold'r: No, I think that's right, you don't want to do it as if it were some special occasion. But let them explain how you're handling it. Don't you think so, Walter?
- Stewart: No, I'm very dubious about that. It seems to me that, as a matter of bookkeeping, the bookkeeping is never very intelligently handled by those people, and to make an explanation now would imply that this is a matter of policy when actually there is no real change in policy, any kind of policy. A statement gets into the press and they begin to say, "What's the policy?" It's a little too simple in bookkeeping and too complicated in the implication to keep from looking disingenuous.

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- Viner: I'd wait for any statement until the changes occur in the accounts, and then if they're troubled - these financial writers are troubled and are not clear and come asking for an explanation, then give it as a routine matter and explain it as - saying that the flow of gold had been more rapid and the accounting procedures for transfer had been adjusted and we had speeded them up; that's all.
- H.M.Jr: When's the next big day?
- Lochhead: They're thinning out a little bit. Yesterday and the day before were the two peak days. I don't think it will run much more. Steamers are carrying about 25 million and it will probably double up a couple days - maybe have 50 million in one or two days, and the other will run between 25 and 30.
- H.M.Jr: Monday's gold figures - have you had time to get the statement yet?
- Lochhead: This is through September 19 - is the last one.
- Bell: That'll be in today's.
- H.M.Jr: How about the Queen Mary's gold? Had 40 million on the Queen Mary.
- Lochhead: That only got in yesterday.
- Viner: Was that all American gold on the Queen Mary? - I mean gold we bought?
- Lochhead: It was a mixed group of gold.
- Bell: 50 million dollars came in yesterday, Mr. Secretary, which would go through the statement of today; could very well be redeposited and put in the next published statement.
- H.M.Jr: 50 million today.
- Bell: Paid for yesterday, but it won't be in the statement until as of today; so we can make the transaction as of today and put it in today's statement when it's published.
- H.M.Jr: Following this idea that you'd put in about what, 55 or 60?

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Bell: *es, 55, 60, something like that.

H.M.Jr: There you are.

Harrison: I agree with the program, which I think should be a minimum program of redepositing in the Federal incoming shipments of gold in round amounts; but I think it should be the minimum. My hunch would be today, so that it would go into the statement, without trying to offset it as against any particular gold shipment at all, to deposit a round amount in the Federal so it would go in the statement at the same time we're going to have all these statements about excess reserves going down.

Bell: That would be Friday morning.

Harrison: Friday morning, whereas if you deposit it today it will go in our statement as of Friday morning. I would go beyond the 55 million; I'd put in, say, a hundred million, a round amount, today.

Bell: In addition to the amount that we'd deposit in New York to pay for that particular gold, I could put ten million dollars in each of the banks at Atlanta and Minneapolis, because I'll need to do that anyhow in the course of the next few days.

Warren: But if there is that presumption of this reduction in the excess reserves by the tax payments, I should think it would be proper to consider the depositing of a very large sum from this account.

Harrison: Do you think that a hundred million out of eight hundred, whatever it is, would be considered exorbitant?

Warren: I don't think so.

H.M.Jr: Is this going to show a decrease of 500 million?

Gold'r: I think so.

H.M.Jr: And if we'd, say, put in 200 million, does that have a direct bearing on excess reserves?

Viner: No bearing at all.

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Harrison: Not except psychologically.

H.M.Jr: You mean it wouldn't

Gold'r: No, sir.

Williams: It would eventually. It wouldn't immediately.

Viner: Eventually our deficit will.

Williams: Comes back then to the question of borrowing.

H.M.Jr: I think there is something in what Harrison says. I think that we might just as well take a hundred million.

Harrison: I'd feel better.

H.M.Jr: What?

Harrison: I'd feel a little better if you did.

H.M.Jr: You would?

Harrison: Yes.

H.M.Jr: Well, we'd like you to feel a lot better.

Harrison: Then I'll make it 200. I'm not joking. If I were doing it, I think I would do about 200 million.

Viner: Well, I'd say there if you make it 200 then it becomes an operation, whereas I think what we want to do is to slide into the old way of doing it rather than show any decided shift in our mode of operation. In other words, we've let gold accumulate here in our balance above a normal amount and now we want it to decumulate; but we don't want to show that we had a policy in accumulating and that we've changed that policy.

H.M.Jr: Well, Dr. Viner, how much is a sliding in and how much is a decided movement?

Viner: Oh well, if we spread it - I'd spread it over two or three months.

H.M.Jr: What would you do between now and Friday?

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- Viner: I'd say 50 million to pay for the gold; that takes care of 50 million. I'd deposit 20 million dollars at least in the two Federal Reserve Banks and then, say, give the Federal Reserve at New York another 10 million dollars. That would make 80 million.
- Bell: That's 80 million.
- H.M.Jr: That isn't going to make George Harrison happy. Would you make it another 20 million?
- Viner: Next Monday give them another 25 million. Just do it at irregular intervals, not necessarily connected at all with the timing of the gold imports, but at irregular moments, so they can't find a schedule of operations; and the way to avoid that is not to have a schedule in our own mind. Just tell Bell that he's to get rid of it - all of it except a hundred million dollars by next Christmas, and space it irregularly in amount and time, that's all.
- Harrison: This is a period of very large figures. We have large deposits, we have large gold movements, and I would think frankly that the way to handle the Treasury account is periodically to deposit - and not any particular period, but as occasion warrants - deposit around a sum of a hundred million dollars in the Federal Reserve Banks. Why try to particularize and to offset this, that or the other debit account? And I would do a hundred million now and then if you don't need any next week I wouldn't; but I would do it maybe a hundred million the following week or - and I don't.... As a matter of fact, Danny, didn't you in the old days - when I say the old days I mean not originally, but I mean in recent days - you would transfer round blocks anyway, wouldn't you?
- Bell: Oh yes, surely, always in round amounts.
- Viner: What's a round block? What would be the dimensions of it in the old days?
- Bell: A half million dollars. If we were low in our balance, I would transfer as low as half a million. But I would transfer also sometimes a million or five million.

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- Viner: But not a hundred million. The only point I see is that if you make it an operation of dimensions such as you (Harrison) would indicate, it's bound to arouse comment and study and concern and attempts to interpret. I'd do it in such a way that they'd discover it only by trends in the figures, they wouldn't be able to date it. I'd like them not to be able to date the inception in policy or to be sure that there was any change in policy.
- Bell: I think if you do it in large blocks that way, you call attention to it and they'll be looking for it.
- Viner: Any time you stop doing it, you call attention to that also.
- Harrison: I yield on that point, but I think you could warrant a hundred million or justify a hundred million this week anyway.
- Bell: I wouldn't mind that.
- Stewart: May your spending program require large deposits anyway in dimensions - blocks of real dimension?
- Bell: Eventually, yes. At the present time, of course, we have plenty in hand.
- Stewart: I think in addition to Dr. Viner's suggestion of spacing it in moderate amounts, you might have to space it in such blocks as not to have a large amount go in at the time of the spending program; you've got to have the intermediate amounts large enough to meet any - whatever spending program you have over a period.
- Viner: The time may come when he has to watch his Federal Reserve cash balances for operation purposes, and that will give him a schedule, you see, but it will be irregular from the point of view of the public, although it will have reason from the point of view of internal Treasury operations.
- H.M.Jr: I wouldn't make it a hundred million.
- Viner: No, 90 or 105. I'd say again

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H.M.Jr: 90 million or something like that. But I wouldn't make it a hundred. I mean I think that Viner's right. We don't want to attract attention.

Harrison: I think that's right. But you've also got the other thing you don't want to have attract attention; that's the size of the General Fund.

H.M.Jr: I think if he put 90 million in right away, that would be - how would you divide it up?

Harrison: That's a bigger percentage than I usually get of what I want.

Bell: 60 million in New York and 15 million in each of the other two banks.

H.M.Jr: Will they need it?

Bell: They will in the next few days. Ordinarily I would put five million in; that would last them, oh,

H.M.Jr: Why is Atlanta using so much money?

Bell: AAA payments.

H.M.Jr: What?

Bell: AAA payments go out in Atlanta.

H.M.Jr: And Minnesota?

Bell: Yes, Minnesota has AAA payments.

H.M.Jr: You'd put 15 in Atlanta and 15 in Minnesota and 60 in New York?

Bell: 60 in New York if that's a 50 million payment, and I'm sure it was.

H.M.Jr: Well, if it's more than that, you could put more in. I think 90 is enough.

Bell: All right.

H.M.Jr: Then we keep depositing it but always doing a little extra. Is that the idea?

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Harrison: Deposit it as the gold comes in, but

H.M.Jr: What?

Harrison: Deposit it as the gold comes in, but always a little excess, 10 or 15 percent excess, so we'll be gradually eating it up.

H.M.Jr: What - would we do that twice a week?

Bell: No, I look at my balance every day at one o'clock. Have to determine which bank needs more money.

H.M.Jr: I'd run 10 or 15 percent over every day. How does that - does that seem like a - that's no sharp change? I like that. I don't want any sharp change, don't want to attract anybody's attention. Don't want to do what Ireland did today. Tell them.

Lochhead: Ireland shocked the British by taking two million pounds of their British securities, selling them out, and buying gold with it, shipping the gold to Ireland. The British Empire

Viner: The disintegration of the sterling bloc.

Lochhead: The sterling bloc is having trouble.

H.M.Jr: Seven airplanes left Croydon with gold bars for some place.

Lochhead: The advantage, I think, of the method you are pursuing is - you say you're going to let maybe Mr. Bell and Gaston explain; now, you'll have trouble to explain round blocks of a hundred, whereas if you say, "I have to transfer amounts of this sort to meet my needs," it's a perfectly normal explanation.

Harrison: You've got to recognize, when I say round blocks of a hundred, they don't show up in your figures as a deduction of a hundred, because that hundred is always reduced by the amount of the weekly imports; so you never - when I say that - nobody knows how much you put in the Federal Reserve as of any particular day, because your statement comes out and it would be offset by the current influx. So in that amount you'd have an odd figure always.

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- Bell: Yes, that's probably right.
- H.M.Jr: Well now, this - to satisfy me as to how we should handle this in the future, before I think up anything else, has anybody got any doubts as to the wisdom of handling it this way?
- Williams: I think there might be two questions just asked. One is whether this program assumes continuing inflow of gold, whether you would act in just the same way if we contemplated an outflow of gold. Suppose we have a settlement of the European trouble, a peaceful settlement. Now, presumably some of this gold that's coming in is in connection with the flight of capital, and there might be a counter movement and some general dishoarding of gold. If you knew that for sure, would you change your present program now? That's one question.
- Then the other question is, if there is to be no outflow of gold and no inflow, if the settlement on the other side should have that effect, just stopping the inflow of gold, and you didn't have to fear an increase in your free gold or any necessity of explaining at just this time, would you deposit it now in the Fed or would you wait until your heavy borrowing comes on later?
- H.M.Jr: Oh, I think that - irrespective of what happens, I think that this makes sense. It does to me. And I've sat here now for two or three weeks waiting for things to quiet down in Europe, and it doesn't quiet down any, and
- Williams: Yes, but it looks as though things might come to a head this week.
- H.M.Jr: Which way?
- Williams: Well, we don't know which way.
- Lochhead: But Mr. Williams, we're only depositing ten percent more than the amount of gold received. If we don't get any gold, there's no ten percent, we don't have to deposit any more; neither do we have the program, and the figure won't be declining. This will be automatic, take care of itself.

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- H.M.Jr: We're only looking ahead one week. We're going to stop this thing from going over a billion dollars. Psychologically I think that's important. I mean this operation will keep this thing this week from going over a billion dollars on Bell's statement, and I don't want to see it go over a billion dollars.
- Williams: Yes, I think perhaps that's the other - if you don't have any further inflow of gold, you don't do anything.
- White: John, if you - assume you're right - do you think there would be any adverse psychological effect - supposing that we lose three or four hundred million; a substantial amount would come out of the two hundred million fund, which is chuck full of gold, now, before it would be felt; and if another few hundred million came out, do you think it would matter much if that gold in the General Fund would drop to two hundred million or so?
- Williams: No, I shouldn't think so. The smart fellows will see that you're acting differently from this point on.
- Viner: If they were smart, they would see there isn't any difference as to whether we were drawing it from Federal Reserve deposits or from our gold here, in case of an outflow.
- Harrison: I think the answer to you, John, is you've got to use that gold sooner or later anyway.
- Williams: Well, you contemplate using it sooner or later anyway, that's true.
- Gold'r: Mr. Secretary, before you leave this subject I'd like to just say that the program you tentatively seem to agree on seems to me perfectly all right. I still think that it ought to be - there are two things I mentioned that I think ought to be done. One is to make that figure that appears in your daily statement be a more clear-cut figure, and the second thing is to explain the whole thing in general terms to the financial press.
- H.M.Jr: We can do the latter part. The other part Bell can take into consideration.

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- White: Doesn't the Federal Reserve Bulletin usually explain those matters?
- Gold'r: No, we don't explain Treasury policy, and I don't think
- White: I think usually every month when there is a change of that kind there is quite a comprehensive exposition of its significance.
- Gold'r: The movements of the thing, yes. But I don't see why you shouldn't explain it. I think it's a mis- - I think it's a false assumption to suppose that the public is awfully dumb; it isn't. I think that what makes the public dumb is when they think there is some secret; but when they see there isn't anything secret, and you tell them in a sensible way what you're doing, I think they go along.
- Lochhead: Hasn't the Secretary agreed to let Mr. Gaston and Mr. Bell tell them about it?
- Gold'r: That's right, I think if you agreed to that, that it's very important. I think the other is important too, to have the figure that sticks out be a clear-cut figure.
- H.M.Jr: Let me ask you something. Before we do this, do you think it's necessary to - talking about the public - to advise the Federal Reserve Board in Washington that we're continuing this thing? I mean is this important enough?
- Gold'r: I don't quite understand, Mr. Secretary. I think you don't need anything formal. I think that if you will authorize those of us who are here to talk about this, about the substance of this agreement, at the meeting of the Board, that would be quite satisfactory. I think it would be a desirable thing for the Board to understand what you have agreed on, but it doesn't need to be formal in any way.
- H.M.Jr: Well, will you tell them?
- Gold'r: I'll be very glad to if you wish me to.
- H.M.Jr: I wish you would.

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- Harrison: I'd like to think of this as just an ordinary Treasury operation, using your balances as you see fit, and I don't think you need any explanation really. I see no objection to telling the Board, of course. But I don't think it needs explanation to the Board or to the public. Why should the public be advised in a statement directly by the Secretary, or even by Mr. Gaston, that the Treasury - why the Treasury had transferred 30 or 40 millions, because that's all that's going to show, to the Federal Reserve Banks?
- Viner: I'd agree to that strongly except on this one contingency: that if the public or the financial writers should show puzzlement or misinterpretation, then as an informal office arrangement explain to the better writers what was done.
- White: They know.
- Gold'r: They ask questions every day, don't they?
- Harrison: That's a very different thing from calling them in and saying, "Now, we're going to do this."
- Gold'r: I agree. The Secretary said it was best not to have a statement from him.
- Harrison: I think that's right.
- Bell: I think most of them understand it. Gene Duffield - ne's considered right along that this free gold is part of the working balance and it's taken into consideration in the financing.
- Viner: And the only explanation we need offer is that we're making preparation for an impending drain on our Federal Reserve balances because of the deficit spending, that's all.
- H.M.Jr: Well now
- Lochhead: Just explain it as a bookkeeping matter and not go into the question of deficit. That's the thing, explain it as normal bookkeeping; then you don't bring up the deficit. I don't think that needs to

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be discussed if they discuss it as a bookkeeping matter.

H.M.Jr: Well, I still say I want the Federal Reserve Board advised.

Gold'r: Yes, sir, I'll undertake to do that, sir.

H.M.Jr: Now, when will this show up first, Bell, Friday?

Bell: Friday, yes, sir.

H.M.Jr: Now, I'm satisfied on this; this is a sensible move.

And while I have you gentlemen here, is there anything you'd like to bring to my attention?

Warren: Well, I'd like to make a footnote to the general discussion: that from the standpoint of the Treasury, that this balance is nothing but a part of what - but one item in the general cash balance, but that in the banking profession it has suggested other implications; and I'm not at all sure that in this practice of depositing gold in the General Fund a device has not been hit on which doesn't have very considerable future utility one way or another. I think it's one of those things that has been stumbled on out of an emergency and more or less by accident, but which may prove in the future to have a real place in the banking management. I am inclined to believe that the building up of this fund this summer, rather than its inclusion in the excess reserves, served a useful purpose. That would be just opinion. It is conceivable that its release will also serve a useful purpose quite beyond the mere routine that we're thinking in terms of this morning. That's nothing but a footnote to a general discussion.

H.M.Jr: Well

Warren: For that reason I would lean toward Governor Harrison's view that not too much in the way of comment or explanation should be offered except as there is a definite curiosity; that comparatively little information should be volunteered, on the general principle that when one has a flexible mechanism, one either offers comparatively few explanations or is called upon to offer continuous

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explanation every time the figure changes a hair's-breadth.

- Harrison: You've got - I agree with you, Mr. Warren - you've got right now a very definite public opinion - Duffield and the rest of them - that this gold is part of your working balance; that presupposes you're going to use it some time, and when you use it you're only doing what they're expecting you to do sooner or later. Therefore, why comment on it? Because immediately you comment they interpret it as a question of policy rather than as an execution of the program they all accept.
- Warren: Makes it a mixture of routine and policy. One gets intertangled with the other by making explanations. Unless there is considerable curiosity
- Gold'r: You can take that curiosity for granted. Everything about gold always arouses curiosity. There are always questions.
- Warren: But this fund has so far attracted much less comment in the press than I would have expected, partly because it has developed so rapidly that a good many financial writers haven't noticed it. Now, if it begins to ebb away, I should think it would not attract inquisitiveness.
- Gold'r: I understood there's been considerable discussion, hasn't there been, Mr. Lochhead?
- Lochhead: You say "considerable." I've seen, I think, two or three newspaper comments, and I'd say that's the newspaper comments - New York comments, no other town. Then I think, Mr. White, you've seen quite a few
- White: Few letters.
- Lochhead: ... letters. Those letters have been mixed; I think one or two of those letters came from people you wouldn't suppose they'd come from - you can always expect a certain kind of letter: fellow writes in on a postal card or blank sheet, doesn't know anything, but those letters have to be answered; but there have been in addition to those one or two from intelligent people.

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Warren: At all adverse?

Lochhead: I wouldn't say - I'd say it was tinged a little adverse, but more just questioning; they don't know what it's all about, and they wonder if it's something that - if we're building up something. Not a question of criticizing, but just wondering if we're having something up our sleeve that we won't talk about; in other words, not just a routine thing.

White: I think one of the letters wanted to know, have we or have we not stopped sterilizing gold?

Bell: Wasn't there a very good article in the Wall Street Journal recently explaining - considering that the policy had been adopted of treating this as part of our cash balance and therefore would be used as and when heavy expenditures got under way.

Lochhead: And another little squib in the Times.

Harrison: Mr. Secretary, I think what you have decided this morning is very wise. It may arouse some public curiosity, which can easily enough be explained in light of an understanding that is becoming more and more common anyway; but even the public curiosity, even if not satisfied, in my judgment, is not as bad as the explanation and the difficulties you'd have with Congress and others if you allow that fund to go up to a billion or increase substantially above its present level. We all know the inquisitiveness of the various blocs in Congress and in Washington as to why the Treasury was borrowing so much money to buy so much gold, and it was all related to that accumulation of gold in the Treasury statement.

Now, I don't give a whoop whether it's called inactive gold or General Fund; you might as well, if possible, avoid that inquiry by Congress later on, especially as it might be interpreted as going counter to the April program.

H.M.Jr: O.K. Well, I want to do this anyway to make a good woman out of you, because you've been telling everybody that we haven't been sterilizing and I want to make it hold water.

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Harrison: Of course, I can defend my position because I haven't been able to see quite inside your mind, and I still think it's largely mental - determined whether you were actually sterilizing or not: Did you or did you not borrow more than you would have?

H.M.Jr: Do you know now?

Harrison: I suspect you sterilized, yes.

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

Harrison: I think you borrowed - frankly, I think you borrowed probably a little more cash this last offering than you would have had all that gold been in the Federal balance.

Bell: I wouldn't say that.

H.M.Jr: No.

Harrison: No? Then I claim you haven't sterilized.

H.M.Jr: No, I took all the traffic could bear. I wanted 800 million; I was told I couldn't get more than 600, so we made it seven, stretched it a little bit and got eight. I took every dollar I could. It had nothing to do with our balances. Every dollar it could bear. No.

Harrison: Incidentally, may I make a comment on it that - it's not critical, but you may not have heard it. There's been a great deal of question and comment in the market about your having allotted 15 percent over instead of the usual 10 percent. And I think it was perhaps, in the light of events, looking backward - it was too bad that you did, because it made it appear unusual at a time we were trying to be as usual as we could.

Viner: I at the time - all I knew was the newspaper account - when I saw you'd gone above the 10 percent very substantially, I wondered about that, whether it was wise.

Bell: Well, the adjustments in the thousand dollar bracket were something over 10 million dollars. That's what threw it above the 800 million mark. But if we had

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allotted 9 and 10 or 10 and 10, we'd have gotten a great deal less than the 10 percent. See, in view of the large over-subscription, one percent meant about 70 million dollars, so we either had to put it down below - a good deal below the 10 percent, or we'd have had to split a percent - $9\frac{1}{2}$ or $10\frac{1}{2}$, and we didn't want to do that.

Harrison: But he developed the 10 percent margin just to allow for what happened there, and I think that ought to give you as a rule sufficient leeway, even if it means you get less than 10 percent.

H.M.Jr: Maybe next time they won't bid up the rights so high.

Harrison: I've got an answer to that, but it might not be popular at the moment.

H.M.Jr: Wait until the first of July next.

Harrison: I couldn't mention it again until July, so I won't.

H.M.Jr: No.

Have you anything else, Mr. Warren?

Warren: No, sir.

H.M.Jr: Professor Williams?

Williams: No, I have nothing more.

H.M.Jr: I mean other than this subject.

Williams: No.

H.M.Jr: But pertaining to the Treasury.

Williams: No.

H.M.Jr: Huh?

Williams: I have nothing further.

H.M.Jr: Viner? I'm not calling on the Treasury people; they can get me day and night.

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- Viner: Well, while we're all here, there are other Treasury problems - what I assume are Treasury problems, which I'd like to hear about.
- H.M.Jr: Go ahead.
- Viner: Well, I'm interested in the drop in sterling, and what the Treasury thinks about it, and what it plans to do about it. Perhaps I ought to explain, in case there is any misunderstanding, that I am speaking as an outsider.
- H.M.Jr: Well, I can answer that fairly simply, as an insider. I don't think that until this war situation clears up there is anything that we can do about it, and if anybody in this room knows anything that we can do about it, I wish they'd tell me. But I think we've just got to sit by and wait until we see whether Czechoslovakia is going to be dismembered or whether we're going to have a world war, and until that's decided I don't think we can do a thing; and we're not doing a thing other than to constantly tell these people that we'll take all the gold they want to sell us, that we'll supply them with the dollars, and we're doing that freely and cheerfully. Now, other than that, I don't know anything that we can do.
- White: We did do something, but I don't know that it
- H.M.Jr: What?
- White: the memorandum with respect to that
- H.M.Jr: Well, yes, but I mean that's - I mean that was a gesture. I mean what he's talking about - we used sort of a backdoor way to let the English know that if sterling fell very rapidly, why, the trade treaty would have to be refigured, reestimated. See?
- Harrison: Mr. Secretary, isn't this a fact
- H.M.Jr: Excuse me. But I think it's all been figured on a 4.90 basis, so we let them know - not too "backdoorish" - that if this thing went much further it would have to be all refigured. We did do that.

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Harrison: When you entered the tripartite the pound was what? - about 4.90 - and since then you've had a disturbance in world conditions that's been unparalleled certainly since the events leading up to the World War. And I think it's a great tribute to British and American finance and the tripartite that it has been possible to finance all of the movements that have taken place as a result of world scares with a drop of only eight cents in the pound. And it wouldn't concern me, therefore - you've noticed it - that the pound has gone down to 4.82 in the face of those conditions. If we might possibly anticipate some upward swing in the pound in the event that those conditions become ironed out more or less satisfactorily, then later on you could consider the question as to what are the proper parities in the light of more normal conditions than exist now.

Viner: Well, I'm a little disturbed, not because of the drop in the pound, but because of the type of English comment in the English press about that drop. There is apparently a strong pressure of opinion on the Government to let the pound drop or even to make it drop, and the practically unanimous comment of the press takes this drop as something which must be permitted to remain and even to go further.

White: There is an article in this week's Economist that bears that out, that's called "The Dollar and Sterling," in which it was said that the English were very glad to know that the Americans were not going to regard 4.86 as a stopping point - had been a stumbling block in their estimates - and implied very definitely that they regarded the situation as warranting a fall.

Viner: I'm not saying that 4.80 is too low; I haven't got any opinion. I'd want to think and study that opinion. But I do think that it would be a little dangerous if we allowed the English to get the impression that they can unilaterally decide as they please what the rate shall be of sterling and the dollar, particularly because they are deciding it for practically the entire outside world as against us; that is, there is a large part of the world that is automatically following them, and the English - the sterling rate now is the world rate for us, to a large extent.

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Now, I wouldn't choose - I mean I'm not making any proposals - I haven't been in close touch - but I am disturbed at the tone of the English press on this point.

H.M.Jr: Could you men just excuse me a minute; I want to just do something. Be right back.

(Secretary leaves room, returns in ten minutes)

Well, gentlemen.

Viner: I asked a big question. I'm waiting for answers.

H.M.Jr: Well, I gave you the only answer

Viner: No, no, I meant opinions around here as to

H.M.Jr: Oh. Well, I gave you the only answer I could give you.

