

(NOT FOR PUBLICATION)

NOTES ON A VISIT TO JAPAN - AUGUST 1938

M. S. Bates

Visits to three summer resorts and two larger cities gave me opportunities for speaking in small groups to more than 300 missionaries and to a fair number of Japanese. The purpose of such contacts was to give needed information and answer eager enquiries which poured in from every corner; likewise to learn as much as possible about the attitudes and problems of the Christian movement, particularly in relation to the war and the intensification of military nationalism. It was not so easy as formerly to get in touch with Japanese or to have them speak freely. Nevertheless old friends and a few new ones made through trusted intermediaries, were willing to say exactly what they thought and felt.

The general sentiment of the people is that of willingness to follow the Government's program, but with less enthusiasm than in earlier months. The original slogan, "Hail to the Punitive Expedition!" has given way to the widespread army advertisement, "Support the New Military Enterprise for the Long Struggle". In general people are the creatures of nationalist education and of comprehensive propaganda. They believe that their army is performing a necessary task and that proper effort and sacrifice will secure a result beneficial not only to Japan but to the Chinese people and even to the world.

Some groups even in Christian circles go much beyond this position and surely cherish an ideal of a holy war by a righteous nation against evil influences. They are generally thinking of Communism and white man's Imperialism as greater enemies in China than is anything specifically Chinese. On the other hand, there is a considerable minority of the people who feel that something is wrong but are not very clear as to what it is and certainly see no way to remedy the difficulty. Within Christian circles there are some finely sensitive spirits who are greatly distressed for the evil that has been done and for the consequences to China and to their own nation. These persons are under great strain and often are unable to work out a steady philosophy of expression or of action.

Missionary attitudes have developed very well by comparison with those of 1931 and 1932. Although some are influenced by incessant propaganda and all are rightly trying to maintain sympathy with the best elements in Japanese life past and present, the missionaries in Japan are practically unanimous in their opposition to the present war. Indeed, three or four leading missionaries informed me that they could name at most two missionaries who supported the war in any considerable degree. Although the reports I had given were extremely painful to those who have made the love of the Japanese people the major interest of their lives, I was nevertheless received with hearty interest and was given active cooperation in every place. Missionaries have helped a great deal in the

circulating of information received either directly from China or through foreign countries. Many of the best Japanese depend upon them for facts and for spiritual support in their own tribulation.

Now let us insert a few factual items regarding the general conditions in Japan as they relate to the war and to our expectations for the coming years. In the first place I find no indications of a shortage of man-power. The experience of the world war should enable us to realize that the nation of nearly eighty million people must experience prolonged and intensive military losses in order to feel any real shortage of men. As a matter of fact the unemployment of large numbers of able-bodied men is characteristic of the present situation. (Most of these have been displaced from ordinary industries closed because of the diversion of materials and foreign exchange to war purposes.) Furthermore, a number of divisions have recently been returned to Japan and set free for civil life. I was able to trace four of these in detail. The program seems to be to give field experience to as many of the soldiers and reservists as possible by putting them through the China experience in series. Only within the last two months has there been a noticeable direction of new calls to the army toward young men, say 18-25.

Again, if we consider the probable casualties in China, we confirm the impression that there is no shortage of material for soldiers. If we assume that the total casualties were about 500,000, that might mean 300,000 killed and seriously wounded. Each year the surplus of births over deaths in Japan is 950,000. If we eliminate females and those males who do live till military age, we would have a figure not greatly different from the 300,000 put out of action. In other words, military man-power stands today at about the same point as at the beginning of the war.

On the economic side my information is not secured from inside sources, but rather from a careful reading of financial and industrial passages of the newspapers checked by enquiries among foreign friends of many types. On the whole there has been no serious economic pressure up to the present time. Just now shortages in coal, cotton, leather, some types of metal goods, paper, etc., are touching the general life of the people. The stores and warehouses seem as full of goods as usual and irritations arise rather from the bureaucratic control and the methods of its exercise than from actual want of necessities. Sharp actions were taken this summer by government authorities to reduce the use of cotton and of leather, but within a short time most of the restrictions were removed or modified because of popular protests on the one hand, and on the other hand the bringing forth of evidence that supplies were greater than at first estimated. There is a special economic police which is already encountering many difficulties in enforcing the regulations. The newspapers admitted that in Osaka one ring of cotton operators alone diverted fifty million yen of cotton goods to uses

contrary to their licenses and to the public regulations. All in all the economic problem cannot be considered critical at this stage.

Despite minor leaks through travellers, the Government has been able to maintain its official exchange rates between the yen and western currencies. Internal bonds are reported as selling above par, which is of course in a market maintained by government pressure upon banks, insurance companies and industrial corporations. Japanese bonds in New York and London yield from 11 per cent upwards on the basis of current prices at half their par value or less. Even this low valuation of Japanese credit is higher than it should be because the Japanese Government has mobilised the foreign securities held by Japanese interests abroad and has used them to buy in London and New York all types of Japanese bonds. This procedure has supported the price of the bonds and at the same time has reduced the foreign-held obligations of the Japanese Government and of semi-official industrial concerns. The common currency shows war-time changes of minor importance. The 50 sen paper note is being extended and new coins apparently without nickel are replacing the familiar 10 sen and 5 sen pieces.

Special mention should be made of the intensification and speeding up of a Japanisation program in Korea and Formosa. In the latter the changes of recent months are so rapid as to be startling. No publication in the Chinese language is permitted. All Chinese teachers have been forced out from middle schools and higher schools. In the primary schools Japanese applicants for teaching positions are given such preference that they are swiftly displacing the former Chinese teachers. In the two large normal schools of the northern part of Formosa only five Chinese students were admitted in this year's entering class as against more than a hundred Japanese. Local police are required to report on the language used in every home. Those families which are listed as using Japanese only, receive preference in the granting of business licenses and in educational opportunities for their children. School administrators and teachers are held responsible for the displacing of Chinese idols from the pupils' homes and for the introduction of Shinto god-shelves. The wearing of Chinese costume has been forbidden, but this decree is not yet enforced. The churches are being pressed to use the Japanese language and a first definite step is made this autumn with the requirement that on one Sunday of each month everything read, spoken and sung in the church service must be in the Japanese language. The Government radio has repeatedly broadcast the statement that all foreigners are spies, especially missionaries. At one time the radio announced that two missionaries had been imprisoned and one missionary executed for espionage, reports which of course were false.

The many forms of nationalist pressure upon Japanese Christians and upon missionaries in Japan cannot be detailed here. No missionary group has acceded to the many requests that they issue statements supporting the

Japanese Government and Japanese cause. Missionaries are therefore subject to suspicion as an alien element unsympathetic in time of crisis. Some of the nationalistic Christian leaders oppose and criticize the missionaries very severely for their quiet but steady witness against the war. Among the Japanese, responses to the pressure are mixed. Some submit because they do not know any effective way to resist. Some are led to take a strongly nationalistic stand in order to demonstrate that Christianity is compatible with the national spirit in time of emergency and also to lessen distrust of themselves and of the Christian organizations in which they work. The methods of the police at times are seriously embarrassing and even oppressive upon pastors and active Christian workers. In scores of cases Christians have been required to declare inner beliefs and attitudes upon crucial questions such as the relative status of God and the Emperor, the attitude of Christianity toward the mythical divine spirits from which Japan is supposed to have sprung, the relations of Christianity with Shinto as the national religion of Japan, etc. There are tragic cases of conformity and surrender to the demands of absolute nationalism. There are also examples of earnest heroism in maintaining Christian attitudes and in presenting a genuine Christian message in the midst of this situation.

A word must be said about the efforts of Japanese Christians to do something in China at this time. Here the persons, their information and their attitudes vary widely. Not a few are fully sincere in their intention to do some good as an offset to the suffering resulting from the war. They find themselves unable to do much in Japan itself and they hope that they will be able to make some atonement or some contribution in Christian service to China. Others are more politically inclined and wish to see the displacement of a Christianity having western connections by the introduction of Christianity under Japanese auspices in direct fellowship with the Chinese. Many specific enterprises or visits that are undertaken are based upon inadequate information or even upon serious misinformation. In general I recommend that Japanese Christians concerned with such enterprises be met with frank friendliness, accepting their motives as good but helping them to see the actual facts and the tremendous spiritual difficulties in their way. Already a number of important contributions to Japanese facing of the problem have been made by such visitors to China who have been fairly received among missionaries and Chinese Christians. Our motto should be, "Speaking the Truth in Love" and we should be sure that we honestly fulfil the last term of that motto. Japan so desperately needs right Christian attitudes and the Christian appreciation of the situation in China that we must not throw away any opportunity for genuine fellowship with Japanese of good intentions, even though they are imperfect like ourselves and are often misled or put in a false position by their military.

Finally it must be said that present conditions and present attitudes in Japan as a whole do not provide hope for an early change of policy or for the consideration of a fair and reasonable peace. That day seems far off, yet may come a little nearer and a little sooner if there are persons ready in knowledge and in attitudes and convictions to take advantage of all opportunities

which may come from military or economic difficulties. The direct relations with China may possibly be affected by the obvious Japanese determination to fight Russia at some time. However the summer's experience seems to indicate the desire of Japanese military leaders for more time to solve the Chinese problem as completely as they can and likewise to prepare more specifically in transportation and other technical lines for the struggle with Russia.

For obvious reasons the real life behind this report, that is, the names of persons and the details of difficult stands made by heroic spirits, cannot be presented here. The facts justify the use of sympathetic imagination to fill in this dry outline.