Viner: Well

H.M.Jr: Oh yes, and I asked, didn't I, whether anybody could tell me that we could do anything other than what we're doing.

Viner: Well, I think myself that what would be a good thing would be if private circles in this country picked up this English discussion and started arguing it in a way that showed we weren't wholly passive. I mean the American people; I'm not talking of the Treasury. I agree with you that you shouldn't do anything now. But I do think it is important that the British should not get set on the idea, let's say, that the pound could go down to four dollars, if that suits their convenience, without any basis for a retort here. What I'd like to see in the Street - financial journals in this country pick up this and start talking about it, or it will go by default, we won't be able to take it up.

H.M.Jr: well, I don't think that discussion in the English financial journals is going to set the price.

Viner: It may set the way of thinking of the English, so that it will be harder to deal with them.

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Lochhead: Better renew your subscription to the Committee of the Nation.

Viner: What's that?

Lochhead: Better renew your subscription to the Committee of the Nation.

Viner: Well, when I get notice that my original renewal has expired, I'll do that.

GOLD'R: Well, I don't think, Mr. Viner, that it's British policy to let the pound go down, no matter what the Economist says. I think the British policy really pretty consistently has been one of playing that game pretty straight; and I don't think that it's either the policy or would it be to their advantage to let the pound go down.

Viner: Well, I think that the British are playing straight to this extent: that they're not conscious of deliberately lowering the level of the pound, but the nature of their operations is such that it is impossible for themselves or anybody else to determine whether a drop was due to them or due to the force of circumstances. We don't know what their criteria are, and I feel pretty sure they don't have any. In other words, I feel pretty sure that they haven't worked out any scale on the basis of which they decide on any particular day whether to let the pound drop a cent or half cent or at all; that each day they settle it ad hoc and they haven't any rules. On that basis you can never convict them, their consciences can be easy. But on the same basis the pound can drop to anything conceivable. So I don't think the issue of whether they're doing it deliberately is an important issue, because I'd concede at once that they're not deliberating at all.

GOLD'R: I think you're dead wrong. They are deliberating, very decidedly.

Viner: They're going through certain kinds of so-called operation, but I don't think they have any philosophy or any criteria by which they decide their issues.

GOLD'R: I couldn't tell you what their criteria are, but that they're thinking about that problem and thinking

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responsibly, both at the Bank of England and the British Treasury, I haven't the slightest doubt.

Viner: Well, I can agree to that and still say that I don't believe that in the absence of criteria - that their thinking is not actual thinking; I mean it doesn't lead you anywhere, and they can move in any way except that there shan't be disorderly operations. Put it in that way: that any trend shall work relatively smoothly. That's the only principle I see. And in general, the general tone of their action will depend on whether they think the pound is high or low.

Now, they did say - well, judging from certain things, I think they're doing purchasing power parity calculations.

White: In large part.

Viner: And that's the only criterion I know, judging from the press - the only hints as to how they're measuring it. Two things: the movement of their balance of payments and income account; and secondly, purchasing power parity calculations.

Gold'r: That's right.

Viner: Now, I'm not concerned myself - I'd say we are now in the embarrassing position that, even though on both those counts we might agree that the pound was too high, still the pound is dragging the currencies of the rest of the world with it, and the same criteria might not justify that; and that's our difficulty now, and I don't see any easy solution for that particular problem.

Gold'r: I agree with you now. I agree with you that it's the one important problem in international finance we've got to face. I just didn't agree with you - with the statement that they are not thinking awfully hard about it, because they are.

Williams: It seems to me a number of questions are raised. First is the question of peace or war. It seems to me that if they have war they'll be interested in maintaining the pound, simply because their interest will be in buying as cheaply as possible. But if that

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is cleared up this week, then the question of their position in the business cycle becomes predominant, and we perhaps will find out whether the British are planning now to use their currency as a means of stimulating the business recovery. One would suppose that - on the whole, one would suppose that they would; just taking the past pattern, that at some point, if the cycle of conditions got bad enough over there, there would break out a lot of talk and perhaps there would be a change of policy. Now, that's what is perhaps in the offing; I mean those two alternatives.

Meanwhile, we seem to be moving back toward - to the orthodox position in international currency matters, giving up gold sterilization and so on; and the question is whether that's the best position to be in. I don't know whether it is or not. It does open up the possibility of England's operating on us; now, that may be the best solution. I would say if we could trust them to be wholly unselfish and to take into account not only their interests but ours

White: ...as they are in political matters.

H.M.Jr: (Laughing) What'd you say, Harry?

White: As they are in political matters.

Williams:this might be a good way to have it work.

H.M.Jr: What did you say, Harry?

Viner: He says: "as in the political field."

Williams: That's the problem.

H.M.Jr: Well, I want to say this on this subject. I think that - I don't think anybody is - I'll put it as myself: I certainly can't evaluate this question of the relation of the pound to the dollar until this war scare is removed. I think after it - if it's lifted this week, then we get a trend, I'd like to discuss it very much with you people, because frankly - and I'm saying this in the utmost of confidence - I think one of the repercussions in this thing - I think we're going to see the rapid disintegration of France. And

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if that comes about, I think we're going to have a very serious problem to face, and I don't think it's going to be a very slow thing either. I mean serious to face in connection with the tripartite agreement. I just don't see how the French - elements that make up the French parties and all that - I mean I just don't think that as a whole all the French people are going to take this thing lying down, and when they see within a week or ten days Czechoslovakia has disappeared, which it will - I mean the whole - I think the whole of Czechoslovakia within a week or ten days just won't exist, and I don't think that - I'm certain there will be all kinds of troubles in France, and what that trouble will do to the pound.... And I think that when this thing begins to clear I'd like to ask you gentlemen to come down again and take another look at it.

But with the French - if I'm right, and the French are going to pieces, why, that weight on the pound and just what it will do to the pound and what it will do to us, is something that I'd like to take a very close look at. But I don't think anybody can do it, at least I can't - I'll say it again: I can't do it today, because it's all too new.

I asked Archie - what's the immediate thing?

Lochhead: Sterling is quiet at 4.82 3/8. Talking with the Bank of England - Knoke just finished his call a few moments ago - they say they have no official news that this settlement has been made. They feel that it probably is true, but it isn't official yet, as far as they know. In consequence, the market is rather nervous.

In the meantime, the main thing is that France is having a bad day. They're gaining gold from France. They say that the Bank of France statement tomorrow is going to be a shock to the market, that the French government - it's going to be shown they're borrowing up to the hilt, and they've been borrowing more since the statement came out.

Vineri: Marchandeanu warned the French public that the bank statement was going to

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Lochhead: I know, but it's going to shock them even more so.

H.M., Jr: (to Lochhead) I just told them the next thing we'd have to deal with - it won't take very long - was France.

Gold'r: You mean they've borrowed the ten billions?

Lochhead: They didn't give out the figures, but apparently, as I said, they've borrowed up to the hilt. You remember the ten billion - you remember one of them said, "Try to hold it down to three some way or other." But I imagine if they're going to do it, they will show the full ten.

H.M., Jr: I don't want to shut this off, Jake - I'm not trying to - and I'm tickled to death to have any point raised; but I think that until this thing, this particular crisis of this week passes, that it's awfully hard to do anything.

And I want to say this for the English operation of their funds: that they've gone the absolute limit to cooperate with us to keep the thing - nobody could go further than they have. I mean they've gone the absolute limit. I mean I wouldn't have dreamt of suggesting to them that they go as far as they have. I mean they've just thrown everything into it. So as far as the day-to-day operations are concerned, nobody could have gone any further than they have.

Well, what I'd like - I'd like to - what I'd like you people to feel is that when I have you down - I mean I had this particular meeting on this thing and my mind is cleared on handling this gold; I'd like to feel free to ask you again and I don't want to tie you up any longer than is necessary.

Let me put this question to you, just on this thing. Let's say that they don't settle this thing. What I'm doing is this - I mean in case of a - let's say that the Czechs decided still to fight instead of doing what everybody thinks they're going to do. I've been doing everything that I can to spread the word that, unless this situation is far worse than anybody can see, there will be no closing of any markets in the United States. And I'd like to tell

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that to you people, and you can use your judgment in passing it on. But I can say in this room that I brought it up at Cabinet last Friday and there was complete agreement on that, that - I mean unless something happens, that we don't see now - there mustn't be any closing of any markets; all the markets - commodity markets, all markets, must be kept open. And we're not doing anything around here other than - I mean I'm trying to spread that gospel that we will, as I say, stay open for business.

Did you (Riefler) want to say anything?

Riefler: (Nods no)

H.M.Jr: Huh?

Riefler: No. Jake raised the question that I'm most interested in, and I agree with you there's nothing we can do about it now.

H.M.Jr: What's that?

Riefler: The question of the sterling exchange.

H.M.Jr: If you people don't mind coming down again when this thing is cleared a little bit, I'd like to give you another ring. Huh?

Riefler: O.K.

H.M.Jr: Huh?

Gold'r: (Nods nothing)

Stewart: (Nods nothing) I have nothing, Mr. Secretary.

Harrison: I have nothing else, and I'm available any time you want me.

H.M.Jr: Fine.

September 21, 1938

Memorandum of Conference with Secretary Morgenthau on
September 15, 1938:

We discussed the advisability of the Export-Import Bank extending credit to the Government of Portugal for the purchase of railroad equipment and possibly some wheat. We agreed that, for the time being, the Bank might very properly extend such credit to the amount of \$5,000,000, the loans to be either to the Government or guaranteed by the Portuguese Government.

We discussed the advisability of assisting in financing the construction of a bridge across the Tagus River, the proposition having been put forward by the United States Steel Products Company. It was represented that the bridge would cost \$24,500,000, that \$7,500,000 of the cost would be financed in Portugal, and that the maximum credit required would be approximately \$17,000,000, which would be in the nature of a loan to the Portuguese Government. The contractors requested that the Export-Import Bank give consideration to a loan of \$12,000,000.

I stated that I had previously advised Messrs. T. J. Digan, Secretary and Treasurer of the United States Steel Products Company, and Herman G. Brock, Vice-President of the Guaranty Trust Company, that while we were not in a position to make anything approaching a commitment, we would give consideration to taking a minor participation in the loan should they conclude a contract and be able to place the balance of the financing with private interests.

After our discussion, it was agreed that for the time being Export-Import Bank credits to Portugal would not exceed \$5,000,000.

We discussed the advisability of aiding civilian Chinese through loans to be used in the purchase of cotton or grey goods and wheat or flour. We agreed that we would request an audience with Secretary Hull and the President for consideration of the matter before attempting to arrive at a decision.

JESSE H. JONES

Federal Surplus Commodities Corporation
Summary of Commodities Procured -
July 1, 1937 to September 21, 1938*

(Figures in thousands)

Commodity	Unit	7/1/37	5/12/38	5/19/38	5/26/38	6/2/38	6/9/38	6/16/38	6/23/38	Total	7/1/38	7/1/38	7/14/38	7/21/38	7/28/38	8/4/38	8/11/38	8/18/38	8/25/38	9/1/38	9/8/38	9/15/38	Total	
		to	to	to	to	to	to	to	to	fiscal	to	to	to	to	to	to	to	to	to	to	to	to	to	7/1/38
		5/11/38	5/18/38	5/25/38	6/1/38	6/8/38	6/15/38	6/22/38	6/30/38	ending	7/6/38	7/13/38	7/20/38	7/27/38	8/3/38	8/10/38	8/17/38	8/24/38	8/31/38	9/7/38	9/14/38	9/21/38	9/21/38	
1) Apples (Dried)	Pounds	14,774	-	-	-	-	-	-	-	14,557	-	-	-	-	-	-	-	-	-	-	-	-	-	14,557
2) Apples (Fresh)	Bushels	5,556	2	-	-	-	-	-	-	5,625	-	-	-	-	-	-	-	-	-	-	-	-	-	5,625
3) Apricots (Dried)	Pounds	8,990	-	-	-	-	-	-	-	8,990	-	-	-	-	-	-	-	-	-	-	-	-	-	8,990
4) Beans (Dried)	Pounds	53,440	100	2,050	60	-	670	190	1,200	56,800	-	-	-	-	-	-	-	-	-	-	-	-	-	56,800
5) Beans (Snap)	Bushels	-	-	-	6	-	-	10	-	33	5	4	8	9	3	4	1	1	1	1	1	1	1	33
6) Beets (Fresh)	Bushels	-	-	-	-	-	-	-	-	11	6	7	18	13	9	5	5	9	2	2	2	2	2	80
7) Blackberries (Canned)	Cases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8) Butter	Pounds	9,992	814	563	1,451	1,734	867	192	-	15,035	-	-	-	-	-	-	-	-	-	130	336	2,343	2,811	
9) Cabbage	Bushels	276	214	38	58	3	-	-	-	990	26	40	31	45	62	36	30	66	81	56	154	163	770	
10) Cane syrup	Gallons	-	-	-	-	-	-	-	193	257	107	-	-	-	-	-	-	-	-	-	-	-	107	
11) Carrots	Bushels	-	-	-	-	-	-	-	-	-	1	2	11	7	7	6	7	10	12	8	15	8	94	
12) Cauliflower	Crates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
13) Celery	Bunches	1,159	15	-	-	-	-	-	-	1,174	-	-	-	-	-	-	39	15	13	4	8	8	169	
14) Cornal (Whole wheat)	Sacks	-	-	-	-	-	-	408	-	408	-	-	-	-	-	-	-	-	-	-	-	-	408	
15) Cheese	Pounds	-	-	-	-	-	-	-	3,446	3,446	-	-	-	-	-	-	-	-	-	-	-	-	3,446	
16) Corn	Sacks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	8	3	-	-	-	-	8	
17) Cotton	Bales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	
18) Cotton Lint	Lards	656	92	-	-	238	-	12	189	1,133	-	-	-	-	-	15	49	1	29	46	16	-	147	
19) Cottonseed oil	Pounds	9,780	-	-	-	-	-	-	-	9,780	-	-	-	-	-	-	-	-	-	-	-	-	-	
20) Eggs (Shell)	Cases	270	-	-	-	-	-	-	-	270	-	-	-	-	-	-	-	-	-	-	-	-	-	
21) Fish	Pounds	-	-	-	3	125	-	915	-	3,677	-	-	-	-	-	-	-	-	-	-	-	-	-	
22) Flour	Barrels	-	7	-	-	-	-	-	-	1,649	-	-	-	-	-	179	-	-	-	-	-	-	-	
23) Grapefruit	Boxes	272	48	38	42	19	10	-	-	401	-	-	-	-	-	-	-	-	-	-	-	-	-	
24) Grapefruit juice	Cases	-	5	-	-	-	-	-	444	52	-	-	-	-	-	-	-	-	-	464	-	-	7	
25) Apples	Tons	8	-	-	-	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-	-	-	-	
26) Labels	Labels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,580	-	-	15,580	
27) Milk (Dry skin)	Pounds	8,442	-	-	7,940	-	-	5,000	-	21,522	-	-	-	-	-	-	-	-	2,881	5,960	-	320	8,961	
28) Milk (Fluid)	Cases	9,013	482	495	478	497	510	514	511	12,497	497	515	523	528	525	518	530	513	523	508	516	524	6,257	
29) Oranges	Pounds	3,000	-	-	-	-	-	-	-	3,000	-	-	-	-	-	-	-	-	-	-	7	39	53	
30) Oranges	Boxes	1,730	50	31	14	10	11	54	57	1,932	8	48	59	57	38	48	49	55	50	50	60	55	493	
31) Paper bags	Bags	8,175	-	-	8,400	-	-	5,290	-	21,865	-	-	-	-	-	-	-	-	-	9,075	-	-	9,075	
32) Peaches (Dried)	Pounds	2,534	-	-	-	-	-	-	-	2,534	-	-	-	-	-	-	-	-	-	-	-	-	-	
33) Peaches (Fresh)	Bushels	-	-	-	-	-	-	-	-	8	2	4	-	-	-	-	-	-	-	-	-	-	8	
34) Peas (Fresh)	Boxes	318	-	-	-	-	-	-	-	318	-	-	-	-	-	-	-	-	-	31	36	73	17	
35) Peas (Canned)	Cases	927	-	-	-	-	-	-	-	862	-	-	-	-	-	-	-	-	-	-	-	-	-	
36) Peas (Dried)	Pounds	6,000	-	-	-	-	-	-	-	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	
37) Peas (Fresh)	Bushels	-	-	-	-	-	-	-	-	440	-	-	-	-	-	-	-	-	-	-	-	-	440	
38) Potatoes (Sweet)	Bushels	490	-	-	-	-	-	-	-	490	-	-	-	-	-	-	-	-	-	-	-	-	-	
39) Potatoes (White)	Bushels	4,331	7	-	-	-	-	-	-	4,315	-	466	483	120	44	167	266	148	215	108	12	-	2,087	
40) Potato starch & fl.	Pounds	2,642	-	-	-	-	-	-	-	2,562	-	-	-	-	-	-	-	-	-	-	-	-	-	
41) Prunes (Dried)	Tons	24	-	-	-	-	-	-	21	55	-	-	-	-	-	-	-	-	-	-	-	-	55	
42) Prunes (Fresh)	Bushels	-	-	-	-	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	15	
43) Raisins	Tons	-	-	-	-	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	15	
44) Rice (Milled)	Pounds	75,990	560	-	-	-	-	900	-	73,190	-	-	-	-	-	-	-	-	-	-	-	-	-	
45) Tobacco	Pounds	-	-	1,000	-	2,600	-	-	-	3,500	-	-	-	-	-	-	-	-	-	-	-	-	-	
46) Tomatoes (Canned)	Cases	50	-	-	-	-	-	-	-	50	-	-	-	-	-	-	130	12	22	22	12	20	5	
47) Tomatoes (Fresh)	Bushels	-	-	-	-	-	67	170	64	262	3	-	-	-	-	-	-	-	-	-	-	-	262	

September 23, 1938

Treasury Department, Division of Research and Statistics.

* Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unrevised.
Fiscal year totals have been revised to include all contract cancellations and other adjustments.

Regraded Unclassified

Wednesday
September 21, 1938
12:06 p.m.

H.M.Jr: Hello.

Operator: Mr. Jones. Go ahead.

H.M.Jr: Hello.

Jesse
Jones: Hello, Henry.

H.M.Jr: Hello, Jesse. They said you called me - ?

J: Yes, I did. I just wanted to kind of check with you and see what was going on.

H.M.Jr: Well -

J: Do you have anything to talk about - or whatever -

H.M.Jr: There's nothing special - ah - except that these Chinese fellows are here and we haven't got their story yet.

J: You have not?

H.M.Jr: Not entirely. I haven't had a chance to get it. I've spent an hour with them.

J: Yes.

H.M.Jr: Just as soon as I really know what they want and what we can do I'll get together with you, but - ah -

J: All right.

H.M.Jr: It's - ah - all I can say is this - they're in terrible shape - I mean -

J: Yes.

H.M.Jr: -/they need help desperately.

J: Uh huh. Well, whenever you want me to sit in with you why just whistle and I'll be there.

H.M.Jr: Well, ah - it's just we don't know and I don't know -

J: Ah - Fleishacker's waiting to see me now.

H.M.Jr: Is he?

J: Yeah.

H.M.Jr: Uh huh.

J: Mortimer - he's the best one of the two.

H.M.Jr: Is he?

J: Yeah. - Much the best.

H.M.Jr: Well, after he's seen you if you - want to -

J: I'll be glad to.

H.M.Jr: - keep me posted -

J: I'll do that all right.

H.M.Jr: And the only other thing - ah - the Comptroller had a cable this morning from Giannini, the president of the Bank - I don't know what his initials are.

J: Yeah.

H.M.Jr: And the - ah - purport of which was that - ah - they were going to protest to the Federal Reserve and demand a hearing. Well -

J: ^{And} /Of course that's their legal right, you know.

H.M.Jr: Sure.

J: Yeah.

H.M.Jr: What's the mat - there's nothing the matter with that?

J: Not a thing in the world.

H.M.Jr: And - ah -

J: They'll have to have their hearing and -

H.M.Jr: Sure.

- 3 -

J: It'll have to all be done in an orderly way in order to -

H.M.Jr: Sure.

J: - in order not to - ah - you know, scare anybody.

H.M.Jr: No, but - ah - that's the only thing that's happened that we're - the Comptroller's office is going ahead preparing -

J: (Coughs) That's right.

H.M.Jr: - material - ah - which - to bring before the Board.

J: Yeah.

H.M.Jr: But that's going to take some time.

J: It will be and - then - and yet they must be careful about it too, Henry.

H.M.Jr: Yes. But -

J: This old fellow - he's a forceful baby.

H.M.Jr: Well -

J: A forceful fighter.

H.M.Jr: He'd better direct his force to the interest of his depositors.

J: (Laughs heartily) I think that's right too.

H.M.Jr: And if he does that why - ah - no one will have any complaint.

J: That's right.

H.M.Jr: What?

J: But what I mean is whatever we do we must be very careful to know - check and double check to see that we're right about it.

H.M.Jr: That's right.

J: That's all I was thinking about.

H.M.Jr: That's right.

J: All right. Well thanks very much.

H.M.Jr: Thank you.

J: Goodybe.

Wednesday
September 21, 1938
2:25 p.m.

H.M.Jr: Hello.

Operator: General Craig. Go -

H.M.Jr: Hello.

General Malin
Craig: Hello, Mr. Secretary. This is General Craig.

H.M.Jr: Hello, General.

C: How do you do, sir?

H.M.Jr: I want to thank you for the various things you've given me on Europe. Now, I thought for the time being we might as well discontinue that - it seems to be all over.

C: Ah - yes, sir. Temporarily it is, anyhow.

H.M.Jr: Temporarily. And in view of this business of this Chinese mission I wonder if you would be willing to - ah - oh, give me a summary of what you think may happen from a military standpoint.

C: The what, sir?

H.M.Jr: From a military standpoint. In other words - ah - what's the chances of their holding or losing Hangkow? It all seems to center around that.

C: Well, they're going to lose Hangkow, Mr. Secretary. I'll - ah - will there be - tomorrow is time enough to give you this?

H.M.Jr: Oh yes. If I had it by one o'clock tomorrow it would be fine.

C: I'll give it to you tomorrow together with a map of the situation as she exists now. They'll lose Hangkow - I don't think they'll do it as early as the first of October but it's - it's on the cards. See the Chinese have no air service - they've had none that's been brought into - that we know of for over four weeks. So the Russians haven't been helping them out. And then they're short every place of field artillery.

- 2 -

H.M.Jr: Yeah. Well, I've got some amazing information from K. P. Chen.

C: Yes, sir.

H.M.Jr: And just as soon as - he's writing a lot of it out and as soon as I get it I'll have copies made -

C: Yes, sir.

H.M.Jr: But the main thing is that he's very very pessimistic and - ah - the amount of money that they've got won't last them - oh - maybe three or four months at the best.

C: Yes, sir. They have - they have some munitions but - ah - and I - we believe that Hangkow will be the end of the drive.

H.M.Jr: Yes.

C: And then that they'll settle in and then they'll be worried to death by Japanese - by Chinese guerrillas for a long time to come.

H.M.Jr: Yes. Well -

C: But they'll just kill those fellows, you know, cut their throats like they would a snake.

H.M.Jr: Yes. Who cuts who?

C: Huh?

H.M.Jr: Who - who cuts whose throat?

C: I say the Japs, wherever they catch a Chinaman, man, woman or child, will just cut his throat or stick a bayonet in him and that's the end of him.

H.M.Jr: Yeah. Yeah.

C: I'll - I'll get you that, sir, up to date - ah - in time tomorrow. I get it every week. My last one was last Friday and - ah - there have been some changes - they're moving ahead now.

H.M.Jr: I see. Well, if I could have it and then when we get this together I'll forward it all to you.

- 3 -

C: I thank you, sir.

H.M.Jr: All right.

C: And I'm glad that I've been of some assistance -

H.M.Jr: Oh, very much! - ah - I - very helpful and I squeezed through that financing by the skin of my teeth.

C: (Laughs) Well, that's all right. It's better than not at all.

H.M.Jr: That's right.

C: But I think if you will go back over the thoughts that have come day to day - - - we have been right from the start.

H.M.Jr: As I remember it you have.

C: Yes, sir, we have. And even the conversation I had with you - it's come out exactly as we figured it would.

H.M.Jr: That's right.

C: As it would have it. There's no hope for it.

H.M.Jr: Yes. Unfortunately you were right.

C: Un - Yes, sir. Yes, sir. I agree with you.

H.M.Jr: All right.

C: All right, sir. Thank you.

Wednesday
September 21, 1938
2:52 p.m.

H.M.Jr: Hello.

Operator: Governor Ransom.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Ronald Ransom: Mr. Secretary. Marriner is going to call me from San Francisco this evening when he arrives there.

H.M.Jr: Yes.

R: And I wondered if in the meantime I'd be able to give him any information about that stock-holding situation of Stewart's.

H.M.Jr: We - we haven't - we haven't got it and I understand/asked S.E.C. - they haven't got it either. you

R: No, I did - I asked S.E.C. following Mr. Healy's conversation the other day - if he had any information regarding his stock-holding interest in the Trans-America which he'd like to give us for information. He never - by the way, he never called me back - he said he would.

H.M.Jr: Well -

R: But the point was this that the stock-holding books of the Bank of America are open to you people and not to us, you see, and I thought your own examiners would know whether those stock books showed Stewart as a stockholder. That's a vitally important question.

H.M.Jr: Well I took it up yesterday and I took it up today and I've been advised that - ah - up to date they have been unable to find out but I'll check again.

R: Thanks very much.

- 2 -

H.M.Jr: And if there's anything I'll have Cy Upham call you.

R: Fine. Fine. I'll tell - tell my secretary if he calls me - I'm in a meeting - that I'll come out because it's very very important because they have to -

H.M.Jr: But look, all Eccles has got to do is to ask them. He'd say, "Here's this stock, do you own it?"

R: That's perfectly true, but - ah - I'd like to be able to tell him -

H.M.Jr: Well, we've tried our best but I'll check again. At ten o'clock this morning Upham said they had been unable to get you the information, that he had tried his best.

R: Thanks very much.

H.M.Jr: All right.

Wednesday
September 21, 1938
4:08 p.m.

H.M.Jr: Hello.

Senator
Wm. H. King: Hello my dear friend.

H.M.Jr: How are you?

K: Oh, I'm alive. How are you?

H.M.Jr: Well, I'm alive.

K: (Laughs)

H.M.Jr: It's a -

K: Pressure on all sides.

H.M.Jr: Right. Plenty!

K: I've - you know, my dear friend, in view of the fact that Mexico in 19 - before 1920 and 21 when we had the investigation - had confiscated 400 million dollars of American property -

H.M.Jr: Yeah.

K: - killed four or five hundred Americans upon Mexican soil -

H.M.Jr: Yeah.

K: - and shot across the lines and killed a hundred and twenty-five -

H.M.Jr: Yes.

K: And is now pursuing a course of confiscation, I'm not so sure we ought to revise the - the Mex - the silver act and deny - and decline to purchase Mexican produced silver.

H.M.Jr: Well if silver - if the Congress will indicate their wishes I'll cheerfully carry them out the way I always do.

K: I know you do my dear friend and I -

- 2 -

H.M.Jr: But I - but I need an act of Congress.

K: I express my appreciation of your fidelity to those things.

H.M.Jr: But here I was directed by Congress -

K: I beg your pardon.

H.M.Jr: I was directed by Congress -

K: Yes.

H.M.Jr: And then if you remember you people on the Hill asked me to give my word of honor that I would do it -

K: I know it.

H.M.Jr: And I did.

K: No - not a word of criticism, but rather words of praise -

H.M.Jr: So -

K: - you're entitled to.

H.M.Jr: So if Congress - as soon as they meet - want to change their Silver-Purchase Act - ah - I'll continue to carry out the wishes of Congress cheerfully.

K: Well, I'm looking into it and if I could find that we may do that without undermining and destroying the general purpose of the act -

H.M.Jr: Yes.

K: - I shall recommend it.

H.M.Jr: Well, I'll be glad to discuss it with you at any time.

K: (Laughs) I'll come down and talk with you.

H.M.Jr: Do that.

K: All right, sir.

Wednesday
September 21, 1938
4:40 p.m.

Admiral
Waesche: Waesche, Mr. Secretary.

H.M.Jr: Yes. Gaston just tells me about this terrible storm up off Long Island.

W: Yes, sir.

H.M.Jr: Have you had anything since 3:45?

W: Ah - no, sir. We haven't had anything - ah - since Gaston gave you that report. While I was talking to him an additional report came in which I appended/to it.
on .

H.M.Jr: Yes, - what's that briefly - very briefly?

W: Ah - that they -ah - the last report was that Short Beach was - ah Rockaway Station was being washed away and Short Beach Station has not been heard of.

H.M.Jr: Gosh.

W: Telephone communication lines are all down in the exposed position and unquestionably the telephone - overhead telephone lines will go out. And a force of PWA workers are being assembled and will turn to to establish communication lines just as soon as the storm abates.

H.M.Jr: Who have you got in charge -

W: That was the last dope which came in just as I was talking to Gaston.

H.M.Jr: Who have you got in charge up there?

W: Ah - Bayliss.

H.M.Jr: I see.

W: That is, Captain Dempwolf is division commander and Dale Bayliss is chief of staff and they're both on the job.

H.M.Jr: Do you need any extra help?

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W: Ah - no, sir. We have all the help we need. We have - our vessles all have steam up laying down the lower Sandy Hook Bay ready - rather dragging their anchors - of course it's blowing more than sixty-five miles an hour. They will go out if they get an urgent call - they will go out anyway just as soon as it moderates a little bit but they're on the lower Bay with steam up - steaming to their anchors because their anchors won't hold.

H.M.Jr: Has the storm passed yet?

W: Ah - no, sir, it hasn't passed yet. The report we had, which was around - the first report we had which was around three o'clock or shortly after was that the wind was sixty-five miles an hour and increasing.

H.M.Jr: Yes.

W: I should say that - my guess would be that just about now they're having the heighth of the storm and that it will pass on to the eastward and is - it is passing on to the eastward this evening.

H.M.Jr: Call me at eight-fifteen at the house, will you?

W: At what time?

H.M.Jr: Eight-fifteen.

W: Eight-fifteen?

H.M.Jr: Yes.

W: Yes, sir.

H.M.Jr: Please.

W: All right.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

TO Secy. Morgenthau

DATE: September 21, 1938

FROM M. A. Harris

U.S. Government securities are in strong demand with the market active. Prices of Treasury bonds, at the moment, are up 6 to 13/32nds, with the new 2-1/2s of 1950-52 quoted 101.16 bid, up 13/32nds. Treasury notes are up 1 to 5/32nds, with the 1-1/8% notes, due 6/15/43, quoted 100.21, up 5/32nds.

Other security markets are likewise showing improvement.

September 21, 1938

Secretary Morgenthau

A. Lockhead

Mr. Mallet, of the British Embassy, called this morning and wished to convey the following message on the subject of his talk with you the other day:

Sir John Simon has no strong feelings in the matter and is inclined to suggest it would be enough if Mr. Morgenthau had an explanation ready to give out if the news became public. Sir John Simon imagines that the explanation might be that as the Cruiser was in the British waters it was convenient for the shipment to be made in this manner, especially in view of the temporary insurance difficulties which have arisen.

Sir John Simon is content to leave this question to the discretion of Mr. Morgenthau.



EMBASSY OF THE
UNITED STATES OF AMERICA

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London, September 21, 1938

Dear Henry:

This is the memorandum, about which I spoke to you, on the possible effect of Sterling depreciation.

It has been done very hurriedly, as time has been the essence, so it is not the last word, but it will give you a reasonably good idea.

Sincerely yours,

Enclosure:
As stated,
in duplicate.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

COPIES OF MEMORANDUM
sent to The Secretary
of State.

File 81

M E M O R A N D U M

EFFECT OF STERLING DEPRECIATION ON AMERICAN
EXPORT TRADE

The depreciation of the pound, by rendering goods produced in the United States more expensive in terms of sterling and of currencies linked to sterling, would tend to enhance the competitive power of all sterling-area producers (a) in the U.S. home market, and (b) in our world export markets. This study does not attempt to measure the effect in the American market; it deals only with United States export trade.

As a representative sample of American export trade throughout the world, the United Kingdom market, which takes about 18 percent of all U.S. exports, can be studied in some detail. The general nature of our trade in the United Kingdom is not very different from the general nature of our total export trade, as can be seen from the following table which shows the percentage which the value of United States exports of different commodities bears to total United States exports, in the first column to the United Kingdom, and in the second column to the United States world export market:

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Relative Importance of Principal U.S. Exports in Trade
with United Kingdom and the World.

TABLE NO. I	1936	
	% of Total U.S.A. Exports to	
	The U.K.	The World
Cotton	19.1	11.0
Tobacco	13.3	4.4
Grain and Flour	3.1	2.7
Meat Products	2.4	.7
Fresh Fruits & Vegetables	2.3	2.9
Wood and Timber	5.0	2.4
Oils, Fats, etc. Manufactured	9.1	11.2
Non-ferrous Metals	3.5	3.9
Iron and Steel	2.9	7.7
Iron Ore & Scrap	3.2	2.9
Machinery	11.0	9.4
Vehicles (Automobiles)	3.5	12.2
Chemicals, Drugs & Dyes	2.5	2.5
Hides and Skins, undressed	2.1	0.2
Electrical Goods (Machinery & Apparatus)	1.0	3.4
All other	16.0	22.4
TOTAL	100.0	100.0

The competition with sterling-area countries in our exports to world markets is not very dissimilar to that encountered in the United Kingdom, so that roughly the proportion of our trade which would be hit by sterling depreciation to various hypothetical levels would not differ much between our total export trade, and our export trade to the United Kingdom.

In the British market, sterling-area producers (including the United Kingdom) are our principal competitors in the sales of products which make up about 55 percent of our trade, while in a considerable additional amount sterling-area countries are substantial competitors.

The following is an attempt to estimate, in so far as possible, the amount of United States export trade to the United Kingdom which would be seriously affected by a depreciation of sterling to five arbitrarily chosen levels. By "the amount seriously affected" is meant, not the amount of trade which would be lost, but the amount of trade which would find its competitive position seriously affected. In the case of most agricultural products this would mean in effect the point at which sales in the United Kingdom market would have to be made at a loss to meet the competition of sterling-area countries, if the volume of exports were to be maintained. In the case of many manufactured articles, in which we compete chiefly with United Kingdom producers, the point at which prices of American goods would have to be raised in terms of sterling can be taken roughly as the point at which the competitive position would be seriously affected. For manufactures of American specialties, or
articles

articles sold here largely on their quality practically irrespective of price, a change in the dollar sterling rate has been taken to hold no threat to our competitive position. If the rate of 4.85 is taken as a starting point, sterling depreciation would represent increases in the relative value of the dollar as follows:

- 4.80 - - - 1%
- 4.75 - - - 2.1%
- 4.70 - - - 3.1%
- 4.60 - - - 5.1%
- 4.40 - - -10.8%

Incidentally, American officials in touch with London importers of American products are of the opinion that the commercial uncertainties engendered by a widely fluctuating dollar-sterling rate have a detrimental effect on trade apart from the actual rate at any given time.

The estimates which follow are of necessity very rough. Wherever information was available from the trade this has been used; where such data was not available, statistics have been carefully studied and the best possible guess made. The results are shown in the table which follows:

In this study the sterling-area is taken as:

The British Colonial and Dominion Empire (including mandated territories but excluding Canada, Newfoundland, Hong Kong and British Honduras).

- | | |
|-----------|------------------------------|
| Argentina | Iraq |
| Bolivia | The Japanese Empire |
| Denmark | Latvia |
| Egypt | Norway |
| Estonia | Portugal and its possessions |
| Finland | Siam |
| Greece | Sweden |

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TABLE NO. II

	Food, Drink & Tobacco	Raw Materials	Manufactures	Total	% of our Total Trade With U.K.
Practically in- vulnerable.	15,300	14,700	19,000	49,000	52.5
Trade would be seriously affected if £ fell to:					
4.85	800	1,700	300	1,800	1.9
4.80	2,000	2,200	1,300	5,500	5.9
4.70	10,500	3,000	6,800	17,300	18.5
4.60	13,800	5,700	9,700	29,200	31.3
4.40	14,500	11,500	11,500	37,500	40.2
Total Studied	29,800	26,200	30,500	86,500	92.8
Total Trade	31,800	28,600	32,300	92,700	100.0

The above estimates put the amount of our export trade to the United Kingdom which would experience grave difficulties if sterling fell to 4.60 at about 30 percent and if the pound fell to 4.40 at about 40 percent, while the trade which would be practically unaffected works out at about 50 percent; a very small amount would be affected by a more or less permanent level at around 4.80, while less than 20% of our trade would be affected by a depreciation to 4.70.

The food and raw material groups are the more important classes that would suffer, in spite of the fact that cotton and tobacco, together representing over 23 percent of our total export trade to the United Kingdom (1936 figure), would be much less threatened owing to our predominance as suppliers of the qualities and types most used.

Appendix A shows in detail the items studied in the making of the above estimates. There are also attached tables (Appendix B) showing the United States, sterling-area, and other, competition in the United Kingdom import market for most of the principal commodities, with short comments in some cases as to the probable effect of sterling depreciation.

There is also attached (Appendix C) a report by Mr. Lynn Meekins, the Commercial Attaché in London, in which he estimates the approximate value of American exports to the sterling area which would appear to be threatened by the depreciation of the pound to various hypothetical levels. Mr. Meekins' study is a rough estimate of the amount of United States export trade which would probably be actually

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lost as a result of possible pound depreciation to the various hypothetical levels; whereas the estimates contained in the foregoing pages are of the amount of trade which would be seriously affected as to its competitive position.

AMERICAN EMBASSY,

LONDON.

September 20, 1938.

A P P E N D I X A

	<u>U.K. IMPORTS</u> <u>FROM U.S.A.</u> <u>£000</u>		<u>RATE AT WHICH COMPETITIVE</u> <u>POSITION WOULD BE SERIOUSLY</u> <u>AFFECTED</u>
	<u>1936</u>	<u>1937</u>	
<u>FOOD DRINK & TOBACCO</u>	<u>31,608</u>	<u>32,351</u>	
<u>GRAIN & FLOUR</u>	<u>1,375</u>	<u>3,380</u>	
Wheat	21	1,681	Unaffected because of Subsidy
Barley	1,097	1,308	Unaffected because of Quality
Rice	49	55	4.60
Flour	50	75	4.80
Other	(158)	(261)	-
<u>FEEDING-STUFFS</u>	<u>129</u>	<u>217</u>	
Linseed Cake & Meal	79	156	4.80
Other	(50)	(61)	-
<u>DAIRY PRODUCE</u>	<u>6</u>	<u>63</u>	<u>4.60</u>
<u>MEATS</u>	<u>2,741</u>	<u>2,546</u>	
Hams	1,501	1,457	Unaffected because Canada dominating competitor.
Bacon	61	28	4.85
Canned Pig Tongues	452	438	4.70
Frozen Pork	44	94	4.70
Canned Beef Tongues	135	171	4.70
Frozen Beef Tongues	162	64	4.70
Other	(386)	(294)	-
<u>FRESH FRUIT & VEGETABLES</u>	<u>3,467</u>	<u>2,449</u>	
Apples	1,475	1,229	4.70
Grapefruit	244	28	4.85
Oranges	510	26	4.85
Pears	689	673	4.60
Plums	47	44	4.60
Other (inc. Nuts)	(502)	(451)	-

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	U.K. IMPORTS FROM U.S.A. £000		RATE AT WHICH COMPETITIVE POSITION WOULD BE SERIOUSLY AFFECTED
	1936	1937	
<u>OTHER FOOD</u>	<u>9,283</u>	<u>9,422</u>	
Sausage Casings	485	543	4.70
Fish, frozen	43	27	4.40
Canned Salmon	1,278	1,066	4.70
Prunes	494	525	4.80
Raisins	560	743	4.80
Canned Fruit (in syrup)	3,488	3,143	4.70
Canned Fruit (no sugar)	202	n.a.	4.60
Lard	1,571	1,835	4.60
Premier Jus	129	89	4.60
Glucose	162	123	
Cakes, Pickles, Canned Vegetables	155	n.a.	4.60
Other	(716)	n.a.	4.60
<u>TOBACCO</u>	<u>14,607</u>	<u>14,274</u>	4.70 would affect say £1 million. 4.60 would affect say £1 1/2 mill. 4.40 would affect say £2 million Probably unaffected because of popularity of "Virginia" tobacco, £12 million.

APPENDIX A

	U.K. IMPORTS FROM U.S.A. £000		RATE AT WHICH COMPETITIVE POSITION WOULD BE SERIOUSLY AFFECTED
	1936	1937	
RAW MATERIALS	28,368	35,652	
QUARRY, etc. PRODUCTS	821	907	
Sulphur	410	432	Total supplies from non-sterling sources 4.70
Asphalt	103	89	
Other	(308)	(386)	
IRON ORE & SCRAP	1,196	3,485	4.60
NON-FERROUS ORE & SCRAP	1,738	1,197	4.40
WOOD & TIMBER	4,393	5,368	
Mahogany, Sawn	140	109	4.40
Oak, Sawn	1,285	1,710	4.40
Other Hardwood, Sawn	864	1,035	4.40
Softwoods, sawn	1,145	1,223	4.85
Planed & Dressed	497	635	4.60
Other	(462)	(656)	
RAW COTTON & COTTON WASTE	17,522	20,512	4.60 would affect say £1/2 million 4.70 would affect say £1 million 4.60 would affect say £2 million 4.40 would affect say £4 1/2 mill. Probably unaffected say £13 million
OTHER TEXTILE MATERIALS	14	61	4.60
SEEDS & NUTS FOR OILS etc:	798	1,122	
Resin	526	704	4.85
Other	(272)	(382)	

	U.K. IMPORTS FROM U.S.A. £000		RATE AT WHICH COMPETITIVE POSITION WOULD BE SERIOUSLY AFFECTED.
	1936	1937	
HIDES & SKINS,			
Undressed.	2,325	2,237	
Fur Skins (ex.rabbit)	2,238	2,154	4.40 would affect say about £200,000; probably remaining £2 million not affected.
Other	(87)	(83)	
ISC.RAW MATERIALS			
Bristles	98	n.a.	Chiefly unaffected.
Drugs, raw	59	n.a.	Chiefly unaffected.
Min'l Phosphates of:			
lime	50	n.a.	4.70
Feathers	34	n.a.	4.70
Animal Hair	95	n.a.	4.40
Seeds (Agricultural)	90	n.a.	4.80
Shells	82	n.a.	4.70
Other	(53)	n.a.	

APPENDIX A

	U.K. IMPORTS FROM U.S.A. £000		RATE AT WHICH COMPETITIVE POSITION WOULD BE SERIOUSLY AFFECTED
	1936	1937	
MANUFACTURES	32,241	44,731	In many cases manufactured items as given are of fairly broad classification. Usually some of our trade in the U.K. represents special types or qualities which would be unaffected as to the competitive position by sterling depreciation. An amount of trade for these items has therefore been taken as affected at different rates, and some part as practically invulnerable.
<u>CRYSTAL, GLASS, ABRASIVES</u>	<u>320</u>	<u>432</u>	
Abrasives	50	n.a.	4.80 would affect say £30,000.
Mft'd Bit. Asphalt	50	n.a.	Sources are non-sterling area.
Glass & Glassware	77	n.a.	4.70
Other	(143)	n.a.	
<u>IRON & STEEL & MFT'RS</u>	<u>468</u>	<u>5,054</u>	
Plates & Sheets	130	n.a.	4.80
Bars, Rods, Angles &c	28	n.a.	4.80
Wrought Tubes, Pipes and Fittings	25	n.a.	4.80
Other	(307)	n.a.	
<u>NON-FERROUS METALS</u>	<u>1,871</u>	<u>3,778</u>	
Bismuth	108	n.a.	Sources chiefly non-sterling area.
Brass and Alloys	58	n.a.	Probably all specialties.
Copper	1,255	2,980	4.70 would affect say £700,000.
Lead	19	47	4.85
Nickel Alloys	139	n.a.	4.70 would affect say £47,000.
Zinc & Mft's	53	n.a.	4.80
Other	(245)	n.a.	
<u>ARMORY, TOOLS, PHOTO. &c</u>	<u>1,806</u>	<u>1,988</u>	
Armory	20	n.a.	4.70
Hardware	50	n.a.	4.70
Tools	377	n.a.	4.60 would affect say £77,000
Cinema films	287	n.a.	Price & Exchange rate unimportant.
Other Photographic	334	n.a.	4.85 would affect say £14,000
Medical Inst. & App.	407	n.a.	Practically unaffected.

	U.K. IMPORTS FROM U.S.A. £000		RATE AT WHICH COMPETITIVE POSITION WOULD BE SERIOUSLY AFFECTED
	1936	1937	
Continued.			
<u>UTLERY, TOOLS, PHOTO, &c</u>			
Optical Goods	47	n.a.	4.70 would affect say £7,000.
Other Scientific	156	n.a.	4.70 would affect say £18,000
Clocks & Watches	66	n.a.	4.70 would affect say £66,000
Other	(62)	n.a.	
<u>ELECTRICAL GOODS</u>	<u>1,034</u>	<u>1,027</u>	4.80 would affect say £200,000 4.70 would affect say £400,000
<u>MACHINERY</u>	<u>8,337</u>	<u>11,739</u>	
Typewriters	604	538	4.70
Other Office Machinery	683	n.a.	4.70
Machine Tools	2,119	3,448	4.60 would affect say \$1,500,000.
Paper Making	206	n.a.	4.70 would affect say £100,000
Printing & Bookbind- ing	523	n.a.	4.70 would affect say £320,000
Refrigerating	837	n.a.	4.70 would affect say £340,000
Sewing & Parts	434	n.a.	4.70 would affect say £130,000
Textile	341	n.a.	4.60 would affect say £140,000
Other	(2,590)	n.a.	4.70 would affect say £1,280,000
<u>WOOD MANUFACTURES</u>	<u>784</u>	<u>827</u>	
Plywood	281	184	4.85
Tool Handles	111	n.a.	4.80
Hardwood Floor Blks etc	130	n.a.	Chiefly a U.S. Speciality.
Other	(262)	n.a.	
<u>COTTON MANUFACTURES</u>	<u>43</u>	<u>58</u>	4.70
<u>FIBRES OF OTHER TEX- TILE MATERIALS</u>	<u>45</u>	<u>54</u>	4.70
<u>CLOTHING & FOOTWEAR</u>	<u>773</u>	<u>872</u>	
Leather Boots & Shoes	176	n.a.	4.60 would affect say £75,000
Stockings, hose &c	122	n.a.	4.60 would affect say £20,000
Underwear (ex. Knit)	118	n.a.	4.60 would affect say £115,000
Outer Garments	218	n.a.	4.60 would affect say, £15,000
Other	(139)		

-3-
A P P E N D I X A

74

	U.K. IMPORTS FROM U.S.A. £000		RATE AT WHICH COMPETITIVE POSITION WOULD BE SERIOUSLY AFFECTED
	1936	1937	
CHEMICALS & DRUGS, DYES	2,167	2,657	
Drugs & Medicines	554	n.a.	Practically unaffected
Dyeing & Tanning Ext.	122	n.a.	Practically unaffected
Inks, Printers Colors	709	n.a.	4.60 would affect say £205,000
Chemicals, Mft. other than Drugs & Dyes	951	n.a.	Practically unaffected.
Other	(31)	n.a.	
S. & C. PETROLEUM PROD.	7,325	9,773	
Essential Oils	152	n.a.	Practically unaffected
General Jelly	132	n.a.	Practically unaffected
Gas Oil	329	819	4.70
Kerosene	85	220	Practically unaffected
Lubricating Oil	368	695	Practically unaffected
Gasoline	2,803	3,446	Practically unaffected
Paraffin	2,354	3,186	Practically unaffected
Paraffin	627	521	4.40
Paraffin Wax	362	404	4.80
Other (inc. Soap)	(113)	n.a.	
LEATHER	681	563	
Patent Kid	282	175	4.40 would affect say £180,000
Patent Leather	28	80	Practically unaffected
Other	(371)	(308)	
PAPER & CARDBOARD	622	627	
Paper	198	n.a.	4.60
Other	(424)	n.a.	
VEHICLES	3,149	3,785	
Engines, Mech & parts	3,027	n.a.	4.40 would affect say £1,000,000
Trucks	76	n.a.	Practically unaffected
Other	18	n.a.	Practically unaffected
	(28)	n.a.	

APPENDIX A

	U.K. IMPORTS FROM U.S.A. £000		RATE AT WHICH COMPETITIVE POSITION WOULD BE SERIOUSLY AFFECTED
	1936	1937	
<u>BBEN MANUFACTURES</u>	<u>151</u>	<u>234</u>	4.60 would affect say £25,000 4.40 would affect say £50,000
<u>OC. MANUFACTURES</u>	<u>2,645</u>	<u>3,459</u>	
ressed Furs	148	110	Practically unaffected
lluloid	455	n.a.	Practically unaffected
oks	574	724	Practically unaffected
rics	127	n.a.	Practically unaffected
ctures	178	n.a.	Practically unaffected
orts and Games	152	n.a.	4.60 would affect say £100,000
Other	(1,011)	n.a.	4.70 would affect say £500,000 4.60 would affect say £700,000 4.40 would affect say £760,000

APPENDIX B

TABLE NO.

1. Wheat
2. Barley
3. Linseed Cake & Meal
4. Hams
5. Bacon
6. Canned Pigs Tongues
7. Frozen Pork
8. Canned Beef Tongues
9. Apples
10. Pears
11. Sausage Casings
12. Canned Salmon
13. Raisins
14. Canned Fruit (in syrup)
15. Lard
16. Tobacco (unmanufactured)
17. Sulphur
18. Iron Ore & Iron & Steel Scrap.
19. Sawn Mahogany.
20. Sawn Oak.

TABLE NO.

21. Sawn Hardwoods (other than Mahogany, Oak and Teak).
22. Sawn Softwoods.
23. Planed and Dressed Hardwoods.
24. Raw Cotton and Cotton Waste.
25. Rosin
26. Fur skins
27. Iron & Steel & Manufactures
28. Non-ferrous Metals and manufactures.
29. Unwrought Copper
30. Electrical Goods.
31. Machinery
32. Chemicals, Dyes, Drugs, etc.
33. Glacé Kid Leather.
34. Patent Leather.
35. Oils, Fats and Resins.
36. Vehicles.

GRAINS AND FLOURWHEATValue of U. K. Imports
£1000

From	1936	1937
U. S. A.	21	1,681
% of Total	.05	3.3

STERLING AREA COUNTRIES

British India	1,454	3,201
Australia	6,625	11,519
New Zealand	-	-
Other British	11	200
Sweden	178	180*
Portugal	435	500*
Argentine	358	7,206
Total of Sterling Group	11,061	22,606
% of Total	29.1	45.7

OTHER COUNTRIES

Iran	72	-
Canada	22,393	19,149
Uruguay	5	-
Russia	56	3,894
Lithuania	192	-
Poland	311	-
Germany	-	207
Holland	23	-
Belgium	208	-
France	1,360	174
Hungary	137	-
Yugoslavia	166	-
Bulgaria	207	-
Roumania	1,624	1,028
Other Foreign	112	904*
Total of Non-Sterling Group	26,874	25,356
% of Total	70.9	51.0

TOTAL

37,950

49,844

American wheat and flour are selling at present in the British market only with the aid of a subsidy. It is evident that this subsidy would have to be increased by 5.1% because of exchange fluctuations. In other words, at £1 = \$4.60, the subsidy would have to be increased by one and one-half cents to two cents per bushel in order to compete with Argentine and Australian wheat. In the estimates the entire wheat trade of 1936 has been included in the amount of our trade which would not be affected by any depreciation of sterling.