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TREASURY DEPARTMENT
 Office of the Director
 Internal Revenue Service

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AMERICAN CONSULATE

Yunnanfu, China, November 3, 1938

SUBJECT: Preliminary Report on the
Yunnan-Burma Highway.

The Honorable

The Secretary of State
Washington.

Sir

I have the honor to state that the Yunnan-Burma highway will soon be open to traffic. Latest reports are to the effect that the surfacing of the highway on the Yunnan side has been completed as have also practically all bridges. Where stone bridges have not yet been completed satisfactory temporary bridges of wood have been built. Trucks and busses have been reported on all sections of the road but thus far through traffic has not yet commenced. It is stated that the section of the highway in Burma is still not completed, and thus the highway will probably not be open for through traffic on a large scale until January 1939.

The necessary arrangements for the operation of fleets of trucks and busses on this highway do not appear to have been made as yet. No adequate preparations have been made for the repairing and servicing of motor vehicles at terminals and at places along the route. Supply depots of gasoline and oil have not yet been established. It would thus appear that maximum use of the road cannot be made in the beginning because of delay in this regard.

A basic report on this road will be submitted later but the following facts may be of interest:

ROUTE: The highway follows a westerly direction from Yunnanfu to Siakwan () a distance of 425 kilometers, via Tsuyung (). This part of the road has been open to traffic for three or four years but the part from Tsuyung to Siakwan has only been surfaced this year.

From Siakwan the highway follows a northwesterly direction to Yangpi () then a southwesterly direction through Yungping (), Paoshan (), Lungling () Mangshih () to the small border town of Wangti (). At Muse on the Burma side the road branches, one route going northwest to Bhamo, the head of steam navigation on the Irrawady River, via Namkham and the other south to Lashia, the railhead, via Kuthai. The distance from Siakwan to Lashia is reported to be 784 kilometers and the total distance from Yunnanfu to Lashia 1209 kilometers, or approximately 750 miles. The distance from Yunnanfu to Bhamo is approximately the same.

GEOGRAPHY: Along the route from Yunnanfu to Siakwan no great engineering problems were encountered in the building of the highway although landslides and washouts have been frequent. There are four passes of between 9,000 and 10,000 feet in this part but since the country is all above 8,000 feet these passes are not high. Along the route west of Siakwan the engineering problems were more difficult. The Yangpi, Mekong and Salween Rivers, all of which lie in deep narrow gorges had to be crossed and considerable rock work was necessary at certain places. The bridging of the

rivers has been successfully accomplished. There has for some years been a suspension bridge across the Salween River for the caravan (pack mule) traffic, and this has been strengthened to carry a load of 18 tons. The bridge over the Mekong River, which is also a suspension bridge, was purchased in Burma where it was intended for another river. It is reported to have fitted perfectly into the bridge site for the Mekong River crossing. This bridge is stated to have a load capacity of 15 tons.

CLIMATE: The rainy season at Yunnanfu has now ended and for the next six months dry weather may be expected between here and Siakwan. However, nearer Burma the dry season is reported to be shorter. I am informed that the dry season on the border consists of the months of January, February and March only. Presumably in the case of a surfaced road the question of rains would not enter into consideration, but in this instance traffic will doubtless be often interrupted by landslides and the destruction of small bridges caused by heavy rains. Constant attention to the road will be required during most of the year if the route is to be kept open, and this will require the employment of thousands of people.

An American has just left for Bhamo by private motor car over the new road and expects to be back in Yunnanfu in about a fortnight. Upon his return additional information will be available as to the condition of the road and the preparations which have been made for traffic over it.

Respectfully yours,

PAUL W. SMITH,
American Consul

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 3, 1938.

TO Secretary Morgenthau
FROM John Hanes

A conference was held in my office at 11 o'clock this morning to discuss the cut-back practice in connection with your requests for the RFC to purchase preferred bank stock. The conference was attended by Messrs. Taylor, Oliphant, Upham, Duffield, Foley and myself.

The specific question was whether you should request the RFC, in line with their recent proposal, to purchase preferred stock of the Patchogue Citizens Bank and Trust Company, Patchogue, New York, in an aggregate par value of \$200,000 the subscription price, however, to be \$500,000. After much discussion, it was decided by the conference that you should make the request provided the subscription to the preferred stock is conditioned upon an undertaking by the bank to reveal in its financial statements the true condition of affairs, i.e., that following the preferred stock item in all of its financial statements a brief explanation is made showing that the subscription price upon which dividends will be based and repayment made in the event of retirement or liquidation is \$500,000 instead of \$200,000. Even though the cut-back practice is permissible under section 345 of the Banking Act of 1935, it was the sense of the meeting that you should exercise your statutory functions in such a way as to protect the public from being misled in a situation such as this where full disclosure is in the interest of the public as well as the stockholders and depositors.

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If this recommendation meets with your approval, the request to the RFC in the Patchogue as well as in all future cases involving the cut-back will be conditioned in this manner.

John W. Hanes -

Recommendation approved:

Secretary of the Treasury

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: November 3, 1938, 6 p.m.

NO.: 831

FROM THE SECRETARY OF THE TREASURY.

FOR COCHRAN.

The following is strictly confidential:

This is to inform you, for your guidance, that the Bank of England has advised the Federal Reserve Bank of New York that they still do not have sufficient exchange for forward deliveries against sales made the latter part of September; they lack approximately one hundred million dollars. The Bank of England has not yet decided whether these sales will be liquidated by further shipments of gold to the United States, or whether they will swap these contracts into later future deliveries.

You are requested to mail to Butterworth a copy of this telegram.

HULL (FL)

EA:HF:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 3, 1938, 6 p.m.

NO.: 1861

FROM COCHRAN.

The October 27 Bank of France statement showed no important changes. Covered moved only from 40.47 to 40.69.

At a quarter of six when I talked with the Bank of France I was told that today the exchange market had been inactive and nothing had been done by the French stabilization fund until late this evening when at 178-79 a very little sterling was sold. There was a little more bidding in the forward franc. Yesterday's gains in French rentes and shares were not held. The belga is remaining steady as short covering is continued from London.

Governor Fournier of the Bank of France was consulted by Reynaud, as well as the experts in the Finance Ministry, but he has issued no new statement. All sorts of predictions and rumors as to the prospective plans of Reynaud are being circulated on the market and in the press. In this connection you may find it of interest to refer to my telegram No. 860 of June 1, 4 p.m., in which I reported a confidential talk which I had with Reynaud on that day. He had given me five points which he favored then -

First. A Government of a large majority.

Second. That there be lower duties on raw materials.

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Third. At least six days work per week, and more work.

Fourth. A currency sufficiently depreciated - and his remarks upon accepting the new post of Minister of Finance would indicate that he believes this point has been reached.

Fifth. That the Tripartite Agreement should be revised to attain currency rates which are bearable. Forced conversion of rentes was opposed by Renaud, as well as exchange control. At that time he said that exchange control was "undesirable and unworkable for France as well as distasteful to the other members of the tripartite".

I refer to my telegram of October 27, No. 1828. In that telegram I mentioned the market report that so much difficulty was being experienced by Marchandean that Reynaud or Patenotre might shortly succeed him. In the telegram of June 1, No. 860, I reported that Reynaud anticipated a crisis for the Government in November because of the futility of the policies of the Government.

END MESSAGE.

WILSON.

EA:LWW

REF

GRAY

London

Dated November 4, 1938

Rec'd 3:52 p. m.

Secretary of State,
Washington.

1286, November 4, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The foreign exchange market has continued inactive. The dollar has remained comparatively stable around 4.76 and only 79 bars were sold at gold fixing at 146 shillings one penny of which the British fund supplied about a dozen. There was a tendency to sell francs on fears of further personal changes in the Daladier Cabinet but the amount of sterling lost by the French fund was small.

KENNEDY

HPD

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris

DATE: November 4, 5 p.m., 1938

NO.: 836

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

brief

In a/telephone conversation today with the Secretary Paul Reynaud said that he will remain loyal to the principles of the Tripartite Agreement and that nothing would be done to jeopardize this Agreement. The Secretary replied he was very glad to hear that and hoped that Reynaud would have great success and added that if he could be of any assistance to call on him. Mr. Reynaud made no other comments other than asking regarding the health of Mrs. Morgenthau and the President.

HULL

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TREASURY DEPARTMENT
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NOV 2 1938

EA:DJW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
DATE: November 4, 5 p.m., 1938
NO.: 1864
FROM COCHRAN

The stabilization fund had sold a few pounds at 178.81 by noon when I talked with the Bank of France. In his first talk as Minister of Finance with Governor Fournier of the Bank of France, Reynaud had positively reaffirmed his determination not to let the franc depreciate below 179.

I was informed this evening by a market trader that throughout the day exchange dealing had been light. Forward discount on the franc was slightly wider.

Lower quotation for rentes. The atmosphere is clouded with doubt and deception awaiting Government action with constant rumors with respect to dissention within the Cabinet and to political problems. Lazard is the principal seller of dollars and the Bank of Indo-China the principal buyer. Some dollars were also acquired by the National Bank of Belgium.

Interest/^{rates} on eighteen months national defense fund bonds and on two-year national defense bonds have been reduced from 4.50 to 4.25 percent.

WILSON

EA:DJW

November 4, 1938.
9:45 a.m.

Operator: Go ahead.

HMJr: Hello.

Archie
Lochhead: Good morning, Mr. Morgenthau.

HMJr: Who is this?

L: This is Lochhead speaking. Taylor and White, let's see - well everybody is coming in now. Mr. Hanes, Mr. Bell, Mr. Oliphant, etc.

HMJr: Give me the bond market first.

L: The exchange markets are still steady, but very quiet. Sterling 4.78 and francs 2.68 $\frac{1}{2}$ - a very small turn over, only seventy-nine bars this morning, so - and it doesn't look like any action here.

HMJr: No.

L: No further news from abroad. The one thing you asked me about Buck - we found from Hongkong that he left for Chengtu on October 28, and expects to return to Chungting in about three weeks time. We have his Chengtu address in case we have to get in touch with him.

HMJr: Well try to contact him.

L: Well - do you - is there any special question you want to ask him.

HMJr: Well, just ask him - try to establish communication with him.

L: I see. Well of course the communication has to go by way of Hongkong, through you see.

HMJr: Well, try it, just to see if you can get -

L: All right, we'll just simply send some simple message to get a reply and see how we come.

HMJr: That's right.

L: All right, sir. Now everybody else is here. Do you wish to speak to Mr. Hanes first.

HMJr: Yes. Hello.

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John
Henes: Good morning. Hello.

HMJr: John?

H: Yes.

HMJr: I read the letter to Giannini and Mrs. Morgenthau made this comment. The sentence, 'I have not seen the Wilcox letter referred to in your telegram', she says "Might be interpreted - sometimes politicians, when you ask them a question, say 'Oh, I haven't seen the letter' ", see?

H: Yes.

HMJr: It isn't strong enough. So I thought I'd put on this P.S. Just write it in my own handwriting, if you people agreed.

H: Yes.

HMJr: P.S. "Up to the time I received your telegram I did not know that such a thing as the Wilcox letter existed."

H: Do you want that - do you want -

HMJr: I could write it on if you people thought all right of it.

H: "Up to the time I received -

HMJr: "Up to the time -

H: - " your telegram

HMJr: - " I received your telegram I did not know that such a thing as the Wilcox letter existed."

H: Well, we could put that - we could substitute that -

HMJr: What?

H: We could substitute that for the sentence, "I have not seen the Wilcox matter and send you another copy tonight."

HMJr: Well, maybe that would be better. They could send it air mail to get it Monday.

H: Yes.

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HMJr: You see, if you read it "I have not read it" that doesn't -

H: "I have not seen the Wilcox letter".

HMJr: It isn't strong enough.

H: Yes.

HMJr: The fact remains, I never heard - I never heard - seen the letter - I didn't know it existed.

H: Yes. Wait a minute, Herbert Gaston has got a suggestion. Herbert says, he could say "I have not seen the Wilcox letter referred to in your telegram, and did not know of its existence."

HMJr: Yes. Well, maybe it'd be better to rewrite it rather than have me write it in my handwriting.

H: I don't know, what do you think about it. The rest of them all say it's much better. We'd better send you another copy tonight.

HMJr: That'll be time enough.

H: Yes. And if we - suppose we put an airmail stamp on it.

HMJr: What?

H: I say if you want to hurry it back out there, we could put an airmail stamp on it.

HMJr: No, that wouldn't help any at all. I mean airmail up here doesn't help any.

H: It doesn't.

HMJr: No, if you send it the way it does, I get it by eight-thirty.

H: All right. Now - aside from that is the letter all right?

HMJr: Oh, I think it's fine.

H: Well everyone here has seen it. I think everybody here has seen it.

HMJr: Oh, I think it's fine. I just didn't think that one sentence was strong enough.

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H: Yes. All right. Well, we'll fix that up and put it in the bag tonight.

HMJr: Number Two. That table that you sent me, see?

H: Yes, sir.

HMJr: I don't want to show the President a table with a correction, so I'd rather wait and see him tomorrow afternoon and have a corrected table.

H: Well, I'll tell you this. You notice those corrections were only in four of them, five sets, six sets, seven sets -

HMJr: I know, but he might use it.

H: Yes.

HMJr: I have time, so it could be retyped today.

H: Yes.

HMJr: I want another column in there anyway. Hello.

H: Yes. What - what -

HMJr: I want a column starting thirty - thirty thousand dollars and then showing how much is deducted - how much capital you have left at the end of each year.

H: I see. You want the subtraction - the -

HMJr: Showing the net amount/^{that}you'd have - capital invested each year.

H: I see. That's right -

HMJr:

H: All right. That'll put - in other words we just subtract the amount paid back and get the total left.

HMJr: That's right.

H: Each year.

HMJr: All right.

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- H: I don't know if I've got another copy of that thing here, or not, I can make those -
- HMJr: Well, our boys - my God, if Harris can't make one he isn't the man I think he is.
- H: Oh, they can make it all right. It's a shame to do all that work. It's a lot of work, so if we had that copy here we could save a lot of time. Maybe I can get it over at the other place, I'll send over and see.
- HMJr: Any way, let him do it, but I want the other column. I know that that was one of the points the President wanted, was how much money he'd have left at the end of
- H: Have you got that thing before you? I haven't got a copy here. Have you got it before you?
- HMJr: Yes.
- H: Tell me what the headings were, I forget. It was - first was - down one column was eighteen hundred dollars a year, straight, wasn't it?
- HMJr: Total payment. Yes, third column, eighteen hundred - as payment to interest four per cent.
- H: Yes.
- HMJr: Twelve hundred.
- H: Payment to interest is it?
- HMJr: With the principal six hundred, balance due - well they've got the balance.
- H: Balance due - that's what I thought. They've got the balance due each year subtracted already on that last column.
- HMJr: They got - well I won't bother you then.
- H: All right.
- HMJr: I won't bother you, because the corrections are so small.

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- H: The corrections - they amount to about four to seven cents, but we - I told them - I think they just ran it - they just didn't run it out to the decimal point, but we did.
- HMJr: Well, this is all right, then I didn't - the balance - I've got just what I wanted.
- H: All right. Fine.
- HMJr: I'm glad you didn't know how to figure it either.
- H: (laughter)
- HMJr: It took us an hour to do that.
- H: Well, it - it took these boys here about two hours and a half to check those figures, so it wasn't so simple.
- HMJr: Yes. Now, as to your scheme.
- H: Yes.
- HMJr: I don't like your solution. You fellows are going to have to argue with me on that.
- H: Well, what's - what's your criticism of that. You're talking now about the memorandum that we sent you on that -
- HMJr: Yes.
- H: **Cut-back.**
- HMJr: Yes. I don't - I don't see that - it's a half way thing, I don't - I don't see why we can't do it the way - truth in advertising.
- H: Well -
- HMJr: I don't see why we should buy a million dollars worth of preferred stock - call it half a million.
- H: Well, you - if you spell that thing out, if you spell it out to the final language and put the language as - as you would on the face of a statement which you are selling securities, corporate securities under the Securities Act, if you'd spell that out, you would simply say any purchase

of the common stock of this company must bear in mind that whereas the capital liability is figured at three million dollars, the real liability is seven million dollars, say, and that is represented by so many shares of preferred stock which is retirable at so many dollars.

HMJr: Yes.

H: And the common stock, under the circumstances, has no value until that amount of money has been back into the company through earnings.

HMJr: Well, John in the -

H: Now, that's the - that's what it would, that would be a hard thing to spell out, maybe, in a statement, but that would be telling the truth.

HMJr: Well, no - nobody reads that.

H: No, they can put that in fine type and you've got to have young eyes to read it.

HMJr: But nobody reads that. Now, in the case of this Long Island bank, if by my holding it up until Wednesday, I'm going to embarrass anybody, I'll let that one go.

H: Well now, wait a minute, let me find out. Herman says we've got another small one in the shop too, now. A small Pennsylvania bank, he says.

HMJr: Well if - if by my holding it up until Wednesday - I'm not going to stand in the way, but as to principle I'm not sold at all.

H: You don't like it. Well, we - we'll talk some more about it, see if we can get a better solution.

HMJr: Now I got a long memorandum from Upham on it, justifying the present way of doing it and I'm not sold.

H: Well, we'll wait until you come back.

HMJr: John, the way I feel is this. It's like selling a fellow, saying this thing is pure wool, but half of the wool was used before it was rennovated.

H: Forty per cent cotton.

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- H: Yes.
- HMJr: And the correct name for that is "shoddy".
- H: Yes.
- HMJr: Now, it's all wool, there's no question, there's all wool in it, but half of it is reused, and you call it reused instead of calling it shoddy.
- H: Yes. I believe - I believe we can - I don't know, I believe we can show you on - if we get - if we'd get up a form and say, in substance, just what - I've been talking here for the last two minutes just saying that this - there's a truth about this statement, here's the value of this stock, then you're not fooling anybody, because you're not kidding the depositors, and even -
- HMJr: I can't get through my head why the truth isn't the simplest.
- H: Well I can't either. I don't see any -
- HMJr: And I - I just can't see it, and here where we're telling the rest of the world how to run their business and be so damned honest, I think we should lean over backwards.
- H: Well, it isn't - you know, if - if Congress did this, Congress gave them the right to do it..
- HMJr: Congress also wrote the silver purchase Act.
- H: (laughter) Well, I didn't know that. I wasn't here then. But Henry, I think that, as a matter of fact, I think this thing, from a standpoint of the banks, there's a question of whether or not the banks can stay in business unless - unless these means are adopted. Now I'm not - I'm not thoroughly sold that - that it's necessary in all these case because I don't know enough about it.
- HMJr: Well, as I say, if by my taking this position, I'm jeopardizing any bank or anything else then **close** on it, but if you can hold it up until Wednesday, I'd like you to do it.
- H: Righto.