* Estimated.

BARLEYValue of U.K. Imports
£1000

From	Value of U.K. Imports £1000	
	1936	1937
U.S.A.	1,096	1,308
% of Total	21.8	17.9

STERLING AREA COUNTRIES

Ireland	1) Included in "Other British"
India	18	
Australia	196	328
Other British	26	321
Denmark	205) 270*
Egypt	52	
Iraq	790	1,721
Argentina	40	575
Total of Sterling Group	1,328	3,015
% of Total	26.5	41.2

OTHER COUNTRIES

Chile	199	203
Canada	481	1,116
Russia	314	511
Poland	229) 951
Germany (and Holland)	43	
Belgium	92) 153
Syria	32	
Czechoslovakia	44) 30
Roumania	1,025	
Turkey	9	153
Iran	14	30
Other Foreign	50	
Total of Non-Sterling Group	2,522	2,954
% of Total	51.7	40.9

TOTAL	5,006	7,288
% of Total	100	100

Since American barley is of a special type used by British malsters, a 5% increase in price would probably have no effect, and even a 10% rise would not have a marked effect on the trade. The total amount of our trade has, therefore, been put in the estimate of that which is practically unaffected.

* Estimated.

NO. 3

FEEDINGSTUFFSLINSEED CAKE AND MEALValue of U. K. Imports
£1000

From	1936	1937
U. S. A.	79	156
% of Total	15.6	25.6

STERLING AREA COUNTRIES

India	360	385
Australia	19	5
Argentina	23	24

Total of Sterling Group	402	414
% of Total	79.4	70.2

OTHER COUNTRIES

Canada	8	
Russia	-) 18
Japan	-	
Brazil	13	
Other Foreign	4	

Total of Non-Sterling Group	25	18
% of Total	5.0	4.2

TOTAL	506	599
% of Total	100	100

<u>HAMS</u>	Value of U. K. Imports £1000	
	1936	1937
From		
U. S. A.	1,500	1,450
% of Total	50	46
<u>STERLING AREA COUNTRIES</u>		
Miscellaneous	160	180
Total of Sterling Group	160	180
% of Total	5	6
<u>OTHER COUNTRIES</u>		
Canada	1,250	1,500
Miscellaneous	80	20
Total of Non-Sterling Group	1,330	1,520
% of Total	45	48
TOTAL	2,990	3,150
% of Total	100	100

Canada and the United States supply most of this market so that a 5% increase in the price of American hams would not result in materially increased competition from sterling-area suppliers. Imports of this commodity are controlled by rigid quotas which an unfavorable rate of exchange would not influence. Nevertheless, there is a delicate balance between the price of bacon domestically produced and imported from Denmark and the consumption of ham in Great Britain. A 10% increase in ham prices, for example, would undoubtedly lead to a decreased consumption of ham and a corresponding increase in bacon consumption. It is worthwhile noting here that American hams were shipped to Great Britain at a loss during 1935 and 1936.

MEATBACONValue of U. K. Imports
£1000

From	1936	1937
U. S. A.	61	28
% of Total	0.2	0.1

STERLING AREA COUNTRIES

Ireland	1,552	1,629
Other British	1	2
Finland	61	85*
Latvia	144	154
Estonia	172	167
Sweden	1,019	1,080
Norway	43	45*
Denmark	14,954	15,368
Argentine	76	80*
Total of Sterling Group	19,042	19,529
% of Total	66.2	63.2

OTHER COUNTRIES

Brazil	17	
Canada	4,282	5,617
Russia	163	
Lithuania	759	774
Poland	1,623	1,827
Holland	2,062	2,071
Belgium	37	
Hungary	45	
Yugoslavia	75	445
Roumania	43	
Other Foreign	46	
Total of Non-Sterling Group	9,151	10,734
% of Total	33.6	36.7

TOTAL	27,257	29,290
% of Total	100	100

NO. 6

MEAT

<u>CANNED PIGS TONGUES</u>	Value of U. K. Imports £1000	
	1936	1937
From		
U. S. A.	452	437
% of Total	76.4	75.2
<u>STERLING AREA COUNTRIES</u>		
Other British	.5	.4*
Denmark	101	106
Total of Sterling Group	102	106
% of Total	17.2	16.2
<u>OTHER COUNTRIES</u>		
Canada	8	9*
Other Foreign	29	28
Total of Non-Sterling Group	37	37
% of Total	6.4	6.6
TOTAL	591	581
% of Total	100	100

* Estimated

MEATFROZEN PORKValue of U. K. Imports
£1000

From	1936	1937
U. S. A.	44	94
% of Total	1.6	2.8

STERLING AREA COUNTRIES

Australia	622	691
New Zealand	1,501	1,740
Other British	-	-
Argentina	578	673

Total of Sterling Group	2,699	3,104
% of Total	97.1	95.4

OTHER COUNTRIES

Canada	18	31
Other Foreign	19	21

Total of Non-Sterling Group	37	52
% of Total	1.3	1.8

TOTAL	2,780	3,251
% of Total	100	100

NO. 8

<u>MEAT</u>		
<u>CANNED BEEF TONGUES</u>	Value of U. K. Imports £1000	
From	1956	1957
U. S. A.	135	171
% of Total	17.4	19.1
<u>STERLING AREA COUNTRIES</u>		
Australia	17) 16
Other British (Canada ?)	10	
Denmark	8	
Argentina	354	405
Total of Sterling Group	389	421
% of Total	50.4	47.2
<u>OTHER COUNTRIES</u>		
Russia	37	
Brazil	116	144
Other Foreign	23	58
Uruguay	74	97
Total of Non-Sterling Group	250	299
% of Total	32.2	33.7
TOTAL	772	892
% of Total	100	100

NO. 9

<u>APPLES</u>	Value of U. K. Imports £1000	
	1936	1937
From		
U. S. A.	1,470	1,230
<u>% of Total</u>	<u>27</u>	<u>25</u>
<u>STERLING AREA COUNTRIES</u>		
Australia	1,870	1,620
New Zealand	350	320
Other British	110	30
<u>Total of Sterling Group</u>	<u>2,330</u>	<u>1,970</u>
<u>% of Total</u>	<u>43</u>	<u>40</u>
<u>OTHER COUNTRIES</u>		
Canada (Others negligible)	1,680	1,760
<u>Total of Non-Sterling Group</u>	<u>1,680</u>	<u>1,760</u>
<u>% of Total</u>	<u>30</u>	<u>35</u>
<u>TOTAL</u>	<u>5,480</u>	<u>4,960</u>
<u>% of Total</u>	<u>100</u>	<u>100</u>

Although the trade in apples is highly competitive in Great Britain, it is not so much price as quality and timeliness which governs this market. An increase of 5.1% in the price of American apples would not necessarily cut down imports from the United States. The British public wants American apples and crop conditions have far more influence on this trade than does price. At the present time about 40% of Great Britain's imports of fresh fruit are from the sterling area, whereas only 25% come from the United States. A 10% price differential, however, would certainly bring a slackening of imports from the United States.

NO. 10

<u>PEARS</u>	Value of U.K. Imports £1000	
	1936	1937
From		
U. S. A.	690	670
% of Total	47	46
<u>STERLING AREA COUNTRIES</u>		
Union of South Africa	220	180
Australia	320	370
Miscellaneous	60	30
Total of Sterling Group	600	580
% of Total	41	39
<u>OTHER COUNTRIES</u>		
Canada	30	40
Belgium	30	30
Other Foreign	110	150
Total of Non-Sterling Group	170	220
% of Total	12	15
TOTAL	1,460	1,470
% of Total	100	100

The chief competitors being Australia and South Africa, both in the Southern hemisphere, competition would not be materially affected but there might be a reduction in consumption of American pears should it be necessary to increase the price.

OTHER FOODSAUSAGE CASINGSValue of U.K. Imports
£1000

From	1936	1937
U.S.A.	485	542
% of Total	39.2	42.4

STERLING AREA COUNTRIES

New Zealand	262	166
Other British (Excluding Canada)	161	188 [*]
Denmark	5	5 [*]
Argentine	41	45 [*]
Total of Sterling Group	469	404
% of Total	37.9	31.6

OTHER COUNTRIES

Canada	98	100 [*]
Other Foreign	185	231 [*]
Total of Non-Sterling Group	283	331
% of Total	22.9	26.0

TOTAL	1,237	1,279
% of Total	100	100

* Estimated.

<u>CANNED SALMON</u>	Value of U. K. Imports £1000	
	1936	1937
From		
U. S. A.	1,280	1,070
% of Total	31	21
<u>STERLING AREA COUNTRIES</u>		
Japan	1,070	1,590
(Soviet Union)	1,010	1,070
Miscellaneous - negligible		
Total of Sterling Group	2,080	2,660
% of Total	48	59
<u>OTHER COUNTRIES</u>		
Canada	770	790
Miscellaneous - negligible		
Total of Non-Sterling Group	770	790
% of Total	21	20
TOTAL	4,130	4,520
% of Total	100	100

Most of the imports of canned salmon recorded as consigned from Soviet Russia are known to be actually of Japanese origin, and the figure for this supplier is, therefore, included under the sterling area countries.

<u>RAISINS</u>	Value of U. K. Imports £1000	
	1936	1937
From		
U. S. A.	560	740
% of Total	24	30
<u>STERLING AREA COUNTRIES</u>		
Union of South Africa	120	190
Australia	850	840
Miscellaneous	40	70
Total of Sterling Group	1010	1,100
% of Total	43	45
<u>OTHER COUNTRIES</u>		
Spain	150	100
Greece	280	220
Turkey	320	210
Miscellaneous	40	70
Total of Non-Sterling Group	790	600
% of Total	33	25
TOTAL	2,360	2,440
% of Total	100	100

A 5.1% increase in the price of United States raisins would have the effect of increasing the demand for South African and Australian raisins. These countries already supply about 40% of Great Britain's requirements while the United States share is 30%. If the increase were 10%, the United States trade, worth \$5,000,000 a year, would be seriously handicapped.

CANNED FRUIT (PRESERVED IN THIN SYRUP)

From	Value of U. K. Imports £1000	
	1936	1937
U. S. A.	3,498	3,143
% of Total	53.4	45.8

STERLING AREA COUNTRIES

Australia	671	1007
South Africa	106	
British Malaya (pineapples)	1008	
Other British	3	
Japan	355	
Total of Sterling Group	2,143	2,416*
% of Total	35.7	40.5*

OTHER COUNTRIES

Canada	173	
Italy	34	Probably increased
Hawaii	8	
Other Foreign	130	
Total of Non-Sterling Group	345	400*
% of Total	10.9	13.7*
TOTAL	5,974	5,959
% of Total	100	100

Australia being the chief competitor of the United States in the canned fruit trade would profit by a fall in sterling, though the great variety of products included in this item vary in the relative competition and the importance of price or quality. On the whole, the mass sales of different canned fruits are sensitive to price changes and one type of fruit competes generally with another. British Malayan pineapples, for example, if sufficiently cheaper than other canned fruits from America would sell in greater volume.

* Estimated

NO. 15

<u>LARD</u>	Value of U. K. Imports £1000	
	1936	1937
From		
U. S. A.	1,570	1,835
% of Total	40	45
<u>STERLING AREA COUNTRIES</u>		
British Countries	250	380
Argentine	470	600
Total of Sterling Group	720	980
% of Total	19	24
<u>OTHER COUNTRIES</u>		
Canada	725	835
Brazil	280	-
Miscellaneous	645	494
Total of Non-Sterling Group	1,650	1,329
% of Total	41	31
TOTAL	3,940	4,144
% of Total	100	100

American lard would be displaced to a certain extent by Argentine and Empire lard in the British market if the price rose 10%. At £1 = \$4.60, however, the falling off in demand would not be substantial, since the sterling areas supply only 24% of Great Britain's needs.

TOBACCO (UNMANUFACTURED)Value of U. K. Imports
£1000

From	Value of U. K. Imports £1000	
	1936	1937
U. S. A.	14,500	14,000
% of Total	85	80

STERLING AREA COUNTRIES

Southern Rhodesia	555	800
Nyasaland	520	600
India	440	800
Other British	75	100

Total of Sterling Group	1,690	2,300
% of Total	9	13

OTHER COUNTRIES

Canada	315	600
Miscellaneous	336	500

Total of Non-Sterling Group	951	1,100
% of Total	6	7

TOTAL	17,140	17,400
% of Total	100	100

Since the United States supplies 80% of British tobacco needs, an increase in price of 5% or 10% would have a relatively small immediate effect on the trade. Nevertheless, a price increase would tend to stimulate the already noticeable practice of substituting small quantities of Empire tobacco for American tobacco in the well-known British cigarette blends. In the current year Indian and Canadian supplies have notably increased.

NO. 17

<u>SULPHUR</u>	Value of U. K. Imports £1000	
	<u>1936</u>	<u>1937</u>
From		
U. S. A.	410	432
% of Total	77.7	67.4
<u>STERLING AREA COUNTRIES</u>	-	-
<u>OTHER COUNTRIES</u>		
Other Foreign - Italy, Spain, Germany, Belgium and Chile, etc.	117	207
Total of Non-Sterling Group	117	207
% of Total	22.3	32.6
<u>TOTAL</u>	<u>527</u>	<u>639</u>
% of Total	100	100

NO. 18

IRON ORE AND IRON AND STEEL SCRAP

From	Value of U. K. Imports £1000	
	1936	1937
U. S. A.	1,197	3,500
% of Total	14	27
<u>STERLING AREA COUNTRIES</u>		
Sweden	1,260	1,800
Norway	500	800
British Empire	500	1,000
Total of Sterling Group	2,260	3,600
% of Total	27	27
<u>OTHER COUNTRIES</u>		
France and Colonies	2,400	2,900
Spain	1,000	1,100
Miscellaneous	1,500	1,500
Total of Non-Sterling Group	4,900	5,500
% of Total	59	46
TOTAL	8,357	12,600
% of Total	100	100

Iron and Steel Ores and Scrap -

Total Scrap Imported - 1936 £3,068,000
1937 £4,551,782

Imports from U.S.A. probably all scrap.

This trade in 1937 and the latter part of 1936 was abnormally high, due to the scarcity of iron and steel in Great Britain. The reimposition of the tariff and market conditions will probably materially reduce this item in the future but this reduction will not be due to sterling depreciation.

NO. 19

<u>SAWN WAREGANY</u>	Value of U. K. Imports £1000	
	1936	1937
From		
U. S. A.	140	109
% of Total	42.6	33.5
<u>STERLING AREA COUNTRIES</u>		
British Countries (less British Honduras) (Canada - nil)	50	British Honduras figures not available
Total of Sterling Group	50	
% of Total	15.2	
<u>OTHER COUNTRIES</u>		
British Honduras	85	
Other Foreign - France, Peru, Brazil, etc.	54	
Total of Non-Sterling Group	139	
% of Total	42.2	
TOTAL	329	327
% of Total	100	100

NO. 20

SAWN OAKValue of U.K. Imports
£'000

From	<u>1936</u>	<u>1937</u>
U.S.A.	1,285	1,710
% of total	55.9	56.2
<u>STERLING AREA COUNTRIES</u>		
British Countries - (Canada negligible, chiefly Ireland and Australia)	25	21
Japan	465	629
Total of Sterling Group	490	650
% of Total	21.3	21.3
<u>OTHER COUNTRIES</u>		
Poland	348	433
Yugoslavia	138	162
Other (Russia, Germany, etc.)	37	87
Total of Non-Sterling Group	523	682
% of Total	22.8	22.5
TOTAL	2,298	3,043
% of total	100	100

No. 21

SAWN HARDWOODS OTHER THAN
MAHOGANY, OAK & TEAK.

Value of U.K. Imports
£'000

From	1936	1937
U.S.A.	864	1,035
% of Total	29.6	26.6

STERLING AREA COUNTRIES

Australia	218	262
Other British countries (excluding Canada)	185)	Not available
Finland	78)	
Japan	19)	

Total of Sterling Group	468	Not available
% of Total	16.1	" "

OTHER COUNTRIES

Canada	709	1,000
Poland	218	255
Germany, France, etc.	673	Not available

Total of Non-Sterling Group	1,600	Not available
% of Total	54.3	

TOTAL	2,912	3,854
% of Total	100	100

NO. 22

<u>SAWN SOFTWOODS</u>	Value of U. K. Imports £1000	
	1936	1937
From		
U. S. A.	1,146	1,223
% of Total	5	4
<u>STERLING AREA COUNTRIES</u>		
Finland	5,900	7,000
Estonia	300	400
Latvia	500	1,000
Sweden	3,150	4,100
Norway	50	100
Miscellaneous	500	1,000
Total of Sterling Group	10,400	13,800
% of Total	46	44
<u>OTHER COUNTRIES</u>		
Canada	4,100	5,600
Soviet Union	4,750	7,300
Poland	2,200	2,800
Miscellaneous	-	377
Total of Non-Sterling Group	11,050	16,077
% of Total	49	52
TOTAL	22,595	30,900
% of Total	100	100

At the present time American exports of soft woods to Great Britain are under a severe handicap due to the long haul and the British method of valuation for customs purposes. Any increase in price resulting from sterling depreciation would, therefore, jeopardize the entire trade in this product.

NO. 23

PLANED AND DRESSED HARDWOODS, OTHER THAN
GROOVED FLOORING BLOCKS OR STRIPS

From	Value of U. K. Imports £1000	
	1936	1937
U. S. A.	497	635
% of Total	86.5	93.4
<u>STERLING AREA COUNTRIES</u>		
British (other than Canada)	2	
Total of Sterling Group	2	
% of Total	.5	
<u>OTHER COUNTRIES</u>		
Canada	25	
Poland	11	
Other Foreign	22	
Philippines	17	
Total of Non-Sterling Group	75	
% of Total	13	
TOTAL	575	761
% of Total	100	100

RAW COTTON AND COTTON WASTEValue of U. K. Imports
£1000

From	Value of U. K. Imports £1000	
	1936	1937
U. S. A.	17,522	20,512
% of Total	38.3	42.1

STERLING AREA GROUP

British West Africa	315	487
British East Africa	643	356
Anglo-Egyptian Sudan	3,104	3,191
British India	5,258	5,681
British West Indies	115	146
Other British	42	40
Egypt	9,712	9,895
Argentine	1,263	598
Total of Sterling Group	20,452	20,394
% of Total	44.6	41.8

OTHER COUNTRIES

Peru	2,636	3,153
Brazil	3,966	2,940
Other Foreign	1,184	1,746
Total of Non-Sterling Group	7,786	7,839
% of Total	17.1	16.1

TOTAL	45,761	48,746
% of Total	100	100

Although American cotton forms the basis of the British cotton textile industry, competitive products from sterling area sources would undoubtedly displace a certain quantity of American cotton if they were given a 5.1% price premium and that quantity would increase progressively as time went on. The United States and the sterling area each supply 42% of the United Kingdom's imports of raw cotton and 5% added to the price of American cotton would narrow the price margin between American middlings and Egyptian long staple.

In making the estimates it has been assumed that £500,000 of our total cotton exports would be hit at \$4.80, £1 million at \$4.70, £2 million at \$4.60 and about £4½ million at \$4.40, the remaining £13 million of our 1936 exports being practically invulnerable. The estimates of the amounts which would suffer may be looked upon as the fringe which would come under severe competition at the one end with Egyptian cotton and at the other with Indian cotton.

NO. 25

ROSINValue of U. K. Imports
£1000

From	1936	1937
U. S. A.	526	740
% of Total	64	62

STERLING AREA COUNTRIES

British Countries	-	6
Finland	-	2
Sweden	2	5*
Greece	5	7*
Portugal	170	205

Total of Sterling Group	177	225
% of Total	21.8	18.8

OTHER COUNTRIES

Russia	-) Included in Other Foreign
Germany	2	
France	85	
Spain	22	
Other Foreign	9	
		24
		203

Total of Non-Sterling Group	118	227
% of Total	14.2	19.2

TOTAL	821	1,197
% of Total	100	100

* Estimated

HIDES AND SKINSFUR SKINS, UNDRRESSED, OTHER THAN RABBIT SKINS

From	Value of U. K. Imports £1000	
	1936	1937
U. S. A.	2,238	2,154
£ of Total	21.8	16.3

STERLING AREA COUNTRIES

India	374	685
Australia	379	172
Other British	534	522
Scandinavia, Egypt and Japan	523	not available
Total of Sterling Group	3,110	
£ of Total	20.6	

OTHER COUNTRIES

Canada	1,791	1,894
Newfoundland	101	89
Russia	1,855	3,337
Germany	158	134
France	300	324
Iran	276	73
Other Foreign	1,413	not available
Total of Non-Sterling Group	5,894	
£ of Total	57.6	

TOTAL	10,242	13,215
£ of Total	100	100

Though the bulk of the supplies in the British market come from non-sterling area sources, any marked price increase would probably tend to diminish total consumption to some degree.

IRON & STEEL & MANUFACTURES

Value of U.K. Imports
£1000

From	1936	1937
U.S.A.	488	3,054
% of Total	4.1	15.3

STERLING AREA COUNTRIES

India	465	939
Sweden	1,706	2,206
Norway	618	807
Other British	9	16

Total of Sterling Group	2,798	3,968
% of Total	23.8	20.0

OTHER COUNTRIES

Canada	1,081	1,379
Germany	1,709	2,037
Belgium	2,722	4,600
Luxembourg	638	1,076
France	1,325	2,347
Miscellaneous	980	1,374

Total of Non-Sterling Group	8,455	12,613
% of Total	72.1	64.7

TOTAL	11,741	19,835
% of Total	100	100

NON-FERROUS METALS AND MANUFACTURES.

Value of U.K. Imports
£1000

124

From	1936	1937
U.S.A.	1,871	3,778
% of Total	5.3	6.7

STERLING AREA COUNTRIES

Union of South Africa	231	398
Northern Rhodesia	2,731	6,495
India	926	1,188
British Malaya	1,274	1,447
Australia	3,713	4,701
Norway	487	825
Japan	55	49
Miscellaneous	738	18

Total of Sterling Group	10,155	15,051
% of Total	30.6	27.0

OTHER COUNTRIES

Hong Kong	132	93
Canada	11,714	16,830
Soviet Union	497	999
Germany	1,545	1,766
Netherlands	576	2,488
Belgium	1,012	2,573
Switzerland	669	915
Mexico	733	1,201
Chile	2,845	6,809
Miscellaneous	1,403	3,228

Total of Non-Sterling Group	21,186	36,902
% of Total	64.1	66.3

TOTAL	35,153	55,732
% of Total	100	100

No. 29

UNITED KINGDOM IMPORTS OF UNWROUGHT COPPERBY COUNTRIESVALUE
£ 000's

From	1936	1937
U.S.A.	1,210	2,940
% of Total	18	24
<u>STERLING AREA COMPETITORS</u>		
Northern Rhodesia	570	1,050
Other British Empire	310	100
Miscellaneous	20	100
Total of Sterling Group	900	1,250
% of Total	13	10
<u>OTHER FOREIGN COUNTRIES</u>		
Canada	4,070	5,940
Chile	640	1,390
Miscellaneous	30	180
Total of Group	4,740	7,510
% of Total	69	66
GRAND TOTAL IMPORTS	6,850	11,700
% of Total	100	100

No. 30

UNITED KINGDOM IMPORTS OF ELECTRICAL GOODS AND APPARATUSBY COUNTRIESVALUE
£ 000's

	1936	1937
From		
U.S.A.	1,033	1,000
% of Total	28	25

STERLING AREA COMPETITORSMiscellaneous,
mainly British Empire

Total of Group	185	200
% of Total	5	5

OTHER FOREIGN COMPETITORS

Germany	830	1,000
Netherlands	660	800
Belgium	220	300
Miscellaneous	750	700
Total of Group	2,460	2,800
% of Total	67	70

GRAND TOTAL IMPORTS	3,678	4,000
% of Total	100	100

MACHINERY

Value of U.K. Imports
£1000

From	1936	1937
U.S.A.	8,337	11,739
% of Total	46.3	48.4

STERLING AREA COUNTRIES

Sweden	888	1,082
Denmark	364	418
British countries	55	66
Total of Sterling Group	1,307	1,566
% of Total	7.2	6.8

OTHER COUNTRIES

Canada	1,020	1,513
France	546	816
Germany	4,736	6,021
Netherlands	371	521
Belgium	325	444
Switzerland	963	1,077
Miscellaneous	370	528
Total of Non-Sterling Group	8,331	10,920
% of Total	46.5	44.8

TOTAL	17,975	24,224
% of Total	100	100

In estimating the point at which various machinery items would be affected it has been assumed that most types could probably meet depreciation to \$4.80 with practically no effect, but thereafter prices would probably have to be raised and competition with British production would become more difficult. In some types it is further assumed that a number of American specialties are sold here more or less irrespective of price, and that these would be unaffected.