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HMJr: Now, that's fair enough.

H: Yes. Wait - wait just a minute now, Herman -
(aside) Is it going to hurt anything if we just
hold it up until Wednesday?
Well, we'll - we'll just hold it all up until you
come back unless - unless we have to go ahead with
this one, in which case we'll call you back and
talk to you about it.

HMJr: No, you needn't call me back. You fellows there
can use your own bean.

H: Righto.

HMJr: And if you've got to go ahead, there won't be any -
I won't say anything, I - I'll just leave it, if
you feel you people have to go ahead that's all
right.

H: Yes.

HMJr: But I thought -

H: Well, we won't do it unless we do have to.

HMJr: That's right, but I'm not sold as yet.

H: All right. Fine. Well we won't do it unless we
get - unless we're pushed into it.

HMJr: And I'd like to consult a couple of fellows like
Tom Smith and a few other fellows.

H: Yes. All right. Fine.

HMJr: But I'm not going to do anything about it until
I get back.

H: O.K. Now do you want anybody else here? Do you
want to talk to somebody else?

HMJr: Well, I - I want to settle this thing about Bell
who'sso generous with our fifteen or twenty
bookkeepers.

H: Well Herman is not sure that he can do it legally.
That we have any legal right to do it except to -
that is to make a public announcement of it.

HMJr: My God, fellows. What's the matter with you

- 10 -

fellows. We can do it, but not do it legally, uh.

H: Well, that's - you've already done it in one case, but -

HMJr: I know.

H: -not sure that you had any legal authority to do it. Herman said -

HMJr: If you get caught at it.

H: Yes. You didn't get caught the last time.

HMJr: Well, how -

H: Herman - why don't you talk to Herman about that? He's - he's looking -

HMJr: What?

H: Why don't you talk to Herman about it, he's looking up the law on it, or Danny Bell. Do you want any message from Dan?

HMJr: Well, have you fellows talked?

H: Yes, we have. We want to do it.

HMJr: Well then, go ahead and do it.

H: No. Herman says no.

HMJr: What?

H: Herman says no, you can't do it.

HMJr: Oh let me talk to him.

H: Until you have time. Do you want to speak to Herman now?

HMJr: Yes.

H: (aside) Come on Herman. (laughter)

Herman
Oliphant: Hello.

HMJr: Hello, Herman. Why you - what's the matter with you, this morning, anyway?

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- O: Well, I - I'm stalling for time. No, if I had to give a quick answer, I'd say there was no authority. There is one line of inquiry that I'm on now.
- HMJr: Yes.
- O: It looks promising. I want a little more time on it.
- HMJr: You want a little more time on it.
- O: Yes.
- HMJr: Well that's - all right. I - I want to be fair.
- O: All right.
- HMJr: - fair.
- O: All right.
- HMJr: You want more time. What do you want, until Monday?
- O: No, until to - this afternoon or in the morning.
- HMJr: Well you -
- O: This afternoon or in the morning.
- HMJr: Well you won't be in this afternoon - tomorrow, so you can do it this afternoon.
- O: That's right. (laughter) I'll have it by this afternoon.
- HMJr: Did Chauncey tell you that I want -
- O: Yes.
- HMJr: - Straus' office called up every day?
- O: Yes. I'm going to make a record.
- HMJr: We're waiting?
- O: That's right. I'll make a record.
- HMJr: And - all right. How about taking care of those WPA accident cases or do we have to turn them over to the ambulances?
- O: I'm on to that now.

- HMJr: Yes.
- O: Working on that case. All right, do you want to talk to anybody else?
- HMJr: You fellows got me all bewildered with your legality and your morals and everything else.
- O: Well, we go noble when you go away.
- HMJr: Yes. Except on this preferred stock.
- O: Well, I - we can talk about that when you get back.
- HMJr: I'm a simple minded country boy. A hundred dollars worth of preferred stock to me is a hundred dollars worth of preferred stock.
- O: Well, let's take a look at it when you get back.
- HMJr: I just can't get it through my bean any other way.
- O: You got my news that there's - there's another little case in the shop, to use as a test case.
- HMJr: What?
- O: You got my news, did you, that there's another little case in the shop, to use as a test case?
- HMJr: No.
- O: There is. A little pest bank in Pennsylvania just came in, so if there is any rush on the - the Long Island bank, we can go ahead with it and then use -
- HMJr: No, I still say a hundred dollars worth of preferred stock to me is a hundred dollars.
- O: Yes. But you got that other case so that if there is any rush on the Long Island case we can go ahead on it and then use -
- HMJr: All right.
- O: And use the Pennsylvania case as a guinea pig.
- HMJr: All right, what else do you know?
- O: I don't know a thing except it's going to rain. I

drove in from the bay this morning.

HMJr: It's beautiful up here.

O: It's beautiful driving in from the bay, but it looks rain - have you got sunshine?

HMJr: In case you fellows don't know it. The President goes on the air at seven-thirty tonight.

O: Seven-thirty. All right. Do you want to talk to anybody else?

HMJr: I'm - I'm available.

O: Aside (He's available if anybody wants to - speak now or hold your peace forever).

HMJr: What?

O: I told them to speak now or hold your peace forever. Steve's got his hand up.

HMJr: Who?

O: Steve. Steve's got his hand up. Not out.

HMJr: Who has his hand up?

O: Steve.

HMJr: Who?

O: Steve Gibbons.

HMJr: Gibbons?

O: Yes.

HMJr: What's on his - what's on his mind?

O: He wants the country boy to read the life of Daniel Rue.

HMJr: I have tell him.

O: Laughter.

HMJr: But tell him we don't make money the way he did.

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O: (Laughter.) O.K.

HMJr: I read it. It's a good story.

O: All right. Bring me an apple.

HMJr: Well, I'll call up between three and four. Say, listen, - bring you an apple - go up and see Eve Robbins, he's the one who distributes the apples.

O: (laughter) Between three and four?

HMJr: Yes.

O: Well, we'll have the answer on the Wages and Hour thing, by that time.

HMJr: Yes. I - I - you - well you - you'll have some ~~thoughts~~ by then.

O: Yes. O.K.

HMJr: Did we break the law when we let Social Security have those men?

O: Well, I didn't know about that.

HMJr: That's a good answer.

O: I didn't know about that.

HMJr: All right.

O: O.K.

HMJr: All right.

O: Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

NOV 4 1939

TO Secretary Morgenthau
FROM Mr. Oliphant

Re: Detailing Treasury employees to other departments or agencies.

QUESTION: Has the Secretary of the Treasury legal power to detail some of the accountants on the pay roll of the Treasury Department to the Wage and Hour Division of the Department of Labor to assist in the administration and enforcement of the Fair Labor Standards Act of 1938 by checking private pay rolls to ascertain whether there has been compliance with the Act?

ANSWER: No.

Legal Discussion

Section 166 of the Revised Statutes, as amended (U.S.C. title 5, sec. 38), is the general statute on the question of detailing Government employees. It relates, however, only to intradepartmental details and provides that the head of a department may, by written order, for a specified limited time and under stated conditions, detail an employee from one bureau or office to another bureau or office within the department.

The reasonable inference from these statutory provisions is that by stating the conditions under which an intradepartmental detail may be made the Congress intended to prohibit interdepartmental details. As a rational matter, it cannot be assumed that Congress would have intended

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to set up more stringent requirements for intradepartmental details than for interdepartmental details.

The available opinions on this subject support this conclusion.

The ordinary definition of a detail in the Government service is a loan of an employee by one department, bureau, office, or establishment to another, the employee receiving his compensation from the department, bureau, office, or establishment by which loaned while performing service for and under the direction of the other. (1914) 21 Comp. Dec. 66.

The Attorney General has passed on a similar question: Would the Postmaster General have legal authority to detail a registry clerk from the Washington post office to detached duty at the White House? The Attorney General answered the question in the negative (1904, 25 Op. Atty. Gen. 301). In support of his answer he said:

"This specific authority to distribute and detail clerks and other employees is restricted, as will be observed, to the Department in which they are regularly employed. I am unable to discover any other express authority for such service details.

"On the other hand, section 3678, Revised Statutes [U.S.C. title 31, sec. 628], lays down a fundamental rule in the public service, namely, 'All sums appropriated for the various branches of expenditures in the public service shall be applied solely to the objects for which they are respectively made, and for no others'.

* * * *

* * * * it seems clear that Congress by those various laws has strictly limited the power and discretion of a head of Department in this matter of employment and detail, to cases falling within amended section 166." (Underscoring supplied)

Amended section 166 [of the Revised Statutes] is the general detail statute referred to above. It has not been amended since the Attorney General's opinion.

The Attorney General in (1905) 25 Op. Atty. Gen. 379 adhered to his former opinion.

The decisions of the Comptroller of the Treasury and of the Comptroller General on this problem should also be noted. The Comptroller of the Treasury has held that the Secretary of the Treasury could not appoint an employee to be paid from the appropriation "Wages of Workmen, Mint at Denver, 1921" and then detail him to the Civil Service Commission, because section 3678 of the Rev. Stat. of 1873 (U.S.C. title 31, sec. 628)* directs money to be used for purposes for which appropriated. (1920) 27 Comp. Dec. 409.

I have several times had occasion to consider the legality of proposed details of Treasury personnel. I have rendered an opinion that you could not detail a stenographer, carried on the rolls of the Bureau of Internal Revenue, to the Senate Committee on Interstate Commerce. G. C. Op. No. 283 (Oct. 6, 1937). Similarly, I have also given an opinion that you could not detail Treasury employees to the so-called Civil Liberties Committee of the Senate despite a provision in the Senate resolution an-

* This Section which is referred to in the quotation from the Attorney General's opinion is still in effect and reads as follows: "Except as otherwise provided by law, sums appropriated for the various branches of expenditures in the public service shall be applied solely to the objects for which they are respectively made, and for no others."

authorizing the Committee "to call upon the executive departments for clerical and other assistants". G. C. Op. No. 285 (Oct. 12, 1937).

Specific statutory provisions, of course, could authorize such a detail as is here under consideration. I have been unable, however, to find any statutory authority for the detail in question either in the Fair Labor Standards Act of 1938 or elsewhere. Indeed, it would appear that the Fair Labor Standards Act of 1938 prohibits such a detail. Section 11 of that Act provides that "except as provided in section 12 and in subsection (b) of this section [neither of which has any bearing on the present question], the Administrator shall utilize the bureaus and divisions of the Department of Labor for all the investigations and inspections necessary under this section". The "investigations and inspections" which the section refers to are, among others, those "necessary or appropriate to determine whether any person has violated any provision of the Act". It is understood that this is the type of work which Treasury personnel would do if detailed to the Wage and Hour Division.

My conclusion is also supported by the numerous specific statutes providing for details of Government personnel. The United States Code contains more than sixty separate provisions relating to the detail of Army officers and men and more than forty relating to the detail of Navy and Marine officers and men. In addition, there are numerous detail provisions relating to the other executive departments, several of which authorize details of Treasury personnel. See, for example, U.S.C. title 5, sections 40, 41, and 253.

In this connection, no reliance is placed on U.S.C. title 31, section 673 since that section deals merely with details to commissions, councils, boards, or other similar bodies whose creation has not been authorized by law.

Lawrence O. ...

COPY

U S S Tulsa
(Hongkong)
November 4 & 5 1938

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NICHOLSON
Spagent
Washn DC

Today had confidential talk with Dr. Kan Chia Hou former Vice-Minister foreign affairs zectint(?) member peoples political assembly and personal representative of Generals Pei Chung Hsi and Li Chung Jen on military and political matters. The true story of Canton's fall is that General Yu Han Mou retreated because of his unpreparedness abetted by confusion in belief that Japanese would not attack South China - Chiang did not order retreat. Fifteen thousand Chinese troops at Bias Bay were unable to cope with twenty thousand troops landed by Japanese. General Yu had six divisions of ten thousand each at his command. Five thousand were annihilated in defense of Waichow; five thousand now surrounded near Tamshui by superior Japanese forces face annihilation; five thousand are unaccounted for; and balance of about forty thousand have followed Yu to undisclosed destination north of Canton. General Yu's stupidity caused Chiang to change plans for defense of Hankow. Two months ago Minister of War Ho Ying Chin told Dr. Kan of preparations including best troops and mechanized units to defend Hankow. When Canton fell Hankow's defense was weakened, as Japanese could then attack from south along Hankow Canton Railway. This caused Chiang to withdraw from Hankow. Wang Ching Wei's peace overture made to press after Canton's fall caused great consternation in military and political quarters, who felt he had no authority for such move without jhipmts (Chiang's?) permission.

According to Dr. Kan, Wang Ching Wei is definitely pro-Jap; his position in Chinese Government is due to backing of his three political cliques: The Independent Critics Association; Modern Critics Association; and Literal and Cultural Association. He also has behind him the powerful political science group, including 75% of bankers, mayors of towns, and heads of small political divisions throughout China. All these groups are behind peace movement.

Critics of Chiang's retention of Wang are calmed with explanation that it is best to keep Wang close to Government and thereby under control. Wang's dismissal would cause disintegration of his political backers, which would cause political unrest. Wang has played with Japanese conservative military elements for some time. He is not trusted by Stalin of U. S. S. R. and his only hope is to join Japanese peace propagandists which, in event of Chiang's defeat, would make Wang head of China. If communists gain control he would have to go abroad to escape assassination.

- 2 -

After fall of Canton General Taki approached Wang Ching Wei with proposal that he use his influence to get Chiang's resignation so that China could have peace. Wang advised Taki that Chiang would never resign, but that peace plan based on Chiang's remaining at the head of nation might be received. This proposal put before Japanese officers of young military group was flatly turned down and General Taki advised Wang that peace overture would only be promulgated on assumption that Chiang would retire. Therefore, peace overture did not materialize.

At this time, just after fall of Canton, Wang made his peculiar peace statement to press hoping to force Chiang into peace negotiations. Dr. Kan states Chiang allowed Wang to circulate peace rumors in order to get time to move ten divisions totalling one hundred thousand men to Canton area to prevent Japanese from moving north and northeast. These troops have already left for Canton under General Sih Yao and Vice-General Li Hoa Wen, to join Yu's men in Canton area, thus bringing total of one hundred forty thousand troops to prevent Japanese movement northward.

In cable to Yu, Chiang accepted full responsibility of Canton failure as Chiang feels if Yu is punished now his junior officers would become frightened of like fate and troops would probably disband. The fourth military stage is now approaching and Chiang has left for defense of China: (1) Communistic forces situated north of Yellow River; (2) Kwangsi troops under General Li now retired to area bounded on north by Yellow River, on east by railway, and on south by Yangtze, in almost impregnable position due to natural barriers. General Pei has assumed governorship of Hunan. Kwangsi will be dominated by representative of Generals Pei and Li, and the hundred forty thousand troops in Canton area will be used for defense of north and western invasion in Kwangtung, as Japanese now control Hankow and railway from Hankow to Yennin(?) and from Kukiang to Tehan. Chinese troops formerly along this line in Tehan area are being moved toward Canton. Troops now at Changsha will remain for defense of that area.

Peace groups associated with Wang are mentioned above. Political groups in Government who advocate fighting to finish are: (1) Whampoa Academy group, including Chiang's own troops; (2) Kwangsi group under Generals Li and Pei; (3) Communist group under Chu Teh; (4) Mixed group, including T. V. Soong and others. Semi-political or progressive groups comprise: (1) Kuo Min Tang; (2) Communistic party; (3) People's Front; (4) Kwangsi group. Another is Fukien group, including Eugene Chen and followers. All groups except Wang's are against peace. Dr. Chen says Chiang's future policy is continued resistance while Wang's political future rests on peace favorable to Japan.

CAMPBELL

Ho R - 234

Wmz.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 4, 1938

TO Secretary Morgenthau
FROM Mr. Oliphant

For your information:

On October 22 the Bureau of Internal Revenue referred the case of William Fox to the Department of Justice, recommending that the United States Attorney for the Southern District of New York be authorized and directed to commence a criminal prosecution of Fox for wilfully attempting to evade his individual income tax for the year 1930, joining Herbert Leitstein as an aider and abettor.

Under date of October 31, Justice addressed a letter to the Commissioner advising that it had reached the conclusion that it would not institute criminal proceedings because there was not a reasonable chance of conviction.

J. B. ...

HO

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 4, 1938.



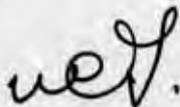
TO

Secretary Morgenthau

FROM

Mr. Taylor

Randolph Burgess called me this morning to warn us, as a friend of the Treasury, against the Straus plan of financing Housing Authorities. The point which he particularly emphasized was the one which you made in the last part of your proposed letter to the President. He felt that it would be very unfortunate for the Government if these securities were distributed privately. I thanked him for his interest and told him that we too were very cognizant of the dangers involved in the plan, and that we had come to about the same conclusions. I think that you would be interested in knowing that he felt that the tax-exemption feature, while important, was really of secondary importance as compared to the other difficulties which would attend the proposed method of financing.



Friday
November 4, 1938
1:28 p.m.

Archie
Lochhead:

Lochhead speaking. Ah - White -

HMJr:

Can you hear me all right?

L:

I can hear you all right. Mr. Taylor and Mr. White are here.

HMJr:

All right.

L:

Also Miss Chauncey in case we need anything else on notes.

HMJr:

Ah - the overseas operator says Paul Reynaud is calling me.

L:

I see.

HMJr:

And Mr. Hanes - ah - Mr. Taylor can tell you what a Reynaud is.

L:

He seems to have a knowing glance.

HMJr:

Well anyway, it's coming through and I've worked it out this way - could they let you people listen, see?

L:

Right.

HMJr:

And then look, for heavens sakes don't hiccough.

L:

(Laughs) All right, we'll - (Laughs) Mr. Taylor says it's too early for that.

HMJr:

All right.

L:

All right. Well then, we'll stand by and when they -

HMJr:

When I'm through talking to him I'll call you fellows up.

L:

I see. All right. Well then when the flash comes on we'll just lift it off and listen and then hang up again and wait to hear from you.

HMJr:

Thank you.

L:

O. K.

- 2 -

1:35 p.m.

Paul
Reynaud:

Hello. I shall do nothing in my decree laws which might jeopardize our most ardent cooperation. That's what I wanted to tell you, Mr. Morgenthau.

HMJr:

I see. Well, ah - I'm very glad to hear that.

R:

And how is Mrs. Morgenthau?

HMJr:

Hello.

R:

How is Mrs. Morgenthau?

HMJr:

She's very well, thank you.

R:

I'm glad to hear that.