No. 52

UNITED KINGDOM IMPORTS OF CHEMICALS, DYES, DRUGS ANDCOLOURSBY COUNTRIESVALUE
£ 000's

	1936	1937
From		
U.S.A.	2,170	2,650
% of Total	17	19

STERLING AREA COMPETITORS

Argentina	300	370
Norway	385	470
British Empire	860	1,000
Miscellaneous	380	300
Total of Group	1,925	2,140
% of Total	15	15

OTHER FOREIGN COUNTRIES

Germany	4,155	4,600
France	850	750
Switzerland	800	850
Belgium	550	600
Canada	600	620
Netherlands	450	500
Miscellaneous	1,100	1,100
Total of Group	8,505	9,020
% of Total	68	66

GRAND TOTAL IMPORTS	12,600	13,800
% of Total	100	100

No. 33

LEATHERGLACÉ KIDVALUE OF U.K. IMPORTS
£ 000's

	1936	1937
From U.S.A.	292	175
% of Total	50.2	41.2
<u>STERLING AREA COUNTRIES</u>		
British Countries	16	75
(Amount from Canada not recorded. Increase in 1937 may be largely Canadian.)		
% of Total	2.8	17.7
<u>OTHER COUNTRIES</u>		
Germany	178	86
France	60	62
Other Foreign	26	26
Total of Non-Sterling Group	264	174
% of Total	47	41.1
TOTAL	562	424
% of Total	100	100

LEATHERPATENT LEATHERVALUE OF U.K. IMPORTS
£ 000's

	1936	1937
From U.S.A.	38	80
% of Total	11.4	17.3
<u>STERLING AREA COUNTRIES</u>		
British	-	2
Total of Sterling Group	-	2
% of Total	-	.4
<u>OTHER COUNTRIES</u>		
Canada	254	339
Germany	15	10
Holland	2	2
Belgium	3	} - 27
Uruguay	16	
Other	4	
Total of Non-Sterling Group	294	378
% of Total	88.6	82.3
TOTAL	351	461
% of Total	100	100

UNITED KINGDOM IMPORTS OF OILS, FATS AND RESINS
(Manufactured)

<u>BY COUNTRIES</u>	<u>VALUE</u> £ 000's	
	<u>1936</u>	<u>1937</u>
From		
U.S.A.	7,500	9,750
% of Total	21	20
<u>STERLING AREA COMPETITORS</u>		
India	400	500
British Malaya	200	180
British West Indies	2,250	2,350
Other British Empire	125	200
Total of Group	2,975	3,200
% of Total	8	7
<u>OTHER FOREIGN COMPETITORS</u>		
Mexico	1,750	2,000
Soviet Union	1,500	1,700
Dutch West Indies	12,000	15,400
France	600	500
Netherlands	100	670
Dutch East Indies	500	700
Iran	5,750	8,750
Roumania	2,250	2,250
Miscellaneous	1,000	1,800
Total of Group	25,450	33,700
% of Total	71	73
<u>GRAND TOTAL IMPORTS</u>	<u>36,000</u>	<u>46,600</u>
% of Total	100	100

Since the United States and non-sterling area suppliers furnish 93% of Great Britain's needs, a fall in sterling would have little appreciable effect while the increasing consumption and defense needs for oils would counteract a decline in consumption which might follow price increases. Fuel oils would be more sensitive than gas oil; kerosene, lubricating oil, or gasoline. It has been assumed that essential oils and mineral jelly would not be affected by a sterling depreciation but paraffin wax, in which we compete chiefly with India, would be affected immediately.

UNITED KINGDOM IMPORTS OF VEHICLES

(Including locomotives, ships, and aircraft)

BY COUNTRIESVALUE
£ '000's

	1936	1937
From U.S.A. % of Total	3,150 62	3,800 59
<u>STERLING AREA COMPETITORS</u>		
(Negligible)		
Total of Group % of Total	161 1	100 1
<u>OTHER FOREIGN COMPETITORS</u>		
Canada	750	660
Germany	500	570
France	227	390
Netherlands	150	220
Miscellaneous	170	600
Total of Group % of Total	1,790 37	2,640 40
GRAND TOTAL IMPORTS % of Total	5,100 100	6,480 100

The bulk of this item consists of automobiles. The price of American cars is not of great importance since they already comparatively cheap to buy. The chief handicap under which American cars suffer in the British market is the horsepower tax and the highly taxed price of gasoline which make the American car a luxury to run though relatively cheap to buy. Sterling depreciation would, therefore, have little effect though it has been assumed that some loss of trade would occur with sterling at \$4.40 in competition with British production. Other imports come from non-sterling area countries.

133

A P P E N D I X C

UNITED STATES
DEPARTMENT OF COMMERCE
Bureau of Foreign & Domestic Commerce

September 14, 1938

Office of the Commercial Attaché
Embassy of the United States of America
London, England.

Memorandum for the Ambassador

The roughly approximate value of American exports to the countries in the sterling group which would appear to be threatened by the depreciation of the pound is \$5 million at \$4.85, \$25 million at \$4.80, \$100 million at \$4.60 and \$150 million at \$4.40.

The above estimates are based upon an intensive study of American exports to the sterling area in 1936, the last year for which adequate data are available, and adjusted in accordance with the general trend of trade in 1937 and 1938.

Separate analyses have been made of the probable effect of the higher dollar rates upon our exports to the United Kingdom and upon our exports to the remainder of the sterling group:

The indicated threat to our trade with the United Kingdom at \$4.85 is \$2 1/2 million; at \$4.80, \$10 million; at \$4.60, \$40 million; and at \$4.40, \$55 million.

Corresponding estimates for the other countries in the sterling group are: At \$4.85, \$2 1/2 million; at \$4.60 \$15 million; at \$4.60, \$60 million; and at \$4.40, \$95 million.

As

-2-

As a basis for the foregoing estimates I took into consideration the fact that up to September 1 the London-New York rate was around \$4.90. Consequently the \$4.85 rate represents a rise in the dollar of 1 per cent; \$4.80, 2 per cent; \$4.60, 6 per cent; and \$4.40, 10 per cent.

The twenty largest commodity groups of exports from the United States, representing 90 per cent of our total exports, were then examined in detail. Of our total exports to the world of \$2,419.0 million in 1936, the sterling group took \$.,031.2 million, or 42.6 per cent. Details follow:

-3-

Value and Percentage of United States Exports to
Sterling Group, 1936.

	<u>Value</u> (<u>\$ million</u>)	<u>Percentage of</u> <u>Exports to world</u> <u>of each item</u>
Cotton	183.7	52
Automobiles	169.2	70
Machinery	124.1	38
Tobacco	121.0	82
Petroleum	99.7	38
Foodstuffs	91.9	46
Steel	57.8	38
Chemicals	48.9	42
Wood	36.6	56
Copper	20.0	39
Pulp and paper	15.9	46
Furs	11.9	62
Photographic goods	9.6	46
Naval stores	9.5	50
Leather	9.1	40
Rubber goods	7.0	30
Cotton manufactures	5.8	15
Aircraft	5.7	25
Scientific instruments, etc.	3.8	38
Coal and coke	(a)	(a)
	<u>1,031.2</u>	<u>42.6</u>

(a) Negligible

$$\frac{42.6}{100} = \frac{152}{4}$$

$$\frac{30}{100} = \frac{126}{4}$$

-4-

The possible repercussions of certain exchange rates upon the principal commodities which we export are suggested in the following tables. The first represents an effort to appraise the proportion of trade in each commodity threatened in the United Kingdom and the second that in the remainder of the sterling group:

-5-

Estimated Percentage of United States Exports
to United Kingdom threatened at specific
rates of Exchange.

	Percentage apparently affected at			
	\$4.82	\$4.80	\$4.60	\$4.40
Cotton	-	-	2	3
Automobiles	-	-	3	5
Machinery	-	-	3	5
Tobacco	-	-	-	1
Petroleum	2	4	12	20
Foodstuffs	-	4	12	20
Steel	-	-	9	15
Chemicals	-	1	3	5
Wood	5	10	30	50
Copper	-	-	2	3
Pulp and paper	-	5	15	25
Furs	-	4	12	20
Photographic goods	-	-	3	5
Naval stores	3	6	18	30
Leather	-	4	12	20
Rubber goods	-	3	9	15
Cotton manufactures	-	-	-	10
Aircraft	-	-	-	-
Scientific instruments etc.	-	-	9	15

-6-

Estimated Percentage of United States Exports
to Sterling Group excluding the United
Kingdom

	Percentage apparently affected at			
	\$4.85	\$4.80	\$4.60	\$4.40
Cotton	-	-	4	6
Automobiles	-	-	6	10
Machinery	-	5	15	25
Tobacco	-	-	-	1
Petroleum	2	4	12	20
Foodstuffs	-	2	6	10
Steel	-	-	3	5
Chemicals	-	2	6	10
Wood	2	4	12	20
Copper	-	-	-	2
Pulp and paper	-	-	6	10
Furs	-	4	12	20
Photographic goods	-	-	-	5
Naval stores	-	3	9	15
Leather	-	4	12	20
Rubber goods	-	-	12	20
Cotton manufactures	-	-	9	15
Aircraft	-	-	-	5
Scientific instruments etc.	-	-	6	10

-7-

Apart from the theoretical effect of the specific rates of exchange mentioned, the psychological reaction of importers and consumers in the sterling area to a dollar appreciation of uncertain extent and duration is unquestionably an important factor because of the likelihood that hand-to-mouth buying will predominate until confidence has been restored by maintaining the two currencies at a level subject only to minor fluctuations.

Another point is that the promoters of "Buy British" and "Buy Empire" campaigns will doubtless renew their efforts to divert purchases from the United States.

Signed. LYNN W. MERKINS
Commercial Attaché

A TRUE COPY
OF THE ORIGINAL
ORIGINAL

JK

EG

GRAY

Berlin (Part Air)

Dated September 21, 1938:

Rec'd 6 a.m.

Secretary of State,
Washington.

463, September 20, 9 a.m.

Department's No. 110, July 6, 5 p.m.

Press gives summary of new German Dutch transfer agreement recently concluded of which the following are the principal provisions. For terms of former agreement see despatch No. 3555 of July 9, 1937.

One. Fixed interest securities to receive cash transfer of 3% plus 1 $\frac{1}{2}$ % in reichsmark orders (A) (formerly 3 $\frac{1}{2}$ % plus 2%).

Two. Dividends 3% cash transfer plus 1/4% cash transfer for each additional percent of dividend with maximum fixed at one half percent cash transfer; reichsmark orders discontinued for dividends. Dividends from no par stock to receive cash transfer of 50% of dividend declared.

Three. Rents to receive 70% cash transfer with reichsmark orders discontinued (formerly 80% with 20% in reichsmark orders).

Four.

-2- #463, September 20, 9 a.m. from Berlin (Part Air)

Four. Dawes and Young loans unchanged.

Five. Reichsmark orders (B) which could be sold for 30% discontinued. Reichsmark orders (A) can be employed as before with additional stipulation that in cases of hardship where holders cannot make use of order (A), a settlement will be made whereby holder will receive somewhat more than 3%.

It is stated that the foregoing principles will be applied to Austrian securities with the added proviso that the German Government will completely indemnify the Dutch Government for any amounts the latter is called upon to pay as a result of guarantees.

Text not available and not expected for several weeks but foregoing is substantially confirmed by Dutch Legation here. Please transmit to Treasury as number 12 from Heath.

WILSON

CSB

JR

GRAY

Praha

Dated September 21, 1938

Rec'd 8:45 a.m.

Secretary of State,
Washington.

213, September 21, 1 p.m.

There was an irregular downward movement in common stock prices on the Praha stock exchange on September 21. Internal Government obligations were steady but probably granted some artificial support. Eight per cent Czech loan not quoted in London on September 21; seven and one-half per cent City of Praha 62 as against 64 on September 20; and six per cent Skoda debentures 48 as against 50. Confidential sources indicate that National Bank is contemplating the suspension of the twenty-five per cent gold cover minimum on or before the 23rd if deposit withdrawals and the attending expansive bank note circulation is not checked. Foreign exchange situation remains serious but no moratorium measures for those remittances anticipated immediately.

Repeat to Commerce.

CARR

CSB

JR

GRAY

Warsaw

Dated September 21, 1938

Rec'd 9:30 a.m.

Secretary of State,
Washington.

196, September 21, noon.

Request additional \$5000 for telegrams.

BIDDLE

KLP

REB

GRAY

London

Dated September 21, 1938

Rec'd 3 p. m.

Secretary of State,
Washington.

988, September 21, 9 p. m.

Following press despatch from Bucharest, under yesterday's date, appearing in DAILY TELEGRAPH may be of interest if not previously reported:

"German ships anchored in Constanza harbor have all left for Germany under orders received from Berlin. Similar orders are believed to have been given to all German ships at anchor in other Rumanian ports.

The Rumanian Cooperative has requested the English brokers Ross, Smith, and Company, Ltd. to sell 40,000 truck loads of wheat for Rumania within the next eight months against sound currencies."

See penultimate paragraph my 910, September 13, 3 p.m.

KENNEDY

EMB

ROW

*not mailing; stop 1/2
this can be done for study folders
8/22/34*

-2- #219, September 22, 2 p.m., from Praha.

border could be maintained. In case of war international trains would cease to run and domestic trains would either be partially maintained or completely stopped. Consul General and I are of the opinion that with troop movements the latter would be of little avail. British Legation has had similar results from its inquiries in relation to transportation.

In view of the rapidly increasing seriousness of the situation and practical impossibility of leaving Czechoslovakia in case of possible hostilities on all frontiers I feel that all American nationals here are entitled to some notification without further delay of the importance of arranging to leave the country promptly. Consul General on my instructions has ready for immediate mailing the following circular to American citizens on record in his office:

"Conditions here are such that at any time it may become impossible for American citizens to leave the country. It is therefore of the utmost importance that every American citizen should take steps without delay to insure his own safety by being prepared for immediate departure. While American citizens must reach their own decisions the Consulate General emphasizes

the

-3- #219, September 22, 2 p.m., from Praha.

Swan
the great risk which would be run by remaining, and
that Americans who insist upon remaining do so on
their own responsibility.]'

If situation should become worse during the day
I propose to have the circular mailed unless I am
instructed to the contrary.

KLP

CARR

OFFICE CORRESPONDENCE

DATE: September 21, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Bolton called at 12:55 today. All told things had not been too bad today although he had sold about \$2,500,000 but largely to central banks (Russians, Poles, etc.). He hadn't even tried to cover these sales in the market because things had been very erratic, the dollar ranging between 4.81 3/4 and 4.85. They had taken in a fair amount of gold and would probably get more from the French who had had quite a bad day today. Tomorrow's statement of the Bank of France would, he understood, be rather an "unpleasant document" showing a rise in note circulation and new borrowing by the Treasury probably up to the hilt. The French had supported their rente market all through the recent crisis and as it was impossible for them to sell or issue a Treasury bill they were probably in very bad need of money.

But generally speaking, Bolton said, the atmosphere was very much quieter today although they had no official knowledge of the acceptance by the Czechs of the French-English proposals.

Referring to the shipment by the Nashville, Bolton repeated that they would have four lorry loads under armed escort and that each load would consist of 107 boxes containing 485 bars weighing as follows:

Consignment #1	175,024.425 ounces gross
Consignment #2	175,020.875 ounces gross
Consignment #3	175,095.625 ounces gross
Consignment #4	174,819.550 ounces gross

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 21, 1933.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoks

2

They had prepared four receipts which they would ask Captain Wilson to sign. He would confirm the above details by cable tonight and would be grateful if we would cable him tonight to the effect that Captain Wilson's receipts would be a full and sufficient discharge for the Bank of England. I told him that we would send the necessary cable out tonight. Bolton wanted to know whether we would have any more of such shipments and I replied that I had no information whatever in that connection.

They had devised a fairly efficient means of getting this shipment away, Bolton continued, and they would learn from this experience whether secrecy could be successfully maintained. They had, of course, had to square this matter with a great many people at the Treasury, the dock yards, the carriers, etc.

LWK:KW

JR

GRAY

Berlin

Dated September 21, 1938

Rec'd 3:15 p.m.

Secretary of State,
Washington.

469, September 21, 6 p.m.

The evening press unanimously states that Praha's decision to accept unconditionally the Franco-British proposals has once again been made too late. It is pointed out that while Benes was delaying, the Czech problem entered a new phase externally because Hungary and Poland have stated their demands for self-determination and freedom for their national groups in Czechoslovakia and internally because all groups in that country including the Slovaks are now no longer willing to live under the "Czech yoke."

Editorials continue to be menacing in tone, Silex of the DAZ writing "it will be demonstrated at Godesberg whether the Europe of 1938 is energetic enough to put through a peaceful revision, namely a revision of boundaries. It is no longer a question of determining a goal because after London and Paris had decided in principle upon the partitioning of Czechoslovakia everything now turns upon the question as to whether

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 21, 1938, 5 p.m.

NO.: 1534

FROM COCHRAN.

In a speech yesterday Minister of Finance Marchandeau stated that:

(One) Exceptional measure of drawing on the Bank of France for the first time since present Government came into office last August has been resorted to because present international situation has caused increased expenditures and has led to withdrawals from banks and government institutions without, however, a flight of capital out of the country; (two) no moratorium on deposits is planned; (three) Frenchmen should buy Government securities rather than hoard bank notes; and (four) taxpayers should promptly remit.

The Paris market has been upset rather than calmed by the foregoing statement, since it brings a realization of a difficult domestic financial situation which, during the international crisis, has been temporarily forgotten. I was told at five o'clock this afternoon that the French fund had had a bad day, much worse than they had yesterday, this in spite of letting the premium on three months sterling move from 3 3/4 to 4 1/4 and spot rate to 178.34. Here we do not know of any operations by the British control today.

- 3 -

today. Because of the above mentioned French situation,
the British control is of course gaining gold from France.

BULLITT.

RECEIVED

APR 28 1938

THE TREASURY DEPARTMENT

Office of the Director

Washington, D. C.

EA:LW

REB

PLAIN

London

Dated September 21, 1938

Rec'd 5:05 p. m.

Secretary of State,
Washington.

986, September 21, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

In the course of a conversation Leith-Ross mentioned in strict confidence that the British Government had today received "An S O S from Praha asking for financial assistance". Inasmuch as a run on the banks was under way Leith-Ross said that the Czechs had in recent weeks strengthened their foreign exchange control system and that apart from any question of a foreign credit or loan there appeared to be two steps they could themselves take: (One) Reduce the reserve ratio; or (two) declare a moratorium. He said that he could not say precisely what internal political repercussions might flow from a moratorium but it seemed to be the wisest course of action at this time.

British security markets have moved uncertainly today but they have been real markets with an increased volume of trading. Founded and unfounded reports of
Czechoslovakia's

REB

2-#986, From London, Sept. 21, 6p.m.

Czechoslovakia's decision have likewise affected the exchange market and the dollar had a range of 4.81 1/8 to 4.83 1/8, closing at around 4.82 1/4. Gold fixing was on a supply and demand basis, 110 bars being dealt in at 144S.

The maritime war risk insurance position has been somewhat eased by a Lloyd's decision to promote a new type of open cover insurance for war risks under which merchants and shippers would be given contracts, renewable monthly, under which they could declare all shipments made for their account and obtain cover at the rates of the current schedule. Such covers would be subject to the 24 hours cancellation clause on the understanding that only shipments for "immediate sailing" would be covered at the current rates.

Bolton telephoned to ask for a copy of the signature of the Captain of the NASHVILLE and in the course of the conversation remarked on the increased pressure today on the franc. He felt that the French were in for a difficult time and in referring to the advances by the Bank of France to the French Treasury implied that they would be substantial.

KENNEDY

RGC-HYM

PARAPHRASE OF TELEGRAM

FROM BUDAPEST

No. 87, September 21, midnight

Demonstration held in Heroes Square in Budapest this evening called by various patriotic societies and attended by about 200,000 people. Speakers stressed revisionist demands and were continually interrupted by cries of "down with Czechoslovakia". Noticeable feature was the fact that Hungarian Nazis were present in force and stood shoulder to shoulder with other Hungarians in demanding "justice for Hungary".

Hungarians impressed that Kerestes Fischer, Chief of army staff, accompanied Prime Minister to Berchtesgaden.

During the past two days the war spirit in Hungary has increased very decidedly. The intent of Hungary to maintain neutrality should war come is reaffirmed by the Foreign Office but it is becoming increasingly difficult to maintain this position as the feeling against Czechoslovakia increases and as there becomes more general fear throughout Hungary that there may be a settlement of the Czechoslovak problem without gains of territory for Hungary.

TRAVERS

PARAPHRASE OF TELEGRAM

FROM GENEVA

No. 222, September 21, midnight

Talking with the Minister this afternoon it was said by the permanent delegate from Hungary that the German Consul had told him that it was considered by him, the Consul, that Hitler would not find the Anglo-French proposal acceptable because of certain reasons whose disclosure he was not free to make. As his personal view, it was said by the Hungarian that the proposal would not find acceptance in so far as the plan was apparently intended to base figures for the nationalities as compiled at the last communal elections. In his opinion there would be insistence on the part of Hitler that 1919 figures be used. Although the details of the agreement between Hitler and Imredy were, he said, unknown to him, it was admitted by him that the policy regarding minorities which had heretofore been pursued by Hungary would undergo great modification through the promise of support by Hitler for treatment similar to that to be accorded to the Sudeten Germans in Czechoslovakia for Hungarian minorities.

BUCKNELL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
 FROM A. Lochhead

DATE: September 21, 1938

Close SEPT. 21, 1938

GOLD HELD IN LONDON

\$177,000,000

Insurance arranged for following ships:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 23	Manhattan	\$11,300,000
Sept. 24	Paris	<u>11,000,000</u>
		\$22,300,000

TREASURY DEPARTMENT

157

INTER OFFICE COMMUNICATION

DATE September 21, 1938

TO Secretary Morgenthau

FROM A. Lochhead

Mr. Mallet, of the British Embassy, called this morning and wished to convey the following message on the subject of his talk with you the other day:

Sir John Simon has no strong feelings in the matter and is inclined to suggest it would be enough if Mr. Morgenthau had an explanation ready to give out if the news became public. Sir John Simon imagines that the explanation might be that as the Cruiser was in the British waters it was convenient for the shipment to be made in this manner, especially in view of the temporary insurance difficulties which have arisen.

Sir John Simon is content to leave this question to the discretion of Mr. Morgenthau.

Confidential

CONFIDENTIAL

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J M

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9-2/2657-11-90

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, 6-1
WASHINGTON, D. C.

MM

September 22, 1938.

MEMORANDUM NO. 18 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
midnight, September 21-22, 1938.

General Situation. No relaxation in European tension has resulted from the acceptance under military intimidation by Britain and France of Hitler's demands. On the contrary, the situation has become progressively more complex and perhaps serious. While the details of the provisional understanding between Hitler and Chamberlain are still a secret, events and insatiable German aims have already created a new situation with which Chamberlain will have to deal in Godesberg to-day.

The demands of Poland and Hungary for the same treatment of their minorities as that accorded Sudeten Germans seem to be supported by Germany and Italy. The German press now claims that the Czech problem has already entered a new phase. In effect, it clamors for the elimination of the whole conception of the Czech state as conceived at Versailles.

While the demands for the virtual dissolution of the Czechoslovakian state in Germany, Poland and Hungary - supported by Italy - become more vociferous, public opinion in the democratic world is being whipped into a more positively critical attitude toward the Governments responsible for the "surrender." Except among the political opponents of the Government in France, opinion is chagrined with French impotence and loss of prestige but otherwise apparently amenable to any solution which postpones war. In England an organized campaign by combined labor organizations is getting under way to assemble public meetings in condemnation of the Government. This was to be expected. More serious perhaps is the open criticism of Eden and Churchill directed at Chamberlain's repeated concessions.

As a result of this campaign, a campaign given impetus by the obviously unfavorable reaction among the belligerent liberals and pacifists of the United States, Chamberlain will probably be

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CONFIDENTIAL

forced to approach his meeting with Hitler with proposals of guarantees so stiffened and broadened as to be of unlikely acceptance by the German Fushrer. Thus it is not improbable that the situation may revert to the same critical impasse as that before the Berchtesgaden meeting.

Meanwhile in Prague the situation is much less stable than before. The Czech populace was stunned and then infuriated by the unexpectedly cavalier treatment accorded them by France and Britain. As was feared, the Government which accepted the ultimatum from its erstwhile friends, following rather widespread but restrained public demonstrations, this morning offered its resignation to prepare the way for a cabinet of national union. The latter will include General Jan Syrový, Inspector General of the Army, and General Kreočí, Chief of Staff, thus giving the Army great, if not dictatorial, authority in the new government. General Syrový, probably the most popular and respected man in Czechoslovakia, will hold the portfolio of Minister of the Interior in which capacity he is in position to control internal developments as well as international affairs.

Military Situation. No known change.

GROUP MEETING

September 22, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Viner
Mr. Haas
Mr. Hanes
Mr. White
Mr. Lochhead
Mr. Upham
Mr. Thompson
Mrs. Klotz

H.M.Jr: (Points to Mr. Thompson.)

Thompson: You'll probably be interested in knowing that the Procurement Division, at long last, is letting a contract for the space alterations in the Auditors Building, for the Public Health Dispensary. They have thirty days to complete it, so you will want to keep your eye on that; we're really getting along with it, and I think we're going to have a swell space.

H.M.Jr: You also might ask - I ask every three months and don't get anywhere - what's happened to - the only suggestion I ever made to Procurement was this garage under here, for four or five hundred cars. I don't know why the hell we can't get that.

Thompson: Mr. McReynolds checked with Mr. Burlew before he went away.

H.M.Jr: With Burlew?

Thompson: Yes.

H.M.Jr: Could you give me a check and let me know tomorrow? Because it's a natural thing to do.

Thompson: Yes.

H.M.Jr: Grass will grow just the same.

Thompson: I'll check.

H.M.Jr: On Massachusetts - Pennsylvania Avenue.
(Nods to Mr. Upham.)

Upham: I have nothing.

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

Lochhead: It is simply the London market is disappointed in the tone of the German press, and the fact that the Czecho Government has resigned, so it's still very uneasy. The Czech Cabinet resigned.....

Viner: Has the Czech Cabinet resigned?

Lochhead: Yes.

H.M.Jr: I didn't know that.

Lochhead: They have handed in their resignations.

Oliphant: That means they will not present their plan to their parliament.

Lochhead: Some technicalities there - somebody said, with reference to one cable, that anybody organizing for the purpose of seceding territory will be guilty of high treason. The Cabinet couldn't make this decision on their own; they have to put it up to Parliament.

H.M.Jr: That's right.

Oliphant: It's very interesting.

H.M.Jr: (Referring to ticker dispatch.) "Czech's Cabinet resigned today in favor of an all national Government, including Army Chieftains."