HMJr:

Well I hope you have great success.

R:

Thank you very much indeed.

HMJr:

And ah - if I can be of any assistance why, call on me.

R:

Thank you very much indeed.

HMJr:

Yes.

R:

How is the President?

HMJr:

He is very well.

R:

Fine.

HMJr:

Yes.

R:

HMJr:

Well, thank you so much for calling.

R:

Goodbye, sir. Thank you very much.

HMJr:

Goodbye.

1:37 p.m.

Archie
Lochhead:

Hello.

- 3 -

Operator: Is Miss Chauncey there?

L: Yes.

O: The Secretary wants her to go into her own office.

L: Right.

O: Please.

HMJr: Hello.

L: Yes, Mr. Morgenthau.

HMJr: I apologize. (Laughs)

L: Well, I was-just want to remark that Mr. Taylor and I left a good fish there ten minutes ago for that and I think the fish was better than the fox.

HMJr: Well, that's the dammedest call I ever had.

L: Well, we sat here watching each other and waiting for what was going to come next and it didn't come.

HMJr: Well, you noticed I didn't offer anything.

L: No. No. As I say, I suppose maybe that's what he was feeling out for, to see if you'd come across with something.

HMJr: Well, I didn't think it was up to me to say anything.

L: Well, I certainly didn't think so. But somehow or other it looked like an awful miss there somewhere - whether he was expecting to say something for lead or whether he changed his mind, but to call and ask how you were and then Mrs. Morgenthau and how the President were - that's - that's a great telephone call.

HMJr: (Laughs)

L: That - I think this is a prize one.

HMJr: (Laughs)

L: (Laughs)

- 4 -

- HMJr: Honestly, sometimes this job is fun. (Laughingly)
- L: Well, it's all right. I - apparently this one, though, looks like ante-climax - this call to me. (Laughs)
- HMJr: Well, I don't know what he expected but - but certainly I didn't fall into the trap.
- L: No. No. Appar - I don't know whether he was expecting you to come out and say something and feeding him - it would appear that way. I can't see otherwise why he'd be calling.
- HMJr: Sure. It was a trap.
- L: Yes. - (Laughs)
- HMJr: And he doesn't know anything - he was trying to do a little fishing.
- L: (Laughs) Well, (Laughs), evidently the bait wasn't sufficient. In fact, I didn't think he even had a hook on the line.
- HMJr: He had a hook but no bait.
- L: (Laughs) Well, -
- HMJr: It was the silliest call I ever listened to.
- L: Ah - it certainly - it certainly was. By the way, Mr. Hanes and Mr. Gaston have just in just this moment.
- HMJr: Did you get Harry White?
- L: Why, yes, Harry White is here. Mr. Taylor, Harry White, Mr. Gaston and Mr. Hanes.
- HMJr: Well what do you make of it all?
- L: Well, ah - the - Mr. Gaston and Mr. Hanes only just came in this moment so they don't know about it.
- HMJr: Well, let me talk to Taylor a minute please.
- L: All right. (Laughingly)

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Wayne
Taylor:

Hello.

HMJr:

Wayne, you spell that one out.

T:

Well, I think it's about like this - that - you'll remember that you had various conversations with ah - on the telephone with Auriol and ah - with - with one of the other boys.

HMJr:

Yes.

T:

And that their predecessors, I mean those particular people that might apparently take ah - oh - let's say - ah - prestige of their own out of their having talked to you on the telephone.

HMJr:

I see.

T:

And this man is just doing the same thing.

HMJr:

Maybe we ought to capitalize it and sell stock against it.

T:

Well, it's ah - I think that that's probably the only thing you can put on it. And that he called you up to tell you that he was loyal to the Tripartite.

HMJr:

Well, I sounded perfectly friendly, didn't I?

T:

Yeah.

HMJr:

What?

T:

Very much.

HMJr:

Well, it's the silliest thing I ever heard.

T:

Well, the only - I think he did want to give you a chance to say anything that you wanted to.

HMJr:

Yeah.

T:

But I think that the other thing is not impossible.

HMJr:

Yeah.

T:

You see?

- 6 -

HMJr: Well, we'll see what the next move is.

T: Right. (Laughs)

HMJr: He paid for that call.

T: Yeah. (Laughs) Well, that's (Laughingly) well that's - the ones that have been longer why we've paid for.

HMJr: Of course he may call in the newspaper men and just say, "I had a call with the Secretary of the Treasury."

T: Who'll tell him that we were loyal to the Tri-partite.

HMJr: Yes.

T: And ah - that might be the right answer to it.

HMJr: Yes. Well, the next thing we know he'll get in an aeroplane and fly over here.

T: Yeah.

HMJr: All right. I'm awfully sorry to have spoiled your lunch but he spoiled my also.

T: Yeah. Well, we'll go back and see what's left of that fish. (Laughs)
Archie

HMJr: Tell me - was/there?- is the market up or down?

Lochhead: (Speaking to Taylor: Tell him it's practically up a/small volume.)
very

T: Practically up a small volume.

HMJr: Well. It's a good one.

T: Right. Ah - Johnny and Herbert are here too. Do you want - while we're here do you want to talk to them?

HMJr: Not unless they want to talk to me.

T: Yeah. O. K.

HMJr: Goodbye.

T: Right.

Operator: Operator.



DEPARTMENT OF STATE
WASHINGTON

November 4, 1938.

Dear Henry:

I hope you will be having both a good rest and an enjoyable time these next few days on the farm. Will you forgive my interrupting them with this line? There is considerable disappointment in the Department over your note of the first discouraging the idea of a proposal for periodic conferences between representatives of the treasuries of the American Republics, and I was asked to see whether you might not be willing to reconsider.

I enclose a copy of a memorandum from Welles which gives the background of his thinking.

I think there is substantial possibility in the idea. While such meetings would not, as you say, be the most effective way of negotiating specific financial arrangements, I do think they might afford an opportunity for exercising real influence in the proper direction, and of creating the personal associations on the basis of
which

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

which policy can be built.

The delegation sails on the twenty-fourth, and it is the shortness of the remaining period which must be my excuse for bringing this up while you are away from Washington.

You probably understand that in the event you would be willing to carry forward with the general idea, the question of the exact substance and wording of any proposal put forward would be entirely for your decision.

I would appreciate a line from you to enable me to report further.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

Memorandum of November 4
from Mr. Welles to
Mr. Feis.

COPY

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Department of State
THE UNDER SECRETARY

November 4, 1938

EA - Dr. Feis:

I still think this is desirable, but of course without the approval of the Secretary of the Treasury it would seem to me very difficult for our delegation to suggest any resolution such as that which you have in mind. Would it not be worth while for you to talk personally with the Secretary of the Treasury and try to impress him with the feeling that while at an initial conference such as this suggested nothing very practical might be developed and even certain proposals which were embarrassing might be brought up, nevertheless, such a conference would afford the best possible opportunity of talking practical common sense to our neighbors on the continent with regard to matters of financial policy as well as currency problems, and that a better opportunity will be afforded in this way than any other that can now be thought of. Furthermore, these meetings would result in a far greater identification between the American governments with regard to financial problems than could otherwise exist.

S.W.

U SW:IJ

November 1, 1938

My dear Mr. Secretary:

This will acknowledge receipt of your letter of October 24, 1938 (your reference EA), with respect to the possibilities of developing periodic meetings with representatives of Treasuries and central banks of the American States.

Although I do agree with you that cooperation among Treasuries is desirable, I have doubts as to the form which such cooperation should take. After careful consideration of the suggestion you make in your letter, I am of the opinion that periodic conferences are not, at this time, efficacious instruments for achieving the improvement of financial relationships. Cooperation is most effective and practicable, it seems to me, when it is centered on specific problems, specific situations, and between specific Treasuries. When such problems arise we shall, of course, be glad to confer with the Treasuries concerned.

Sincerely,

(Signed) H. MORGENTHAU, JR.

The Honorable

The Secretary of State.

C
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YDEPARTMENT OF STATE
WashingtonIn reply refer to
EA

October 24, 1938

My dear Mr. Secretary:

We are giving preliminary thought to the possible field of useful action at the Eighth International Conference of American States, to be held at Lima early in December.

It has been suggested that it might serve a useful purpose if arrangements could be made for periodic meetings of representatives of Treasury and central banks of the American States. I have penned a preliminary draft of what could be either just a resolution or an actual project for an agreement in this field. Do kindly consider it and inform me as to whether the Treasury would be disposed to favor any initiative on the part of the American Delegation in behalf of this proposal

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

-2-

proposal and, if so, whether the Treasury would care to undertake any drafting amendments.

Mr. Feis is at the disposal of the Treasury for further discussion on the subject.

Sincerely yours,

(Signed) Cordell Hull

Enclosure:

Draft.

DRAFT RESOLUTION ON TREASURY COOPERATION.

The Eighth International Conference of American
States

Recommends:

(1) That the Treasuries and Central Banks of the American States arrange for periodic meetings of representatives for the informal discussion of subjects of mutual interest, with a view to improving all aspects of financial relationships between the member states.

(2) That such meetings be held at least annually and whenever problems of special and immediate importance arise.

(3) That the first meeting be held in Washington not later than June 1, 1939.

C
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(signed) H. MORGENTHAU, JR.

The Honorable,

The Secretary of State.

Copy

251

DEPARTMENT OF STATE
Washington

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-2-

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HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 4 November, 1938.

SECRET

From: Spagent, Hongkong, China.
To : Secretary of the Treasury.

Message from Mr. Campbell.

Buck making short visit Sian and Lanchow.

SECRET

has been
acted

FEDERAL RESERVE BANK
OF NEW YORK

November 4, 1938.

Dear Mr. Secretary:

The offering of \$25,000,000 Argentine Republic 4 1/2 per cent sinking fund bonds of 1948 was the one sizable piece of open-market financing this week. Four corporate issues, totaling about \$17,500,000, were sold privately to insurance companies, and there was an offering of about \$1,000,000 of stock in American Export Lines, to finance, in part, an airplane service to the Mediterranean.

The Argentine bonds, supposedly withdrawn from sale by the Argentine Treasury last August because the price was thought too low, were priced at 95 1/2, only half a point higher than was expected in August. The net price to Argentina is 92 1/2. At 95 1/2 the yield to maturity is about 5.08 per cent, practically the same yield as on the outstanding 4s of 1972. The sinking fund, moreover, is arranged to retire the entire issue by maturity, so that the average maturity is considerably under 10 years. Rated A by Moody's, the issue is the first new capital borrowing in this market by a foreign government, other than Canada, since 1930. The reception of the issue is still somewhat uncertain; a substantial amount of it is believed to have been sold, but the market is quoting it at a discount of about half a point. This may be a justification of the liberal terms of the issue, which seemed quite steep for a country with the recent debt record of the Argentine, or it may be that the issue was not set up in a way to derive the most benefit from this debt record and from the provisions of retirement over the period of the loan. It cannot be said, however, that this issue offers convincing evidence of the receptivity of the market to foreign loans.

The prospective dearth of large corporate public offerings was somewhat relieved yesterday by the placing in registration of another \$25,300,000 of 3 1/2% convertible debentures (maturing in 1958) of the Commonwealth Edison Company, for refunding. The Company also registered \$34,000,000 additional 3 1/2% first mortgage bonds of 1968 for private sale to insurance companies, partly for new capital. It is reported that these bonds are going to seven large insurance companies at a price of 104. Plans for several other corporate flotations are said to be nearing completion, and the demand for both public and private issues continues unabated.

Municipal bond awards this week amounted to about \$13,000,000.

Yours faithfully,


Alan Sproul,
First Vice President.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Department,
Washington, D.C.

256/A

FEDERAL RESERVE BANK
OF NEW YORK

CONFIDENTIAL

November 4, 1938.

Dear Mr. Secretary:

There is enclosed a copy of the usual weekly report of Open Market Operations and Money Market Conditions for the period from October 27, 1938 to November 2, 1938 inclusive.

Yours faithfully,



Allan Sproul
First Vice President

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

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NOV 7 1938
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

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CONFIDENTIAL

REPORT OF OPEN MARKET OPERATIONS AND MONEY MARKET CONDITIONS
FOR THE WEEK ENDED NOVEMBER 2, 1936

PREPARED BY FEDERAL RESERVE BANK OF NEW YORK

MONEY MARKET

Excess reserves of the Central Reserve New York City banks declined during the past week to \$1,635,000,000, or \$65,000,000 below the record high reached a week ago. Actual reserve balances of the New York banks receded \$82,000,000 during the week ended November 2, but part of this loss was offset by a reduction in reserve requirements coincident with a large decline in deposits.

A sizable outward movement of commercial and financial funds from New York to other parts of the country together with a small decline in out-of-town bank balances in New York accounted for a large part of the \$82,000,000 reduction in reserves during the past week. There was also a considerable absorption of New York money market funds as the result of the certification by the Reserve Bank of a check for \$45,000,000 drawn by a New York City bank against its reserve balance. This transaction represented the segregation, in the trust department of the New York City bank, of the proceeds of a recent new security issue which are being held pending their use in redeeming a called bond issue of the borrowing corporation. A net withdrawal of currency from the Reserve Bank also caused some loss to reserves. The combined effect of these losses of funds was only partially offset by gains of funds through foreign account operations, payments for Treasury acquisitions of gold, and other Treasury disbursements, chiefly for the net redemption of Treasury bills held in this market.

Inasmuch as reserve balances of member banks outside New York rose \$28,000,000 during the past week while the New York banks lost \$82,000,000 of reserves, reserve balances of all member banks in the country declined \$54,000,000. There was a slight increase in the amount of required reserves of all member banks (contrasted with the reduction for New York banks alone), and consequently excess reserves of all member banks declined \$60,000,000 during the past week to \$3,220,000,000. The chief factors of decline in member bank reserves were a \$52,000,000 increase in money in circulation and a rise of \$51,000,000 in non-member deposits and other Federal Reserve accounts (including the above mentioned \$45,000,000 certified check drawn against the reserve balance of a New York City bank). Only partially offsetting gains resulted from a further rise of \$20,000,000 in the gold stock and other Treasury disbursements amounting to \$24,000,000. (Treasury deposits with the Reserve Banks declined \$8,000,000 during the past week, and there was a reduction of \$16,000,000 in "Treasury Cash" due to transfers from the general fund of the Treasury to the gold certificate fund of the Reserve Banks, which exceeded by that amount the Treasury's acquisitions of gold.)

For the week ending November 9, excess reserves of all member banks may show some further slight reduction chiefly as a result of seasonal expansion in the volume of money in circulation. Treasury transactions are indicated as not likely to have any material effect on member bank reserves, as ordinary disbursements are expected to be about offset by social security and railroad retirement quarterly tax receipts. If further certification of checks against reserve balances of New York City banks should occur during the week, the reduction in excess reserves would be larger.

Excess Reserves of Member Banks

Wednesday Series
(In millions of dollars)

| | 1935 | | 1937 | | 1938 | | Oct. 26, 1938 | Nov. 2, 1938 |
|--|-------|-------|------|-------|-------|-------|------------------|-----------------|
| | High | Low | High | Low | High | Low | | |
| Central Reserve New York City banks | 1,480 | 910 | 45 | 1,700 | 410 | 1,700 | 1,635 | |
| All member banks in U. S. | 3,300 | 2,190 | 700 | 3,280 | 1,270 | 3,280 | 3,220 | |

Yields on Treasury securities held relatively steady during the past week. The November 2 issue of 91 day Treasury bills was awarded at an average rate of 0.027 per cent, as against 0.026 per cent on the issue sold in the previous week. The average yield on 3 to 5 year Treasury notes continued at 0.69 per cent, and the average yield on Treasury bonds due or callable after 8 years closed the week at 2.28 per cent, compared with 2.27 per cent a week ago. Some reduction, however, occurred in yields on domestic corporate bonds during the past week; Moody's average yield on Aaa issues receded 0.03 per cent to 3.11 per cent, as compared with the low of 3.07 per cent in January, 1937, and the Baa bond average yield declined 0.05 per cent to 5.27 per cent. Yields on high grade municipal bonds declined to a level equaling the 1937 low.

Security Yields (per cent)

| | 1937 | | 1938 | | Oct. 26, 1938 | Nov. 2, 1938 |
|--|-------|------|------|------|------------------|-----------------|
| | Low | High | Low | High | | |
| U. S. Treasury notes (3 to 5 year maturity) | 1.13 | 1.70 | 0.62 | 1.23 | 0.69 | 0.69 |
| U. S. Treasury bonds (due or callable after 8 years) | 2.27* | 2.78 | 2.25 | 2.52 | 2.27 | 2.28 |
| Aaa corporation bonds | 3.07 | 3.58 | 3.11 | 3.34 | 3.14 | 3.11 |
| Baa corporation bonds | 4.46 | 6.08 | 5.27 | 6.98 | 5.32 | 5.27 |
| High grade municipal bonds | 2.73 | 3.30 | 2.73 | 3.09 | 2.76 | 2.73 |

*Record low yield on Treasury bonds 2.22 in December, 1936.

GOVERNMENT SECURITY MARKET

Trading activity in the government security market has lessened further during the statement week ended November 2; prices of both Treasury notes and Treasury bonds drifted lower. Outright demand has been lacking, as institutional investors continue reluctant to enter the market at current price levels, while the general conditions existing in the money market have tended to limit offerings. Transactions have been largely confined to the execution of small orders, and to switching operations carried on by dealers and by a few of the larger commercial banks in New York and other cities.

Prices of Treasury bonds eased 1/32 to 3/32 on Wednesday, November 2, the last day of the week, and generally closed the week with net losses ranging from 1/32 to 5/32. Prices of the Treasury notes due March 15, 1939 and June 15, 1939 declined 2/32 and 3/32 respectively, while the other issues tended to be slightly easier. Prices of government guaranteed obligations also declined 1/32 to 5/32.

Banks and dealers in New York City were awarded the greater part of this week's issue of Treasury bills, but there was still some successful bidding by other bank and corporate bidders.