Gaston: The Assembly might reject that thing.

H.M.Jr: They said right along they wouldn't. "Radios began blaring out appeals for order and discipline..."
Well, with a military dictatorship, I am not sure they are going to give it.
Anything else?

Lochhead: No.

White: Oliphant's man, Foley, and myself are going to see Jesse Jones in about fifteen minutes. They made an appointment yesterday.

H.M.Jr: Good.

White: I think it is essential that Archie and I see you five or ten minutes some time after that, to talk about this Chinese thing a little more in detail. I don't think there's a clear agreement or understanding all the way around here.

H.M.Jr: Well, I gave Archie three o'clock, to check.

White: I'd like to see you before that, about ten minutes.

H.M.Jr: Supposing you give Chen three thirty. Have you told Chen already?

Lochhead: Not yet.

White: No, I haven't.

H.M.Jr: Supposing we give Chen three thirty.

White: Fine.

H.M.Jr: You Chinese come in and see me about a minute at three o'clock.

Oliphant: I'd like to bring Ed in with me.

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

White: (Hands H.M.Jr. letter or report.) That's just Export-Import Bank.

H.M.Jr: Well, then, you Chinese come in at three.

White: Yeah.

Gaston: You mandarins.
(Reporter to Mr. Gaston: What was that word, please?
Mr. Gaston: Mandarins.)

Lochhead: Not manikins.

H.M.Jr: Not what?

Klotz: Manikins.

H.M.Jr: Or manicurists. All right.

White: The concensus of a good many more or less acute observers around here is that this trouble will consistently grow worse and not better.

H.M.Jr: What trouble?

White: Czechoslovakia.

H.M.Jr: Back to Czechoslovakia again! Gosh, you travel fast. Well, I agree with you. What else?

White: That's enough.

H.M.Jr: Now, let's just get my day straight.
(Low conversation with Mrs. Klotz.)

Klotz: Uh huh, I told him.

H.M.Jr: Then, at eleven fifteen, you (Hanes).

Hanes: (Nods "Yes.")

H.M.Jr: Herman, eleven fifteen?

Oliphant: That's right.

H.M.Jr: See, that's - that's on S. E. C.

Oliphant: Yes sir.

H.M.Jr: Trans-America. What else?

Hanes: I have nothing.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: Jake?

Viner: Nothing.

H.M.Jr: I thought Riefler was coming back to see me yesterday.

- 5 -

Viner: I don't know.

H.M.Jr: Want to feed with me today?

Viner: (Indicates he did not understand.)

H.M.Jr: Would you like to lunch with me today?

Viner: Yes, glad to.

H.M.Jr: About one o'clock.

Viner: Yes.

H.M.Jr: (Words misunderstood. - "Nothing to make you sick.")

Viner: I wouldn't say that.

H.M.Jr: Herbert?

Gaston: I haven't anything of importance. Mr. McEvoy renewed his request for five minutes to take a good picture of you for Time-Fortune files.

H.M.Jr: I'm a little bit tickled on my being in advance of the general criticism of our policy of handling the gold account. Notice this editorial (hands Mr. Gaston 9/22 clipping from New York Journal of Commerce) entitled "A New Inactive Gold Fund." Yesterday these gentlemen came down to help me work out a new technique on handling gold, and if you will ask Mr. Bell - because he did it yesterday.

Very briefly, what we're doing, we transferred ninety million dollars yesterday from the general fund over to the Federal Reserve; sixty million went to the Federal Reserve of New York - incoming gold; fifteen million to Dallas, to meet payments; and fifteen million to Minneapolis to meet payments. I don't want to let that fund go up to a billion, see? I didn't want that. What we're going to do, we're going to keep transferring from the general fund, ten, fifteen, twenty per cent in excess of the gold that comes in each day from Europe, you see, and gradually work it down. Bell will explain it to you. That is, transferring gold from one bank to another as they need it for payments. If Dallas needs more cash, they will transfer it from the general fund.

- 6 -

- Gaston: Transferring it to the outlying banks?
- H.M.Jr: And if New York needs it That fund will begin gradually to go down. It will be a gradual process. In case they notice it and ask anything, you and Bell can give it to them.
- Gaston: Yes.
- H.M.Jr: No announcement - just handle it - but that fund will now gradually begin to melt.
- Gaston: It still remains a matter of debate whether it's sterilization or not.
- H.M.Jr: Well, the whole thing.....
- (Reading something on his desk.)
- All right, I'll take it; thanks. Ah, they all sat down and said it was a state of mind with the Secretary of the Treasury.
- Gaston: That's exactly as I see it.
- H.M.Jr: I finally convinced them, and they wanted to know, how did I make up my mind, - "How much will I borrow?" I said, "I borrowed every dollar the traffic would bear."
- Gaston: I said that the question was entirely academic until our balances got way down, and when
- H.M.Jr: Then, George Harrison said, "Let me ask you this question." I answered it that way, and I said, "I am not sterilizing." You'd have to take a post-graduate course, wouldn't you, at Chicago, to be able to decide that question?
- Viner: You wouldn't be able to do it then.
- Gaston: Another test is to measure the excess reserves and see whether they have actually increased in the last few months.
- Olipphant: The effect of taking a post-graduate course in Chicago is to cause you to ask
- H.M.Jr: Now, let's just go back over that and get it from the beginning.

Oliphant: The effect of taking the graduate course of Chicago is to cause you to ask unreal questions like that.

(Laughter)

Viner: Was it a Chicago graduate who asked that question? Did Oliphant ask that question, originally?

H.M.Jr: I never get between two Chicago graduate men if I can help it.

Viner: I'm not a Chicago-graduate man. Oliphant is.

H.M.Jr: It's a little early in the morning; I'll give you a chance this afternoon. Anyway, that was the thing that took two hours to arrive at. I didn't want this thing to cross the billion mark; I didn't want to attract attention. I think this is very neat, and anybody who's very much interested, go to either White or Lochhead, or Bell, and they will give them their idea of the situation. I started to say "explanation," but anyway,.....

Gaston: The telegraphic collection figures on the

H.M.Jr: Excuse me. We wouldn't seek the papers out, but if they question it

Gaston: Yes. Yes, they'll notice it when the gold decreases.

H.M.Jr: Bell took all the figures, going back to April bringing them down to date. It's just a pretty complicated machinery. Go ahead.

Gaston: The telegraphic collection figures on income tax came over here yesterday from Mrs. Wetherton, from the Bureau. I simply sent them up to Bartelt, who didn't give them out.

H.M.Jr: Doesn't Hanes go around and kick the mail bags and see how many checks are in the bags? That's the way they used to do it. They asked, "How many in them" and estimated - that's the way they estimated the total.

Gaston: It was only the undeposited; only a small part of the total.

H.M.Jr: The answer was what?

Gaston: The collections showed a slight increase over last year.

H.M.Jr: Oh, really? A slight increase?

Gaston: A slight increase.

Haas: Practically right on the estimate.

H.M.Jr: See, you've already got the Hanes influence.

(Laughter)

What else?

Gaston: Well, the request of the Press Club that you talk to them week after next - October 6 - has been renewed - either on or off the record.

H.M.Jr: I'll tell you what I'll do. They have been very kind; I'll make this promise: That the next address I give will be theirs - but I don't say when.

Gaston: But not next week - October 6?

H.M.Jr: No, but the next talk I give, I'll give it to them. They've been nice; I appreciate it. I'll give it to them next.

Gaston: It can be extemporaneous and off the record. They'll only use it in the columns. (Laughter.)

Oliphant: Good work, isn't it.

H.M.Jr: You're good. (Laughing) You're good.

Gaston: I'm sorry if I seemed humorous; I didn't mean to be.

H.M.Jr: Maybe after a while Jake will be giving us a spark too.

Viner: Not in September.

Oliphant: We're having a meeting this morning?

H.M.Jr: Bank meeting?

Oliphant: Yes.

- 9 -

H.M.Jr: We're having a bank meeting right away.

Oliphant: I'd like to have five minutes during the day.

H.M.Jr: We'll squeeze you in between the Chinese.

Oliphant: You

H.M.Jr: Excuse me - Viner and I will have - that Chinese dish you prefer?

Viner: All right - suits me.

Oliphant: You'll be interested to know, when Bernstein went over to talk to Moffat about Zabala.....

H.M.Jr: Zabala?

Oliphant: The Spaniard. Moore and Hackworth thought very vigorously that Bernstein was right in not taking it up.

H.M.Jr: All right.

Oliphant: That's all.

H.M.Jr: Well, I'm more interested in what's happened to Zabala. Is he a diplomat or isn't he?

Oliphant: (Nods "No.")

H.M.Jr: He's not? Mr. Moore may think it's right, but if Bernstein had taken it up first, the letter never would have gone out.

Oliphant: I have a record here of the notice we had.

H.M.Jr: But if they had been put on particular notice that we wanted this information - the request - Moffat would have done it.

Oliphant: Moffat would, but the Bureaucrats over there wouldn't.

H.M.Jr: But Zabala is out, and he has to be a witness now.

Oliphant: But the ordinary contact which Bernstein would have made wouldn't have done it.

H.M.Jr: No, but if he would have come to me, I could have done it.

All right, now; the usual banking crowd.

Upham: Very unusual.

MEMORANDUM OF CONFERENCE

A conference was held in the office of Mr. Jesse Jones at 10:30 a.m., Thursday, September 22, 1938, to discuss ways and means of either purchasing commodities from China or extending credit to China. Present at the conference were Messrs. Jesse Jones, John Goodloe and Sam Sabin of the RFC, and Harry D. White, E. H. Foley, Jr. and Norman O. Tietjens of the Treasury.

Three plans were presented by Messrs. Foley and White.

Plan No. 1 called for a loan by the Export-Import Bank to the Federal Surplus Commodities Corporation, the proceeds to be used by the Corporation to purchase strategic and critical materials from China consisting primarily of tungsten ore and tin. The Export-Import Bank would obtain money for the loan from the RFC either by means of a loan or the purchase of preferred stock. This plan contemplates that the tin and tungsten ore would be purchased over a period of possibly five years. When purchased, the commodities would be brought to the United States and stored by the War and Navy Departments pending purchase by those Departments from the Federal Surplus Commodities Corporation if and when appropriations were obtained from Congress. If the War and Navy Departments are unable to make the contemplated purchases, the commodities would be disposed of on the open market. Fifty million dollars was mentioned as the amount which would be required. Credit made available to China under this plan would be used to purchase goods in the United States. Mr. White explained certain difficulties involving the relationship between the province in which the tin is located and the national government in China which might stand in the way of putting this plan into immediate operation.

Plan No. 2 called for the same mechanics as the first but with the difference that the commodity to be purchased in China would be tung or wood oil instead of tin and tungsten ore. This plan would involve the marketing of the oil by the Surplus Commodities Corporation, since this commodity would not be stored for future use by the War and Navy Departments as in the case of tin and tungsten ore.

Plan No. 3 consisted simply in the extension of credit to the Chinese government by the Export-Import Bank, the credit to be used to purchase goods in the United States.

No legal difficulties were seen in any of the three proposals. Mr. Jones stated that he was agreeable to making credit available to China and the amount of money (50 to 100 million was mentioned) was a matter of indifference to him. He preferred Plans 1 and 2 to Plan 3 because it gives the added security of the commodities purchased. He said that he was ready to discuss the matter with Secretaries Morgenthau and Hull at any time.

Thursday
September 22, 1938
9:13 a.m.

H. M. Jr: Good morning. Admiral -

Admiral
Waesche: Yes.

H. M. Jr: I have sent word to Burke that I might want him this afternoon.

W: Yes, sir.

H. M. Jr: I don't want him this afternoon but I would like to have him over at the Washington Hoover field at nine o'clock Friday morning.

W: At nine o'clock Friday morning?

H. M. Jr: Provided that that does not in any way interfere with the rescue work up around Long Island.

W: All right, sir.

H. M. Jr: And -

W: I think it will not because we have the planes from Rockaway and also from Salem.

H. M. Jr: Well, would you advise Mrs. Klotz this afternoon?

W: Yes, sir. I will.

H. M. Jr: Please.

W: Yes, sir.

H. M. Jr: And - ah - how does the thing look today?

W: Well, ah - it looks just as bad, if not worse than it was last night. I was down here until nearly two o'clock this morning. And we have lost or abandoned seven Coast Guard stations. There've been about 500 to 700 boats in and around Long Island Sound and Bays missing. The peculiar thing about this thing is that apparently not a single vessel out at sea was in distress.

H. M. Jr: Yes.

- 2 -

W: All the boats lost or damaged were small craft - yachts and power boats in Long Island Sound around Long Island. The - ah - up in New London there's about a thousand people homeless. I talked to the Red Cross last night - or rather this morning - myself - or rather Pollio talked to them for me and they have no way of getting any supplies in there - they - the roads are all out and the trains are all out. They advised by radio that the land was unsafe for land planes to land. So we told the Red Cross we would send any medical supplies up to New London by seaplane from Floyd Bennett Field if they so desired.

H.M.Jr: Uh huh. Now, if you've got any use for Burke you use him, see?

W: Yes, sir.

H.M.Jr: And - ah - I don't want you to keep - I don't want you to keep Burke here tomorrow if you can use him.

W: All right, sir. Well, we can - in a couple of more hours we'll -

H.M.Jr: Well, if you'll let me know this afternoon - if you'll let me know around three or four o'clock, will you?

W: Yes, sir. I'll do that.

H.M.Jr: Because I mean if you've got any use, please use him, because this is much more important.

W: Yes, sir.

H.M.Jr: And if you'll let me know - Mrs. Klotz know between three and four this afternoon.

W: All right, sir. I'll -

H.M.Jr: But I wish you'd get word to Burke because I told him I might want to use him this afternoon - and see that he's -

W: I'll get that word to him right away.

H.M.Jr: Thank you.

W: All right, sir.

H.M.Jr: Thank you.

September 22, 1938

When Thompson went over to Forster's office today with the commission for Preston Delano, J.F.T.O'connor was sitting there. Mr. Thompson said he thought fast and said to Forster, "I haven't seen you for a long time. I just thought I would say hello," and walker away. Forster got up and came over and said, "I want to see you about something," and he and Thompson got out of sight of O'Connor and Thompson delivered the commission to Mr. Forster.

September 22, 1938

3:00 p. m.

Present:

- Mr. Oliphant
- Mr. Lochhead
- Dr. White
- Dr. Viner
- Mr. Foley
- Mrs. Klotz

Dr. White: We had a meeting with Jesse Jones this morning at 11 o'clock. Present were Mr. Jesse Jones, John Goodloe and Sam Sabin of R.F.C., and Mr. Foley, Mr. Norman O. Tietjens and myself from the Treasury. We can give you an account of our conversation.

Dr. White: There were two proposals. One proposal, the one which they had heard of initially, was the purchase of strategic war materials, consisting chiefly of tin and partly of tungsten, which were to be delivered periodically, per month or year; payments were to be made in advance; the purchase was to be made by the Export-Import Bank -- excuse me, Federal Surplus Commodities Corporation, financed by the Export-Import with funds from the R. F. C. In response to that, he thought that was all right. He asked a few questions.

HM, Jr: Who did?

Dr. White: Jesse Jones. He said that that was quite all right. I suggested there might be some difficulties in obtaining the tin and that the Chinese had come forth with a second proposal involving the purchase of

H^m, Jr: Just a second. Had Jesse Jones heard about this tin before you fellows came over there?

Mr. Foley: He heard about it from his own people, because we went over there and talked with them.

HM, Jr: Did you prepare them?

-2-

Mr. Oliphant: Yes. Ed, yesterday or day before yesterday, was clearing -- which was it?

Mr. Foley: It was the day before yesterday. He talked to Jones yesterday and called me back and said Jesse Jones wanted to see me, so Harry and I went over and explained the thing very fully and he gave his approval subject to a further talk with you and Hull.

Dr. White: And then we put forward the question of wood oil, the purchase of wood oil under similar conditions with the exception that the Army and Navy were not involved in it at all. He thought that that was satisfactory and could be arranged. I mentioned certain difficulties -- delivery -- and he said 'Let's not concern ourselves with the difficulties. Ways and means will be found.'

HM, Jr.: Who said this?

Mr. Foley: Jesse.

Mr. Oliphant: 'Don't bring up any difficulties.'

Dr. White: Then mentioned a third tentative plan which had been suggested, which I said you had not gone over carefully yet, and it was merely tentative, and wanted to know his reaction -- the extension of credit by the Import-Export Bank to finance exports, so much per month, similar to the one they had formerly except there would not be any restrictions with respect to type of expenditure. His response to that was that we would have to take that up with Hull.

Mr. Oliphant: 'You and he', he said.

Dr. White: He and the Secretary would have to take it up with Hull. 'Does that mean you don't think it necessary to take up the other two plans?'

Mr. Foley: He said the State Department was represented on the Board of the Export-Import Bank and thought their representative would be able to put forward their position.

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Dr. White: But he also said that he thought either of the other two plans were preferable because we were getting something for them and, he said, after all the Export-Import Bank is an import bank and is set up to finance imports as well as exports and this would fall right in that category.

I asked him whether he had in mind any sum that he cared to mention. He preferred to wait to talk it over with you. I said the Chinese had mentioned 100 millions and asked whether he had any reaction to that. He said it sounded all right to him.

HM, Jr: How much?

Dr. White: 100 millions. Jesse Jones said any amount. So that on the whole -- he said 'Tell the Secretary I am ready to go and see Mr. Hull at once or any time.' So my impression was that he wasn't very interested in the details after he had asked his own men if they had examined it and whether it could be put through and he asked Foley that and he said yes, and he ceased to be interested in the details, and he gave the definite impression that the sky was the limit.

HM, Jr: Doesn't sound like anything I ever heard Jesse do before.

Mr. Foley: I was surprised. It was all on the velvet side. Asked a few questions and indicated he was sympathetic and agreeable.

HM, Jr: I did not know there were that many Chinese men voted in America!

Mr. Oliphant: I called Wayne day before yesterday to find out which men in those three organizations he had been talking to and to what extent he had cleared it. And he was very glad I called him; apparently is a little bored out there. He told me which men to contact and I asked him if he had not said something to me before he left about having discussed it with the State Department and he said he had discussed it with Feis and that was his plan -- plan #1.

Dr. White: Tin and tungsten.

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Mr. Oliphant: He said he discussed that with Feis and his objection was he did not think he could get enough money into it. I said, 'What figure is Feis thinking of?' and he said, 'Feis is thinking of 100 million.' That may be another surprise for you.

Dr. White: That's the sum and substance of this morning.

With respect to Chen, Archie has already told you that he wants to come and see you about the silver, but their problem with respect to tin, which would make possible plan #1, they were at first not very hopeful about getting that through. When the difficulties of the wood oil were presented to them, they became a little more hopeful of getting arrangements for the tin.

The tin comes from Yunan. Yunan is in charge of a provincial governor and negotiations will have to go forward in order for him to permit exportation of the tin.

HM, Jr: Did he explain that tin is part of their monetary reserve in Yunan? Did he tell you that?

Dr. White: No.

Dr. Viner: Has Yunan a separate currency?

HM, Jr: And tin is part of their reserves. Yes!

Dr. White: No, he did not mention it.

HM, Jr: This is what I thought I would do. A lot of fairy tales going around on this thing. You see, I had an hour with Chen and the reason I asked Chen to come over is because we understand each other and my thought is I will buy all the silver they can deliver here between now and the first of January, because I think there is a very good chance, on account of this Mexican pressure, to stop buying Mexican silver, that they may put through a bill to stop buying all silver except domestic. Key had me on the telephone yesterday, so I think there is a very good chance they will amend the Silver Purchase Act and make it so we will just purchase domestic silver.

Mr. Oliphant: No longer interested in price?

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Dr. Viner: Interested in domestic price.

HM, Jr: Interested only in the domestic price, and with that in mind

Dr. Viner: ... get a commitment.

HM, Jr: Get a commitment and get it over.

Dr. White: Except they could not deliver a great deal before December or January.

HM, Jr: We will find out. I will ask how much can you deliver and I will take all they can get over here between now and January.

The other thing is, I talked to Herbert before you people came in. I said, after all we might just as well recognize that the democratic form of Government in my lifetime is finished. There is a bare chance we may still keep a democratic form of Government in the Pacific, but only a bare chance, and I said the Chen mission is our last opportunity and, I said, this has been in Mr. Hull's lap since June or July and the responsibility is entirely his and Feis said, I will repeat that and I said, Am I right? and Feis said, That's right.

Dr. White: The responsibility for not doing something up to now is his.

HM, Jr: I said the responsibility for not doing something is his. I said, I am on record in the shape of a cable and letter, and ready -- before that I was ready to do \$100,000,000. Feis said, As soon as you have got something let me and Hamilton come over and we will try to sell it to Mr. Hull. I said, We are going to do silver this afternoon. But he said, I am going to report, word for word, just what you said. I said, Am I overstating it. He said, No, you are understating.

I said, If this country wants two Fascist forms of Government, one on the Atlantic and one on the Pacific, and Germany will control the Atlantic, now if you want to turn the Pacific Ocean over to the Japanese -- we have only a slight chance of still saving the situation and

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the Chen mission is the last chance. I said, Am I understating it? He said, No, you are understating it.

I will go the limit. I will buy every ounce of silver as fast as they can deliver it.

And the other thing, Chen told me he can't deliver tin. They don't control it. It's the wrong kind of money. He frankly says it's entirely independent country; don't have the same kind of currency; tin is part of the monetary reserve of Yunan Province.

He's bringing me a map to show me the possibilities of transportation of wood oil. He has this suggestion of an export corporation from China and an import corporation from here, but he said, Mr. Morgenthau, I can sell \$10,000,000 worth of wood oil but, he said, if you say you are going to buy it I don't know how to deliver it. He said, 'The only transportation we have is under L. Soong, T. V. Soong's brother, who runs this corporation and being close to the Soongdynasty, being part, he can grab any part of it he wants, but that's only for the military. We have just completed 100 million gold marks of barter with Germany.'

Dr. White: What are they giving them?

HM, Jr: They got munitions and they gave them other stuff. That's completed and that's being wound up now and under protest of the Japanese the Germans will call off the munitions, and they gave me the name of the company. The Germans have a company there which controls the thing. This is all news to me. And every bit of their munition, they got on a barter basis and he said, 'the only thing we have left is tea which I am handling and there is 14 million yuan of tea on exchange, for barter, with Russia. All our tea is pledged. We have a few goat skins which don't amount to much. We can give you some Chinese art.'

Mr. Lochhead: They had them over at the London exhibition.

HM, Jr: And he said with the exception of that all we have is wood oil and we have no transportation.

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We would have to organize and -- I don't know. He talked about moving it up in gasoline trucks and he said, 'We could take gasoline'. I said, How about having the Socony Vacuum organize it. That would be marvelous. I was going to ask Walker to come down. He lived in China for 20 years, he being so nice. I don't know whether Standard Vacuum would want to do it, I don't know how much longer they will exist. Don't know whether they want to take that chance. When you boil it down, you have nothing.

When I saw the President, after Wang had been on the Farm, I said, What do you want to do? He said, We will give them \$10,000,000 or \$15,000,000 or 10 or 15 million bushels of wheat. That's all the President would commit himself. He said, Go see Hull and see how far he will go. He said, I will go as far as Hull will go. I said, Mr. President, will you leave it to me? and he said yes.

Don't let any of us kid ourselves. I said to Jesse, What about this \$100,000,000 credit? He said, Forget it. He said, You know me; forget it.

Dr. White: Foley said he probably knew Hull would not do it.

Mr. Oliphant: What you said to Feis about this being the last chance to save the Pacific plus what you have just said of what Chen has told you just adds up to one thing: that we ought to risk the price of a couple of battleships.

HM, Jr.: I don't know whether you have seen my cable from Europe on this wheat thing. I am on record with Mr. Hull and the President, last November, that I wanted to do a job with Mexico. I am on record with the President that I want to do this since last June or July, but if the President of the United States can't make Hull do these things -- I told him either Mr. Hull is the greatest man in this country or he is the most misunderstood man and I said he tries to wear everybody out and you can't budge him. The President practically said, Henry, you see if you can do something with Hull.

This was all discussed at Cabinet when I was

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gone. I said I was in favor of this and when Mr. Hull said he would go along I would take care of it and I had heard Taylor was against it. I said when Mr. Hull is in favor of it, I will take care of Mr. Taylor in the confidential cable to Wallace. Wallace takes it and puts it on the Cabinet table. Wallace writes me in confidence, 'Will I get busy on Wayne Taylor?' I wired back, 'I am in favor of a wheat and cotton loan. When the President gets back and Mr. Hull gets back and Mr. Hull is for it, I will ask Wayne Taylor for the details.' That was in August. And don't let's kind each other.

Dr. Viner: But, Mr. Secretary, it seems to me from what I gather that the record is not quite as clear as that. You have said yes to a wheat and cotton loan. The Chinese said they can't use that. You have got to decide this: what would be the right thing for the United States to do? You are prepared, as far as the Treasury is concerned, to work on that.

Dr. White: No. No. The Secretary has said more than that. At the time Hull sent over Moffett and Hamilton and the question was of a relief loan plus a rehabilitation loan, for trucks, etc., the Secretary said, 'I am ready to go as far as anybody else.'

HM, Jr: and I said I recognize -- I don't expect to get a cent back.

Dr. White: You said, Let's start with the assumption that we are not going to get anything back.

Mr. Cliphant: Hull is either the statesman of the time or an old man riding a hobby.

HM, Jr: And his hobby is the trade treaties. And to address the Management people with the statement that trade treaties are a boon to the peace of the world and while he was discussing it one country after another goes under.

Dr. White: Doesn't this point to the desirability of concentrating on the possibility of credit through export of so much a month and put the figure at 50 millions a month?

HM, Jr: Do you want me to sum it up? This afternoon we will buy every dollar's worth of silver he has

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got and I will take it as fast as he can ship it. That's number 1. Number 2: the only thing he told me he has got is tung oil and on the tung oil I will say to him, Mr. Chen, have you been able to think through the transportation question? 'I have not.' All right, would you like me to have Mr. Walker of the Socony-Vacuum come down and see if he can work this thing out? And is there anything else that you have got that you can deliver within the next six months?

Mr. Oliphant: Suppose he says substantially, 'No, I really haven't got anything else,' then aren't we consequently up against -- in view of the terrific emergency, you just simply say we ought to risk on this thing \$100,000,000 credit?

HM, Jr.: For exports.

Mr. Oliphant: Yes.

Dr. White: So much a month.

HM, Jr.: I will do it.

Dr. White: Isn't that the better plan?

Mr. Oliphant: That cuts the Gordian knot and the whole thing is cleaned up.

HM, Jr.: I am willing. I don't think that on the tung oil you get anywhere because the little I have seen -- Oil for the Lamps of China, which was authentic -- and by the time you organize a transportation system Confucius will come back to this earth.

Dr. White: And it will look bad, because if they don't come across it would look as though you made a naive loan and, this way, if they have to spend the money here, which would be one of the conditions, and if you made it a credit of so much a month with the privilege of revoking that, you would have an effective deal.

Mr. Lochhead: There is one thing -- we went over their position and their need for foreign exchange and one of their needs is about \$27,000,000 for foreign debt service held practically all by the British. They

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tried to get a loan from the British and they haven't got a cent. They have still kept servicing those debts because they are trying to get one. Harry and I feel rather freely that to make a loan in the United States when they are so drastically in need of exchange that is only to pay interest on English debts puts us in a poor position.

Dr. White: They intimated they would stop that.

Mr. Lochhead: They have already stopped on one or two and that is why Rogers, who is the Bank of England man, is so terribly anxious to come over here and be their advisor.

Dr. White: That will put Great Britain and France on the spot, whereas if we buy wood oil they will say you have everything that China has to export.

HM, Jr: Another thing, on the wood oil they can sell it anyway. You are talking about something they can sell. I have had time to think this through.

Mr. Oliphant: I think it boils down to the fact that if you have to lay down these battleships, let's risk the price.

HM, Jr: If you are going to talk the way you fellows are, I would go a step further, and I have said this before, that they ought to cut out all this monkey business all over the world with middlemen and organize a buying company which is on the level. If we give them \$25,000,000 for their silver, I would like to know where every dollar of that goes. They certainly ought to pay interest on their American debt.

Dr. White: They will do that.

HM, Jr: But the rest of the stuff -- out the window!

Dr. White: They indicated as much.

HM, Jr: This thing, you just have to take a knife and just peel off the outside and get coconut meat inside.

Dr. White: If your conclusion is as clear as that,

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why delay? Why not go to Hull and set your clear position before him?

HM, Jr: Because Mr. Hull is no frame of mind to do this today. In the first place, he's in no frame of mind and physically I am not in shape to go to him. First I have to go to the President. He has a head cold and he would just as lief say no because he feels badly. I am all played out. Herbert Feis calls up and says this is one of the darkest days we have had and you go over there and you don't know what's going to happen and the President feeling as badly as he does, I am physically low, the way it is I would say it is a bad time. Therefore, I would say that at lunch, Monday, when I see the President, I will ask him to make up his mind definitely and then I am ready to go to see Hull Tuesday. But I need fresh air and to build up. I know when I am no good. But the statement about Hugh Johnson, his best friend told me, he used to make his decisions after 9 o'clock when he was dead tired -- those were the early days -- and Hancock used to say, Don't make any decisions.

This is no time for me to take on the President or Hull.

Mr. Oliphant: I think you are right.

HM, Jr: And Jesse Jones is just making mouth bets. He won't put the money on the line.

Mr. Cliphant: Until he hears the President say so.

Mr. Lochhead: In the meantime, the press asked you if you were going to continue the silver arrangements and it is continuing -- under discussion.

HM, Jr: Chen told me that ever since he left there, their foreign exchange has picked up. And let the announcement go out that we have extended our silver purchases, that gives them another shot in the arm.

Dr. White: As the first step.

HM, Jr: But I think I see clearly. Jake, do I or don't I?

Dr. Viner: Yes. You have to make up your mind

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what is in the interest of the United States. And the next thing, you have to push for it.

HM, Jr: That's all right.

Dr. Viner: While anticipating that the State Department takes its appropriate part of the responsibility.

HM, Jr: You know, when we started on this argument, Hull said if we do this for China, we have to make the same offer for Japan.

At this point, Dr. Viner left the meeting and the others remained for the meeting with Mr. Chen and Mr. Hsi Teh-mou, which followed immediately. The meeting with the Chinese is recorded separately.

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September 22, 1938

(Immediately following meeting
of 3:00 p. m.)

Present:

- Mr. Chen
- Mr. Hsi Teh-mou
- Mr. Oliphant
- Mr. Lochhead
- Dr. White
- Mr. Foley
- Mrs. Klotz

HM, Jr.: (To Mr. Chen) Did you bring me any map?
Any pretty pictures?

Mr. Chen: Yes, I have.

HM, Jr.: Could I see the map?

Mr. Chen: Yes. (He went to the Secretary's side
of the desk and pointed out on the map the various areas
in which wood oil is produced and the roads and means of
transportation by which this oil could be moved.)

HM, Jr.: That's quite a big area. Fine!

Now, Mr. Chen, what I thought we could do today
is this: let's clean up the question of silver. That's
something we don't have to talk to anybody else about.
You and I can decide that.

Mr. Chen: Yes. Thank you very much.

HM, Jr.: So I thought, in view of what you told me
the other night, I thought that if you would tell me --
if you are prepared to tell me how many ounces of silver
you have got and how fast you can deliver, we are ready
to big on it.

Mr. Lochhead: They have a total so far that they
could absolutely promise to deliver of 84,560,000 ounces.
Out of that 84,560,000, 65,200,000 ounces have been pledged.
In other words, in order to get the difference they have

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to manage to redeem their pledges. If we purchased the 84,560,000 ounces -- of course, they are not going to get new money for that, but they will be able to retrieve. They have roughly about 20,000,000 ounces free. But they have the other to deliver, but

HM, Jr: They have pledged the whole 84,000,000 ounces?

Mr. Lochhead: 64,200,000 ounces of that are loans that are running out.

Mr. Oliphant: How much is loaned against that 64,000,000 ounces?

Mr. Mou: About \$19,500,000.

HM, Jr: Let me put it this way. Can't we buy first the unpledged silver?

Mr. Lochhead: They have a very small amount of unpledged silver and, of course, that would be the first thing they would be delivering. Then, the other silver, it will be necessary to buy blocks because they can't take the margin out without paying out the loan.

HM, Jr: Archie, how much unpledged silver, or free silver, have they got?

Mr. Lochhead: About 20,000,000 ounces.

HM, Jr: There is still 10,000,000 ounces coming on the present order?

Mr. Lochhead: That's right. Not counted in.

HM, Jr: And that comes from London?

Mr. Lochhead: Yes.

HM, Jr: And that will be shipped when?

Mr. Lochhead: We would make our bid on September 30th, probably be shipped immediately.

HM, Jr: (To Mr. Chen) I don't know whether your country -- is 23 a lucky number in your country? It is

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in this country. Number 23?

Mr. Chen: We don't have that superstition yet. We have number 13.

HM, Jr: But 23 is luck.

Dr. White: 13 is unlucky.

HM, Jr: Supposed to be lucky. So, 10 million ounces -- we will give you a bid tomorrow -- tomorrow is September 23rd -- we will advance it a week.

Mr. Chen: This shipment will arrive a week earlier?

HM, Jr: We will take it a week earlier. We will do it tomorrow.

Mr. Chen: Very fine. Thank you so much.

HM, Jr: Just to do something to get this thing started. No reason why we can't do that tomorrow?

Mr. Lochhead: No. Do it any time you want.

HM, Jr: Bid tomorrow on 10,000,000 ounces?

Mr. Lochhead: This completes the previous program.

HM, Jr: So tomorrow we will finish up the program and give you a bid tomorrow on 10,000,000.

Mr. Chen: Thank you very much.

HM, Jr: Now we get on the other. How much silver, Archie, has he got that he can sell which is not pledged. 20,000,000 ounces?

Mr. Lochhead: 20,000,000 ounces first, free silver.

HM, Jr: Let me ask you this. How much does the Chinese Government owe the United States Government?

Dr. White: About \$17,000,000 remains on the loan from the United States on the wheat and cotton loan?

HM, Jr: That's close enough. What I am getting

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at is the next interest payment.

Mr. Chen: End of this month.

HM, Jr: How much is that?

Dr. White: 800,000,000 gold dollars.

HM, Jr: If I may make a suggestion, I suggest that out of this money which we are going to pay for the silver that you pay us that \$800,000,000.

Mr. Chen: Absolutely.

HM, Jr: To keep your credit good.

If you don't mind, I am going to talk fairly fast and make some suggestions which I think are in your interest and you can, in turn, think them over. See?

We are going to try to do everything we can to assist you. It's very difficult. But we are going to do everything we can. I, in turn, have to explain what I do to my Congress. It has to make sense. We bought a lot of silver from you and the thought I had in mind was this: that whatever we buy from now on that if the Chinese Government could form a sort of American corporation, see, and deposit the proceeds from the sale of the silver in this corporation here in the United States, use that money, as I say, to pay the \$800,000,000 and then use it to establish a credit to buy what you need in the United States. Supposing we say, whatever the other free silver you have, I am ready to buy it.

Mr. Chen: Yes.

HM, Jr: Provided you deposit that here. See? Because, frankly, if the United States is ready to go just as far as we can -- up to now we have never asked any questions, but you were kind enough to say, the other night, to me privately, that our silver purchases have made it possible for you to go on, and if all of this money we give you for the silver goes for paying the debts of other countries, it does not help you in your present situation. Now I think it is time we ought to be practical.

Mr. Chen: Yes.

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HM, Jr: And if part of the money we give you goes to paying interest on American Government debts, that makes sense, but if the rest of it is used to pay interest on other Government debts, who won't help you in any way, from your standpoint and our standpoint it just does not make sense. I am going to be very practical.

Mr. Chen: Yes.

HM, Jr: And what you need is if we surround these purchases with certain conditions, then you can say 'Oh, we would love to pay you, Mr. 'X' Country, but unfortunately in selling the silver to America, they are very hard boiled, those Yankees over there, and they have tied up with money with all kinds of conditions, and we are very sorry we can't pay you, but, Mr. 'X' Country, if you want to establish a credit and let us do business, we will be very glad to talk about servicing your debts.

Now, I am not talking as a diplomat, but as a friend of China and I am willing to trust you by going this far, and I am going pretty far when I say this, but if the money is free, any 'X' country can come in and say, 'Well, America just bought 10,000,000 ounces of silver, how about servicing our debts?' 'We are very sorry, but they made us deposit it in this corporation and it's all tied up and surrounded with special regulations and we can't touch it.' See?

Mr. Chen: Yes.

HM, Jr: And then we say to you, use it for what you think is necessary. I am not going to tell you what to buy, but if you have a Chinese Government-owned corporation, just like the Amtorg, the way the Russians have a government-owned trading corporation, that buys what you need -- but to see all of this money going to servicing foreign debts isn't going to help you and makes me look rather silly. This is terribly frank.

Mr. Chen: I appreciate that.

HM, Jr: And I don't want to get in diplomatic channels, and the State Department, if they heard me talk like this, would be very excited. And I am sure the President would back me up in this sort of talk. But in this room we know that you are desperate. Now,

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to give you this money and see it go to servicing the debts of other countries is not going to help you one bit, but you have to have some excuse and I am offering you that excuse.

Mr. Chen: We appreciate this very much.

HM, Jr: But I don't want this to go into diplomatic channels. This is business, not diplomacy.

Mr. Chen: Only day before yesterday I received a cable from Dr. Kung the service on two loans have already been suspended because we cannot pay.

HM, Jr: The British?

Mr. Chen: The British. And I think it is going to be our policy in the future because we have not got money now to pay for it and we have so much other vital questions, fighting for life and those things have to be looked after first.

HM, Jr: But I want you to give me your word of honor, which I value very highly, that this idea is yours and not mine. You are going to come back and make this suggestion to me. You understand what I mean? I want you to think it over and then, if you like it, it's your idea because I don't want to be in the position as Secretary of the Treasury of recommending that you don't pay your interest on the debts of other Governments.

Mr. Chen: Well, that's more or less established fact.

HM, Jr: Well, that's all the better. Then I am not being so rash as I think I am.

Dr. White: That applies only to the two debts.

Mr. Chen: Just two debts.

Dr. White: And then there are some others, but when the other comes due that will be the same policy?

Mr. Chen: Our reserves are so low we have no foreign exchange in reserve to maintain the service.

Dr. White: Except you will have if the Secretary

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purchases the amount of silver that is under negotiation, but in that event that won't alter your policy?

Mr. Chen: No.

Dr. White: About suspending all foreign debts with the exception of the United States?

Mr. Chen: No.

HM, Jr.: Mr. Chen, on this 10,000,000 ounces of silver we buy tomorrow from you -- give you a price -- it will be a little over \$4,000,000. What will happen to that, if I may ask. Will that stay in this country?

Mr. Mou: We give it to Federal Reserve Bank to be transferred to Chase, because our foreign balance in London and New York are with Chase Bank.

HM, Jr.: But if I might take the liberty of asking, what use will you make of that money?

Mr. Mou: For all purposes. Usual demands in the market and the Government's drawings.

HM, Jr.: But will that be used for paying debt on other Government loans?

Mr. Mou: No, if the service on loans is already stopped.

HM, Jr.: But you are going to pay the one for the United States Government?

Mr. Chen: Oh, yes.

Mr. Mou: \$800,000,000.

Mr. Chen: Yes.

HM, Jr.: Is that semi-annual?

Mr. Chen: I think semi-annual.

HM, Jr.: So if you pay this now, you are all right for six months? Is that right?

Mr. Mou: Yes.

Mr. Chen: Yes.

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Dr. White: The proceeds are not spent in the United States.

HM, Jr: That's an old deal. I am talking about the next. I am not making any conditions. All I am doing on that is advance it a week to get it out of the way. What I am talking about is new silver I am buying, not the 10,000,000 ounces but the next, and I am making the suggestion you people form an American corporation and deposit your money in this corporation to be used for the purchase of supplies in the United States.

Mr. Chen: Probably we have some debts to be paid, not foreign debts, but payment for ammunition and merchandise.

Mr. Oliphant: In this country?

Mr. Chen: We are waiting a cable, next few days, showing a detailed statement of our outstanding purchases; some in this country; some in other countries.

HM, Jr: What the outstanding obligations are.

Mr. Mou: We have information from the Department who controls this it is a fairly big spread over a number of years, about five years, but immediate commitment we pay this year something like 15 to 20 million U. S. dollars.

HM, Jr: Could you get this information so we can -- I will explain myself again. How much silver -- there are two kinds of silver. I am talking about -- let's put it, call it one kind of silver which we will call cash silver which you have not pledged, on which you have not borrowed, you have no bills to pay. How much of that have you got that you could put in the corporation with which to buy supplies in the United States?

Mr. Mou: Yes, sir.

HM, Jr: And then how much other silver you have got you want to sell us which is already pledged or you have bills, you have to meet your obligations to keep doing. Isn't that the way to divide it?

Mr. Mou: Yes.

HM, Jr: Would it be possible to divide it that

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way and get the answer?

Mr. Lochhead: This pledged silver is pledged against cash loans they have got. As I say

Mr. Oliphant: Their equity in that is how much?

Mr. Lochhead: Equity in that is \$7,000,000, but you see they can't get that margin out of that until they pay the loans and the only way they can pay the loans is sell the silver. In other words, if we bought 10,000,000 ounces of silver, they would probably pay off a loan with the proceeds and then get about a 10% margin, a free \$1,000,000 on that.

HM, Jr.: That's one kind. But how much is the other kind. And do they think well of this suggestion of forming an American corporation and depositing it and using it for the purchase of goods in the United States?

Mr. Lochhead: Absolutely free silver with no pledge on is 20,000,000 ounces.

Dr. White: Which they might increase to 30,000,000.

Mr. Lochhead: 30 or 35 million. Get it out of some of the provinces.

Mr. Chen: I am afraid that the free silver which can be purchased, the Chinese Government may expect the proceeds to be paid, to make payments for munitions which are already delivered to us.

HM, Jr.: Find out from them, in addition to the pledged silver, how much are your outstanding bills.

Dr. White: Which have to be met in the near future.

Mr. Chen: Yes.

Dr. White: For merchandise, but not for debts.

HM, Jr.: How much does your Government owe for purchases already made, on merchandise delivered or to be delivered. What are your outstanding commitments. If you and I are in business on the first of the month, what are your outstanding commitments?

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Dr. White: By the month; given monthly.

Mr. Chen: We will have full information.

HM, Jr: And if it is possible -- I am not pressing this -- I would like to know to which countries you owe that money.

Mr. Mou: We have not that information yet.

HM, Jr: But you tell Kung that we want that information. When you get this, the bills you have to pay, how much you have to pay in September, October, November and December, and to whom do you pay it. When going into this thing, Dr. Kung has said he trusts me. Now he has to trust me if we are going to be helpful. That's all there is to it and since Mr. Chen left all I have been told is Grimm's fairy tales, a lot of fairy tales. I have had no facts. Just been telling stories for children -- treat me like a little child. Told all these little stories so I get to sleep at night, so I can go to sleep and not be afraid. During the two years you were away I have been told the stories that have been told to little children so as not to frighten them. You understand? (I don't think he understands that.) (To Mr. Lochhead) You explain to them later.

How much silver they have, besides what are their outstanding bills and to whom they owe. Then when they have paid their bills -- I am not suggesting they not pay their bills, but after that, how much silver have these men got left.

Mr. Lochhead: For the immediate months.

Frankly, they are paying for dead horses right now. They are going to have to use a lot of this for goods already delivered, but it's the same in the long run.

Mr. Oliphant: The present value is in the sense of maintaining their credit.

HM, Jr: Whatever the picture is, I am sure Dr. Kung will give me the picture. I want a balance sheet. I want to know. They can't frighten me. I want to know. Whatever the worst is, I want to know it.

Mr. Chen: We must get you that. We found you

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were good enough to help us. It is our duty to give you the real picture, and we will do the best we can. If not, we will cable and get actual figure and present it to you.

HM, Jr: That's right. Today is Thursday. If they get those cables off Thursday, you ought to have an answer by Monday?

Mr. Chen: I think the cable should be here before that.

HM, Jr: All I have done today is simply to advance the purchase of the last 10,000,000 ounces by a week. I have done that. That's something.

Mr. Chen: We still have a little bit of silver in Kwangsi Province, \$10,000,000.

Dr. White: Chinese dollars. About \$2,500,000 U. S. dollars.

HM, Jr: I want to buy all the silver that we can to help you, but we do like to know where it is going -- what use you are going to make of it.

Mr. Chen: We must satisfy you with that first.

HM, Jr: As to the wood oil, since we have talked have you had -- do you think you can solve your transportation problem?

Mr. Chen: We have not come to that question; yesterday we submitted a memorandum to Dr. White and Mr. Lochhead and we just received outline of organization, how this thing will be done because there are so many other technical questions to be solved.

HM, Jr: You have a memorandum?

Dr. White: Yes, we have a memorandum which outlines the type of organization which they thought would handle it and how they thought they might transport it if Hankow falls. We have all that information, but it does not throw any additional light beyond that we discussed. They developed the idea of having a controlling agency secure monopoly of the export and handle it within that.

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HM, Jr: And then on tin, I understand that tin is located where you can't get it?

Mr. Chen: Tin is Yunaan provincial monopoly. This question we have to take up with central Government of Yunan. We are making some financial arrangements. Probably we will have to give them foreign exchange. Provincial authorities want some foreign exchange. I have cabled that already and I expect to have reply very soon.

HM, Jr: And tungsten?

Mr. Chen: Tungsten is already Government monopoly operated and controlled under the National Resources Commission and I have cabled for the stock, how much ready stock in hand can be transported to seaports.

HM, Jr: Well now, Mr. Chen, what I was thinking of doing unless something happens -- I have had three weeks of trouble, and I thought I would go to my Farm for Saturday and Sunday and be back here the first thing Monday morning. Maybe by that time your cables will be in.

Mr. Chen: I hope so.

HM, Jr: And I thought we could get together, maybe 3 o'clock Monday afternoon.

Mr. Chen: Yes.

HM, Jr: Maybe by that time we will know better. And if anything should come up between now and Monday, Mr. Lochhead can call me on the phone if you have any immediate information and I want to push as rapidly as I can, but I need a little bit more information to get the whole picture.

Mr. Chen: Yes. Quite right. Thank you for the assistance.

HM, Jr: We have not done much yet.

Mr. Chen: I will get the figures for you.

HM, Jr: We have not done much yet, but we hope

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we can do more. All we have done has been to advance that one week.

(At this point, the Chinese gentlemen left the Secretary's office.)

The Secretary made a remark, which was not recorded, and on which Mr. Oliphant commented as follows:

Mr. Oliphant: I want to say one thing. That would involve a Government agency buying it and marketing it in this country. So far as I know, the Government has never gone in the merchandising business.

HM, Jr: You are wrong, Mr. Herman Oliphant. When I went to Farm Credit, I have \$100,000,000 -- I owned cotton, corn, tomatoes, I had some brandy from California.

Mr. Oliphant: All of which you took by way of foreclosing.

HM, Jr: Well, the difference between foreclosing and Surplus Commodities loaning \$50 on rosin when it is worth \$30, is not a great stretch of the imagination.

Mr. Oliphant: Almost all of this tungsten goes into the manufacture of paint and varnish and the cleanest way to do it is go to the head of that group and say, Do you fellows want to buy it? They say, We don't have the money. 'We will let you have the money.'

HM, Jr: Chen has talked to the paint and varnish group and they have offices right here in Washington and he told me, when he was here before, they approached him. Their interest is in stabilizing the price.

I can go to the President and say, They have 80 million ounces of silver, but every nickel is pledged. The question is do we want to buy this stuff -- I think a large proportion is going to Germany -- do we want to buy this silver that's all going to go to these countries or do we simply say let the English buy that.

Dr. White: These are debts they accumulated.

HM, Jr: I went terribly far when I went on these

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other Government loans.

Dr. White: That would not be involved. All you are saying is that whatever acquisition of money they get here, they would have to spend here.

HM, Jr: New money for new supplies. But I did not want to go to the extent of saying, The stuff you have bought, go see your creditors and pay them in silver. I couldn't do that.

Mr. Oliphant: You agree that if in this thing is involved the merchandising, that should be done by a private corporation?

HM, Jr: There is one -- Sherwin and Williams is the biggest one.

Mr. Oliphant: In the meantime you don't want any work done on that? It will take a lot of time. If you get the right man and he came in the room and you could say, Will you do this? Leon would know.

HM, Jr: I would gain time and so would the paint and varnish people.

Dr. White: I anticipate trouble there.

HM, Jr: This is the way of handling tung oil. I think the way to do it is -- I don't want to pull a Roosevelt on you, but I had already thought of it -- we had conversations with them on paint and varnish and he told me he had seen this fellow and he said 'Our interest in stabilizing the price' and if Leon knows who the paint and varnish man is, I would see him and get the thing rolling and let the fellows get together and we can finance the paint and varnish people if they need it.

Mr. Oliphant: You want to be able to say to the President, We have been all over the picture and this is all we have and it's just terrible.

HM, Jr: We have done this and seen that and every dollar they have is pledged or is going to pay bills for

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merchandise they already have got. When we buy 60 million ounces, who are we helping? We are helping this country, that country and that. Do you want to do it? The President will say, What can you do? I will say, You can just take your belt in and hitch up your trousers and say we are going to lend them a credit of \$100,000,000, which is the price of a little over one battleship. But we have to do it so he won't go through this and say, Why don't you do this and do that? .

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September 22, 1938

At a quarter to five, McIntyre telephoned to say that the President said, "Tell Henry that I am going to hold up the signing of the Delano commission for two or three days. It's too much like spitting in a fellow's face and we will wait until Jefty gets back to the Pacific Coast before we do it."

THE SECRETARY OF THE TREASURY
WASHINGTON

Sept. 22, 1938
not sent

File

Dear Mr. Hawks:

I am writing in reply to your letter of September 1, in which you ask a number of questions about the old-age pension plan which is now demanding the attention of the people of California. I am setting down your questions in order, with a summary answer to each of them, which I shall later explain.

1. "Would this plan, known as the Old Age Retirement \$30 a week plan, which is to be on the November ballot, if carried, be constitutional, to the best of your knowledge?"

Answer. The constitutionality of the plan if it is adopted by the voters of California will be for the Federal courts to decide. I am informed that there is a strong likelihood that it will be held unconstitutional.

2. "If successfully passed and other states did likewise, would it not disrupt our monetary system?"

A. It is my opinion that if the plan were put into effect in California, and in other states, the monetary system of the country would be very seriously disturbed.

3. "Could such plan be made to work permanently?"

A. It is my belief that it could not.

4. "Can one be made to accept it?"

A. I presume this question refers to acceptance of the so-called "warrants" to be issued under the plan. It is my belief that any attempt to enforce acceptance of the "warrants" could be successfully defeated on constitutional grounds.

- 2 -

5. "Will the banks under our protected banking system be allowed to handle it?"

A. In my opinion it would be contrary to the public interest for the Federal government to permit banks subject to its supervision to accept the so-called "warrants" as cash items.

6. "If this plan is fantastic and irregular and not in keeping with good government, why can it not be discouraged in its infancy?"

A. It is my belief that the plan is "fantastic and irregular and not in keeping with good government" and that it should be discouraged by all possible means. The President has already indicated that he regards the plan as unsound.

(1) Constitutionality of the Plan - The proposed amendment to the California State Constitution contemplates the issuance by the State of "warrants", initially in the denomination of one dollar, to pensioners, and as part payment to State and municipal employees and to persons who sell supplies to the State and its subdivisions. Every Thursday, for fifty-two weeks after the date of issuance, a two-cent "Warrant Redemption Stamp" must be affixed to the "warrant" and the State pledges its credit to redeem the warrant for its face amount in United States currency at the end of that period. The "warrants" are transferable without endorsement and are non-interest bearing. As an inducement to merchants and others to accept such "warrants", provision is made to exclude transactions involving the use of them from State sales and income taxes.

The circular which has been issued to explain the amendment and urge its adoption describes the "warrants" as "mediums of payment" to be "redeemed by the State of California" and as a "super-substitute for money." The "warrants" may be used in the "purchase" of any commodity, and the holder may "spend them in the market" or "pay" taxes, etc., therewith, or "In short, Retirement Life Payment warrants will serve every purpose of commercial activities."

In other words, to put it more bluntly, the amendment purports to authorize the State of California to issue what the proponents of the law hope will serve as money.

Repeated decisions of the Supreme Court of the United States have established that the States have no power to issue money. These decisions are based on Article I, Section 8, Clause 5 of the Constitution of the United States and on Article I, Section 10, Clause 1, which reads: "No State shall . . . coin money, emit bills of credit, make anything but gold and silver coin a tender in payments of debts, . . ."

- 3 -

It seems most probable that the issuance of the proposed "warrants" by the State of California would be found to be in conflict with one or both of the above provisions of the Constitution of the United States.

(2) Monetary Effects - Disregarding the question of constitutionality, the plan if it were to be put into effect, whether alone in California or in California and other States, would have a seriously disturbing effect on our monetary system. The proposal is that the State of California shall put into circulation very large volumes of something which is proposed as a substitute for the lawful money of the United States. It is inevitable that acceptance of this new form of currency will be limited and that there will be discrimination against it. These discriminations are certain to take the form of price differentials as well as refusals to accept the so-called "warrants." Whatever the details, they are certain to result in all of the evils connected with a dual monetary system.

(3) Distribution of Tax Burden - I have not attempted to verify your calculation that the plan will involve distribution of warrants in the amount of fifteen million dollars a week, or seven hundred and eighty millions a year, but the very existence of the extraordinary fiscal scheme involved is evidence that the burden of providing pensions on the scale proposed is thought to be beyond the ordinary tax resources of the State. The plan, however, proposes a scheme of taxation which is exceedingly severe. The outstanding warrants are to be taxed at the rate of two per cent a week, which means that those through whose hands they pass must in the course of a year pay more than the full face amount of the warrants. This would appear to place the tax burden on those who may be induced to accept the "warrants" in payment for goods or services, but it seems certain that a large portion of this burden would be transferred to the pensioners and other original recipients of the warrants by refusal of others to accept them except at a substantial discount. A general sales tax of the scope necessary to provide revenue to finance so huge an expenditure would unquestionably be a heavy burden upon the people of the State. The evils of a general sales or transactions tax, however, would be less than those of a plan which concentrates taxation at an exceedingly burdensome rate on a limited number of taxpayers without any reference to the principle of ability to pay. The inequity of the plan from a tax standpoint would not be successfully disguised by the pretense of making it voluntary. But the plan also seems to involve a heavy financial burden on the State and its subdivisions which will result from remission of other taxes and the acceptance of the "warrants" in payment of taxes.

(4) General Conclusions - I believe that a cruel and delusive hope is being held out to those who expect to be beneficiaries under the plan proposed as an amendment to the California State Constitution. I

- 4 -

doubt that the plan can be put into operation, and I feel certain that if it does go into partial operation it will eventually break down, with the result that great losses will be sustained by individuals; the State Government will be seriously embarrassed and the plight of those in need of public assistance will be aggravated rather than improved, while at the same time the attempt to carry through a scheme foredoomed to failure will serve to discredit sound old-age pension proposals.

I am in full sympathy with efforts to provide added security for the aged and the unemployed whenever that added assistance can be soundly financed. Moreover, I should be the last to claim that our present social security program is more than a preliminary attempt to grapple with the problem. The coming years are bound to see reasoned reforms and extensions of a program which is still in the experimental stage. But I am unreservedly opposed to all such fantastic schemes as the California plan, which hold out false hopes to those in need of help and which threaten financial ruin to the communities which may be prevailed upon to adopt them.

Sincerely yours,

Secretary of the Treasury.

Mr. L. R. W. Hawks,
933 East A Street,
Ontario, California.

Dear Mr. Hawks:

I am writing in reply to your letter of September 1, in which you ask a number of questions about the old-age pension plan which is now demanding the attention of the people of California. I am setting down your questions in order, with a summary answer to each of them, which I shall later explain.

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- 4 -

I am in full sympathy with efforts to provide added security for the aged and the unemployed whenever that added assistance can be soundly financed, but I am unreservedly opposed to all such fantastic schemes as the California plan, which hold out false hopes to those in need of help and which threaten financial ruin to the communities which may be prevailed upon to adopt them.

I have no objection to your making this letter public.

Sincerely yours,

Secretary of the Treasury.

Mr. L.R.W. Hawks,
933 East A Street,
Ontario, California.

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ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO. CP-551
601



TREASURY DEPARTMENT
UNITED STATES COAST GUARD
WASHINGTON

September 22, 1938.

MEMORANDUM FOR: Secretary of the Treasury.

Subject: Coast Guard activities in the hurricane and flood stricken areas of New York and New England, September 21-22, 1938.

All Coast Guard forces along the Atlantic Coast north of Norfolk, Virginia, have been employed in assisting persons and property as a result of the Hurricane which struck the northeast area yesterday afternoon.

The Coast Guard is cooperating fully with the American Red Cross, State and Municipal officials.

Coast Guard planes are making a survey of the storm damage in the Providence - Narragansett Bay - Buzzards Bay and Cape Cod areas.

A Coast Guard plane has been placed at the disposal of Red Cross disaster relief representatives enroute to the stricken area.

Communication trucks and vessels are operating in the flooded and damaged areas.

Coast Guard Stations and small boats have suffered considerable damage along the south shore of Long Island and the northeast coast.

R. R. Waesche
R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.

The center of the tropical hurricane reached its highest intensity off the eastern tip of Long Island about 7:00 p.m. on Wednesday night, with a wind velocity reported as 65 miles per hour. During the day yesterday, the rivers and streams of Rhode Island overflowed their banks and inundated the surrounding cities and towns, due to a 11.4 inch rainfall in the regions. Willimantic, Conn., was reported as being the worst hit by the flood waters. The Commander, Boston Division requested the Commander, Third District as early as 10:42 to send a truck and boat trailer and a 26-ft. motor launch to Willimantic for flood relief operations. At 11:27 a.m., the Commander, Base Four advised he had received requests for Coast Guard assistance for flood relief work in the vicinity of Willimantic, Conn. Base Four reported sending two dories with outboard motors and four men, and that 26 foot motor launch would be sent upon arrival of truck and trailer from Third or Fourth District.

At 7:20 P.M., Lieutenant ~~Commander~~ DeOtte, New York Division reported that on account of the hurricane, all Coast Guard personnel, cutters, patrol boats, tugs and trucks on duty. All liberty and leave cancelled. Air station standing by to make a complete search at dawn. Cutters CHAMPLAIN, ICARUS, PONTCHARTRAIN standing by in Sandy Hook Bay. Cutter ACTIVE searching Long Island Sound for various vessels reported ashore and missing. All Long Island Stations assisting persons to safety and investigating reported distress cases. Extremely poor visibility making all operations difficult. The following Coast Guard Stations damaged:

Georgica Station, completely demolished; Mecon Station, badly damaged; Jones Beach Station, abandoned and apparently badly damaged; Oak Island Station, badly damaged; Fire Island Station, temporarily abandoned, but now in use - moderate damage. All Long Island telephone lines seriously damaged, but emergency repair force now making repairs. Three radio trucks operating throughout Long Island. Detail of 20 men from Silver Guard with two trucks operating where needed. Approximately 100 various craft adrift. Coast Guard boats assisting. Motorboat TORTOISE ran ashore near Eatons Neck Coast Guard Station and capsized - 1 man drowned, two men saved. Three barges capsized in Gravesend Bay - no loss of life. The major serious property damage is on Fire Island, Oak Island and the vicinity of East Hampton. No report has been received from the eastern tip of Long Island.

At 8:15 p.m., Ocean City Station lifeboat in response to a distress call brought the motor fishing boat HOLOKAI (No. 110486) through dangerous seas to Ocean City Inlet.

At 8:35 p.m., the GENERAL GREENE reported that one warrant officer and two enlisted men were believed to be drowned during rescue work.

At 8:50 p.m., the New York Division reported that many were homeless during the storm, and suggested Red Cross assistance. All communication lines out of New London destroyed and power out.

At 8:54 p.m., Headquarters advised Base Four, New London, that the Red Cross advises Westerly, R.I. in need of boats., and at 8:55 p.m., Headquarters requested the Commander, Base Four, to advise of present conditions during the waterfront fire in New London and what Red Cross assistance needed.

At 9:00 p.m., Base Four reports considerable damage to Base Four, that the CG-156 and CG-171 which were standing by were washed ashore by State Pier and

extensively damaged. Remainder of fleet in safe moorings. One motor sailer which was secured on dock unaccounted for. Damage to dock extensive. Making survey of large section of City reported afire. No boats available for any assistance work as bridge to Shaws Cove out of commission for indefinite period.

At 10:p.m., Headquarters requested Fifth District to furnish any information available regarding fishing boat LANCASTER operated by J. Howard Smith of Port Monmouth, N.J.

At 10:00 p.m., Base Four reported fire at New London now under control with result that whole waterfront from about Tilley St. to nearly Howard St. about ten blocks destroyed.

At 10:03 Base Four reports fire under control with several hundred people homeless.

At 10:50 P.M., Comdr. Norfolk Division offered the services of any of his equipment to the New York Division, if needed.

At 10:53, the Comdr. Norfolk Division ordered the Sixth District in a standby status to be ready to answer call for help from the New York Division.

At 11:48 p.m., Base Four transmitted a message for a representative of the Red Cross in the area to Mr. Richard F. Allen, Commander, Eastern Area, Washington "Approximately 1000 families in New London in need of immediate relief homeless clothing and bedding gone. Fire and flood has devastated this city. Have made arrangements for use of school building as Red Cross emergency relief Headquarters. Coast Guard can assist in getting supplies and personnel into New London. Highway traffic poor and not advised. All railroad traffic out. Besides clothing and bedding extra medical supplies and food will be needed. Fire Practically out. Landing of landplane not advisable.

At 12:32 a.m., Thursday, New York Division ordered the Cutter MOHAWK to proceed to New London, and to establish communications with Base Four when possible.

At 12:40 a.m., the Boston Division reported the following received from Ditch Plains Station via Cutter ARGO "Ditch Plains reports that he is out of commission on his receiver but he can work his transmitter. His boat house has been washed away and he only has one boat left and it is out of commission/ Communication with him has been arranged through WOR in Newark, N.J., as they are sending to him on a broadcast and receiving him on a small set they have at that station.

At 12:45 a.m., in reply to a message from Headquarters, the Fifth District reports unable to obtain information concerning the boat LANCASTER.

At 12:51 a.m., the New York Division told the Norfolk Division that equipment from the Norfolk Division would not be needed in the emergency.

At 1:20 a.m., Base Four, reports Shaws Cove bridge warped and out of shape and that a barge is sunk in the draw. No definite time for opening.

At 1:30 a.m., Headquarters advised Base Four that four Red Cross Disaster Representatives were now enroute New London from Washington.

At 1:35 a.m., Headquarters ordered New York Division to have seaplane standing by to transport Red Cross officials to New London.

At 2:35 a.m., New York Division reported to Base Four that a communication truck was departing Hartford, Conn. at daybreak to report Base Four for duty.

At 2:50 a.m., New York Division ordered New York Air Station to keep suitable plane available to transport Red Cross Officials to New London.

At 3:32 a.m., Boston Division reports indicate many cottages along

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Buzzards Bay washed into sea, with Cutter ARGO making survey this area. Communication with Providence, R.I. and area to south impossible. Detailing CHELAN to make survey Narragansett Bay area.

At 4:00 a.m., New York Division offered services of a cutter of the New York Division to the Boston Division, if needed.

At 4:13 a.m., Headquarters in a message to Commander Yeandle, New York asked if Major Huntington, Long Island Representative of the Red Cross could be contacted in regard to rendering assistance to population devastated.

At 4:06 a.m. Headquarters advised the New York Division to meet emergent situation and obtain first aid medical supplies in an amount not to exceed \$200 and arrange delivery via Coast Guard craft to Red Cross Chairman At New London. Red Cross will reimburse Coast Guard.

At 4:20 a.m., New York Division advises Tug PRISCILLA ALDEN departing Bridgeport at about 4:15 a.m. to search vicinity east of Middlefround for Bridgeport, Port Jefferson, Ferryboat Park City. New York Division ordered Cutters ACTIVE and GALATHEA assist in search as practicable keeping contact with Boat PRISCILIA ALDEN in area for further information.

At 4:35 a.m., Boston Division requested cutter of New York Division to proceed Narragansett Bay for survey of damage from storm. No communication from that area nor from Providence.

At 5:05 Cutter ACTIVE reported departing entrance Manhasset Bay on duty assigned.

At 5:54 a.m., the Cutter PONTCHARTRAIN departed Stapleton, S.I. for survey of Narragansett Bay.

At 6:10 a.m., The ALCONQUIN was reported proceeding investigate wrecks at Bakers Island.

At 6:53 a.m., the New York Division ordered the Cutters ACTIVE and

GALATEA to proceed to the assistance of the SS PARK CITY 8 miles east of Stratford Shoals with American Flag upside down, with further orders for the ACTIVE or GALATEA to turn over the SS PARK CITY to either the Cutter MANHATTAN or Tug PRISCILLA ALDEN for tow to Bridgeport.

RECEIVED
APR 25 1942



DEPARTMENT OF STATE
WASHINGTON

*filed this date
in R. Tolson's
town folder.
(Su p. 250)*

September 22, 1938.

My dear Mr. Secretary:

I am sending section three of a strictly confidential report transmitted at your request by Mr. Royal Tyler through our Embassy at Bern.

Sincerely yours,

Herbert Feis
Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

Paraphrase of Section 3 of no. 69, from Bern, September 21, 1938.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.



DEPARTMENT OF STATE
WASHINGTON

September 22, 1938.

My dear Mr. Secretary:

I am sending the first two sections of a strictly confidential report transmitted at your request by Mr. Royce Tyler through our Embassy at Bern.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

Paraphrase, No. 69,
Sections 1 & 2, from
Bern, September 21.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

September 22, 1938

My dear Mr. President:

Inclosed is a confidential report from Mr. Royall Tyler, who went to Germany at my special request.

Sincerely yours,

The President,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 22 1938

TO Secretary Morgenthau
FROM Herman Oliphant

I think it would be appropriate for me to record for the files the history of the Zabala incident.

On September 10, Sullivan & Cromwell notified the Stimson firm that they had served Zabala with a notice to examine him. The Stimson firm immediately telephoned Bernstein. In agreement with Stimson's firm, Bernstein got in touch with the Spanish Embassy and told them to have Zabala go to Stimson's office on that day to get ready to go to court on Monday. On Monday, Stimson's firm got the matter adjourned for a week. Zabala had his own lawyer, and both that lawyer and Bernstein discussed with the Spanish Embassy the possibility of obtaining diplomatic status for Zabala. It seemed appropriate to have the Spanish Embassy make the application on the assumption that the State Department would consult the Treasury Department before acting adversely to the Treasury's interests. Furthermore, it was preferable that the application be handled in the usual course, instead of having the Treasury contact the State Department in advance, in order to lessen the possibility of Sullivan & Cromwell charging that the Government was trying to suppress evidence. When Bernstein told this to the officials of the State Department at a conference, Moore and Hackworth appeared to agree.

The State Department had the following notices of the Treasury's interests in the litigation:

1. John Foster Dulles of Sullivan & Cromwell wrote to the State Department about the case in July and the State Department told him the matter was in the hands of the Treasury.

2. The Spanish Embassy tells us that, after it had applied for diplomatic status for Zabala, an Embassy official had a conference with the State Department at which time he explained the reasons for the application to the State Department and the nature of the Treasury's interests. The person at the State Department denies that he was told by the Spaniard of the Treasury's interests.

3. In connection with this very application and before it was acted upon, the State Department had a letter from Sullivan & Cromwell which indicated the Treasury's interest in the case.

4. Finally, when the State Department was discussing the case with the Spanish Embassy on September 19, the Spanish representative, in the presence of Mr. Sommerlin of the State Department, called Bernstein and told him of the action adverse to the Treasury's interests.

With such abundant and long-standing notice of the Treasury's interest, it is formal for the State Department now to object that we did not call them in advance instead of handling the matter in the usual course, they calling us when the application was formally presented to them since they knew our interest.





DEPARTMENT OF STATE
WASHINGTON

September 22, 1938.

My dear Mr. Secretary:

I enclose for your confidential information a copy of paraphrase of a telegram just received from the American Embassy at Rio de Janeiro with regard to a possible credit from the Export-Import Bank to the Bank of Brazil.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

Paraphrase, No. 219 of
September 21 from
Rio de Janeiro.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: September 21, 1938, 1 p.m.

NO.: 219

CONFIDENTIAL.

When Mr. Pierson of the Export-Import Bank of Washington was here recently, he examined at close range the effect upon American trade of the exchange difficulties of the Bank of Brazil. At that time the Bank indicated that should it be able to get a credit from the Export-Import Bank, the Bank of Brazil would be willing to guarantee that the exchange derived from such credit would be used exclusively for imports from the United States. Furthermore, the Bank of Brazil would be able to guarantee immediate exchange cover for all merchandise coming from the United States.

The following is the substance of a telegram which Mr. Pierson has now sent to me:

Mr. Pierson is willing to recommend that a credit be granted by the Export-Import Bank to the Bank of Brazil to be used exclusively for providing exchange for imports from the United States. He believes that the credit should be limited to one year, or at the most 1 1/2 years, and that it should be payable in regular instalments. The unconditional guaranty of the Bank

of

- 2 -

of Brazil would be necessary, and, if the amount is large, possibly part collateral. Should I approve of this, Mr. Pierson said he would cable the Export-Import Bank to discuss the matter with the State Department and the Treasury Department. Mr. Pierson said he was convinced after visiting Argentina and Uruguay that this approach is the best possible method of preventing European countries from taking further business from the United States. Mr. Pierson stated he was leaving Buenos Aires for Santiago tomorrow, September 22.

I have no objection to Mr. Pierson's asking the Export-Import Bank to discuss this matter with the State Department and the Treasury Department, and I so informed Mr. Pierson.

The Bank of Brazil's exchange situation is far from satisfactory, and I am convinced that the Bank will be forced to adopt measures tending further to restrict imports from the United States unless the Bank receives some assistance.

It is requested that the Department of Commerce be informed of the foregoing.

Jefferson Caffery,
American Ambassador, Rio de Janeiro.

JR

GRAY

Praha

Dated September 22, 1938

Rec'd 12:40 p.m.

Secretary of State,
Washington.

218, September 22, 1 p.m.

General protest strike called by laborers, half successful, involving suspension of work on our shelter, huge demonstrations in Praha last night crowds orderly considering size and occasion. Definite Communist note singing Internationale and using salute, many demands for military dictatorship. Castle grounds under heavy protection. Praha police in full control. Authorities consider demonstrations natural reaction and not dangerous. Believe no military measures have yet been taken, anti foreign feeling growing particular animosity towards British and French. Attitude friendly to Americans on identification. Present Government has resigned and revision of the Government is now being discussed and new Government will be announced by Benes any moment. Foreign Office claims it will remain a civil Government.

CARR

RR:CSB

JR

GRAY

Praha

Dated September 22, 1938

Rec'd 1 p.m.

Secretary of State,
Washington.

220, September 22, 4 p.m.

Trading in securities suspended September 21 until further notice but foreign exchange market continued to function. Skoda debentures in London remained at 48 but the Czech loan and Praha bonds were not quoted. Government decree dated and effective September 21 seriously limits bank deposit withdrawals. On demand accounts as of that date deposits may not exceed 3% per month except ^{that} 600 crowns may be withdrawn on accounts under 20,000 crowns. Enterprises may withdraw 25%. Equally restrictive measures on savings deposits. Old Austro-Hungarian banknotes included in the banknote circulation figure of National Bank are excluded from sight liabilities in order that gold cover might remain above legal minimum of 25%. New legal measure provides higher fines and longer terms of imprisonment for persons smuggling currency and engaging in unauthorized exchange transactions.

Repeat to Commerce.

KLP

CARR

PARAPHRASE OF TELEGRAM

FROM PARIS

No. 1540, September 22, 1 p.m.

RUSH - STRICTLY CONFIDENTIAL

Wilson was told this morning by Rochat that it was his expectation that Hitler would move armed Sudetens in within the next two days and occupy the entire Sudeten German district. According to him already Asch had been occupied this morning.

It was stated by Rochat that he holds the conviction that Hitler will this afternoon confront Chamberlain with another ultimatum. It is his belief that a demand by Hitler for complete dissolution of Czechoslovakia is not unlikely. It would mean immediate war if that should be the case. According to Rochat it could not be conceived that the entire disappearance and dismemberment of Czechoslovakia would passively be watched by the French people. A wave of popular indignation would arise and sweep everything before it with a demand for war against Germany notwithstanding any fear that the meaning of this might be national suicide. British opinion, it is his belief, will have the same reaction. (End of Section 1)

SECTION 2

Rochat is convinced that should matters come to war the Soviet Union will immediately enter against Germany.

Rumania

-2-

Rumania will also. The position of Yugoslavia is open to more doubt. It is clear that on the opposite side Germany, Hungary, Italy and Poland would be in coalition.

This afternoon, according to Rochat, the British Prime Minister was bringing on a platter complete satisfaction with respect to last week's ultimatum from Hitler. (It seems, incidentally, that in fact this ultimatum had a time limit because there was a "suggestion" from Hitler that by Wednesday of next week, that is to say, yesterday a satisfactory answer should be given to him.) Should he now, on top of this astounding diplomatic victory which has for meaning that already Hitler has become master over central Europe if not all Europe, insist upon extinguishing the existence of Czechoslovakia or upon invasion at once with military force of the Sudeten German district without a decent allowance of time even several days for control to be transferred there could be only one result, war.

BULLITT

GRAY

LONDON

Dated September 22, 1938

Received 4 p.m.

Secretary of State

Washington

995, September 22, 7 p.m.

In view of the report in the radio bulletin of a conference between a Chinese financial delegation and the Secretary of the Treasury, I wish to refer to my 924, September 14, 5 p.m., and previous communications regarding the status of Anglo-Chinese discussions for British financial aid to China. At the same time I venture to give you my feeling which is based on nothing tangible that the group of Cabinet Ministers and permanent officials who threw their weight against the giving of a British guaranteed Government loan in July, is now even more strongly opposed to British intervention. No doubt the critical European situation has strengthened their belief in the rightness of their previous decision but even before the Czech situation came to a head Sir Charles Addis, for example, who is nothing if not favorably predisposed to the Chinese in a confidential talk with a British banker emphasized the view that in the long run Great Britain would have to work with and to some extent through the Japanese in fostering its interests in

- 2 -

China and he went on to comment on the fact as significant that the Japanese had not broken up the maritime customs organization and that this would eventually furnish an important means through which "we can rebuild".

With the above in view an opportunity was taken to talk with Leith-Ross. He implied that no substantial financial aid for the Chinese was contemplated but he added the proviso that in the event of a European war such assistance would certainly be given. Inasmuch as Leith-Ross had personally advocated the British Government guaranteed loan it may be of interest in connection with the above that he stated that the recent Japanese actions in Tientsin had disillusioned some of those who were hopeful that Japan would ultimately cooperate with other interested powers in China. Leith-Ross went on to say that he understood that whereas the Chinese still had a substantial amount of foreign exchange most of it was earmarked against commitments already entered into. Although there was still a steady trickle of silver coming in from private hoardings his estimate was that the Chinese Government would have very little silver available for sale in the new year. Chinese exports through the south were still holding up comparatively well and the Chinese had been quite competent in obtaining the resulting foreign exchange. But he expressed

- 3 -

pressed surprise that the Chinese had continued to service their foreign obligations and did not expect them to do so much longer.

Leith-Ross was impressed by the resistance the Chinese had put up over Hankow and was not at all sure whether it would be taken within the Japanese time limit. He estimated Japanese casualties in China thus far at about a quarter of a million, 60% of which were due to disease. Since the recent change of tactics Japanese losses had been increasingly heavy, nevertheless there were this week new indications that they might extend their operations to the south. He estimated this would require a further 200,000 troops and such a move might be "in China's ultimate interest" and he reiterated his belief that in the long run the Japanese would not be victorious.

He said that he understood that some of the Chinese Government's financial advisers feared that the internal financial situation might reach a point which would cause the Chinese to lose faith in their currency and banking system which would in turn cause a loss of faith in the authority of the present Chinese forces. This might make them willing to work under puppet Government control. However, the British Embassy in China did not agree with

this

- 4 -

this view; they felt that Chinese nationalism was sufficiently aroused so that the average Chinese would stick by his currency almost regardless of its backing and continue to oppose Japan. Leith-Ross felt that on this question the situation turned and he indicated that he had pointed out to the Japanese here the unwisdom of their taking steps to undermine the Chinese currency; that if they brought chaos to China they in turn would suffer as well. In this connection the head of the Yokohama Specie Bank in London had called to see Leith-Ross and made strong protestations to the effect that Japanese commercial and financial interests and in particular his bank were strongly opposed to any action which would seriously undermine the Chinese dollar and he went on to inveigh in the usual manner against the Japanese militarists.

Incidentally it is Tani in Shanghai who from time to time makes approaches to the British respecting Anglo-Japanese aid for the margin and control of Chinese currency.

KENNEDY.