Treasury Bill Market Rates (per cent)

| Maturity | 1936 (bid) | | 1937-38 (bid) | | October 26, 1938 | | November 2, 1938 | |
|----------|------------|------|---------------|------|---------------------|----------|---------------------|----------|
| | Low | High | Low | High | Bid | Asked | Bid | Asked |
| | 1 month | 0.10 | 0.20 | 0.03 | 0.60 | 0.04 | 100 1/64 | 0.04 |
| 2 months | 0.10 | 0.20 | 0.03 | 0.60 | 0.04 | 100 1/64 | 0.04 | 100 1/64 |
| 3 " | 0.10 | 0.20 | 0.04 | 0.70 | 0.04 | 100 | 0.04 | 100 |

NEW SECURITY ISSUES

Corporate financing in the week ended Wednesday, November 2, consisted of small bond issues sold privately to insurance companies by the Washington Gas Light and Okonite Companies and a small stock offering. Almost all of the funds were for refunding. On Thursday, November 3, \$25,000,000 4 1/2 per cent sinking fund bonds of the Argentine Republic were marketed at 95 1/2. The bonds are rated A by Moody's and are the first new capital borrowing by a foreign government other than Canada in several years. The yield on bonds held to maturity in 1948 is about 5.08 per cent, as against a yield to maturity of about 5.10 per cent on outstanding Argentine bonds due in 1972. The sinking fund, however, is scheduled to retire all of the current issue by maturity, so that the actual yield is indeterminate; it may be higher than the yield to maturity. The offering, according to report, met with an uncertain reception; the market quotation on Friday morning, November 4, was a discount of about half a point below the issue price.

On Thursday the Commonwealth Edison Company placed in registration a third block of bonds and convertible debentures - \$34,000,000 of the former to be sold to insurance companies and \$25,300,000 convertible debentures to be offered to stockholders. Several other private sales are reported to have been or about to be completed.

DOMESTIC CORPORATE AND MUNICIPAL NEW SECURITY ISSUES

Issues for over one year only (In millions of dollars)

| | Domestic Corporate ^{1/} | | | Municipal ^{2/} | | | Total Corporate, Municipal, etc. ^{3/} | | |
|-----------------------------|----------------------------------|----------------|-------|-------------------------|----------------|-------|--|----------------|----------------|
| | New Capital | Refund- ing | Total | New Capital | Refund- ing | Total | New Capital | Refund- ing | Grand Total |
| 1937 | | | | | | | | | |
| Weekly average by quarters: | | | | | | | | | |
| I | 25.6 | 51.0 | 76.6 | 17.6 | 6.2 | 23.8 | 43.2 | 57.5 | 100.7 |
| II | 32.4 | 25.6 | 58.0 | 15.7 | 3.3 | 19.0 | 48.1 | 29.3 | 77.4 |
| III | 17.4 | 13.2 | 30.6 | 11.2 | 3.1 | 14.3 | 28.6 | 16.3 | 44.9 |
| IV | 10.4 | 7.3 | 17.7 | 11.7 | 1.0 | 12.7 | 24.0 | 8.4 | 32.4 |

1938

Weekly average by months:

| | | | | | | | | | |
|-----------|------|------|------|------|-----|------|------|------|-------|
| January | 9.9 | 1.2 | 11.1 | 9.3 | 1.7 | 11.0 | 19.2 | 2.9 | 22.1 |
| February | 3.4 | 22.4 | 25.8 | 10.3 | 5.6 | 15.9 | 13.7 | 28.6 | 42.3 |
| March | 12.1 | 11.2 | 23.3 | 21.1 | 3.7 | 24.8 | 33.2 | 20.2 | 53.4 |
| April | 3.8 | 15.5 | 19.3 | 10.5 | 1.0 | 11.5 | 14.3 | 16.6 | 30.9 |
| May | 7.8 | 6.1 | 13.9 | 19.7 | 0.9 | 20.6 | 34.3 | 7.0 | 41.3 |
| June | 39.2 | 29.8 | 69.0 | 31.0 | 3.2 | 34.2 | 70.2 | 33.0 | 103.2 |
| July | 29.2 | 12.0 | 41.2 | 10.0 | 0.7 | 10.7 | 39.2 | 12.7 | 51.9 |
| August | 24.2 | 51.0 | 75.2 | 12.5 | 2.4 | 14.9 | 36.7 | 53.4 | 90.1 |
| September | 14.3 | 11.4 | 25.7 | 11.9 | 5.0 | 16.9 | 26.2 | 16.4 | 42.6 |

Weeks ended

Wednesday: ^{4/}

| | | | | | | | | | |
|--------|------|-------|-------|------|-----|------|------|-------|-------|
| Oct. 5 | 0 | 37.5 | 37.5 | 11.1 | 7.6 | 18.7 | 11.1 | 45.1 | 56.2 |
| 12 | 3.1 | 47.0 | 50.1 | 20.7 | 7.9 | 28.6 | 23.8 | 54.9 | 78.7 |
| 19 | 24.6 | 98.2 | 122.8 | 12.5 | 0.8 | 13.3 | 37.1 | 99.0 | 136.1 |
| 26 | 41.4 | 122.8 | 164.2 | 17.4 | 0 | 17.4 | 58.8 | 122.8 | 181.6 |
| Nov. 2 | 0.4 | 10.1 | 10.5 | 11.4 | 0 | 11.4 | 11.8 | 10.1 | 21.9 |

^{1/} Quarterly and monthly data are Commercial and Financial Chronicle figures reclassified to some extent as between new capital and refunding and in some cases increased by the inclusion of parts of issues which the Chronicle did not classify as new financing.

^{2/} State, county, and local governments, special districts, and U. S. Possessions. Chronicle figures.

^{3/} In addition to amounts shown in six preceding columns, figures in these three columns include issues of Joint Stock Land Banks, Federal Home Loan Banks, and Federal National Mortgage Association, which are not guaranteed by the U. S. Government.

^{4/} Weekly data compiled in the Federal Reserve Bank of New York. Corporate totals generally closely approximate monthly Chronicle totals, but municipal issues usually average about \$3,000,000 less per week than Chronicle totals, by reason of the latter's inclusion of issues under \$100,000, which are usually not reported in the daily newspapers.

OPERATIONS IN GOVERNMENT SECURITIES

System Open Market Account

The total amount of government securities in the System Open Market Account at the close of the statement week ended November 2, 1938, remained unchanged from the previous week at \$2,564,014,850.

The only transaction in the System Open Market Account during the week was the replacement of maturing bills as follows:

Redemption

\$42,700,000-Tr.bills due 11/2/38

Replacement Purchases in the Market

\$42,700,000-Tr.bills due 2/1/39 @ 0.017% disc.

Summary of Open Market Authorizations Given to
Federal Reserve Bank of New York
by Executive Committee of Federal Open Market Committee
and Operations Thereunder

(Reflects Operations and Commitments Through November 2, 1938)

Authority

Meeting September 21

- (1) To replace maturing securities by purchases of like amounts of Treasury bills or Treasury notes, provided such purchases can be made without paying a premium above a no-yield basis. \$276,285,000
- (2) To make such other shifts (which may be accomplished when desirable through replacement of maturing securities) as may be necessary in the practical administration of the Account up to an aggregate of \$200,000,000 of purchases and a like amount of sales or redemptions, provided that the total amount of bonds held in the Account be not reduced below \$700,000,000 and that the total amount of bonds in the Account having maturities over five years be not increased over \$850,000,000. 54,138,000 (*)
- (3) To permit temporary fluctuations between weekly statement dates in the total Account by not more than \$50,000,000 when necessary in making replacements or shifts pursuant to above authorizations.
- | | | |
|-----------|-------|--------------|
| September | 22-25 | -10,250,000 |
| " | 26 | - 9,700,000 |
| " | 27 | + 862,000 |
| " | 29 | + 4,635,000 |
| " | 30 to | (= 1,500,000 |
| October | 2 | { |
| " | 3-4 | + 500,000 |
- (4) Upon approval by a majority of the members of the executive committee to make such other shifts or such purchases or sales (which would include authority to allow maturities to run off without replacement) as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee. 0

- (*) Includes purchases of \$10,250,000, executed September 24 and 26, which replaced a corresponding amount of sales which were executed September 20 and included under authority (2) of the September 15 meeting.

7

For Account of the Treasury and Treasury Agencies

Purchases of \$304,000 - 2 3/4% Treasury Bonds of 1958-63 for account of the District of Columbia Teachers' Retirement Fund were the only transactions in government securities executed under Treasury authorization for delivery during the statement week.

INCOME FROM SECURITIES
HELD IN SYSTEM OPEN MARKET ACCOUNT*

| <u>Week Ended</u> | <u>Amount Held</u> | <u>Average Rate for Week</u> | <u>Income on an Annual Basis</u> |
|-------------------|--------------------|------------------------------|----------------------------------|
| November 30, 1933 | \$2,223,149,500 | 1.72% | \$38,238,171 |
| November 7, 1934 | 2,223,149,500 | 1.84% | 40,905,950 |
| " 6, 1935 | 2,223,149,000 | 1.52% | 33,791,864 |
| " 4, 1936 | 2,430,226,850 | 1.45% | 35,238,289 |
| " 3, 1937 | 2,526,189,850 | 1.611% | 40,696,918 |
| <u>1938</u> | | | |
| October 12 | 2,564,014,850 | 1.286% | 32,973,231 |
| " 19 | 2,564,014,850 | 1.286% | 32,973,231 |
| " 26 | 2,564,014,850 | 1.285% | 32,947,590 |
| November 2 | 2,564,014,850 | 1.285%** | 32,947,590 |

*Exclusive of profit or loss on sales of securities which for the year 1937 amounted to a net profit of \$2,413,428 and for 1938 to date to a net profit of \$3,275,898.

**Actual rate close of business November 2, 1938 - 1.284%.

APPRECIATION (+) OR DEPRECIATION (-) ON TREASURY NOTES AND TREASURY BONDS
HELD IN SYSTEM ACCOUNT AS REPRESENTED BY THE DIFFERENCE
BETWEEN MARKET PRICES BID AND BOOK VALUES

| | <u>October 26, 1938</u> | <u>November 2, 1938</u> |
|----------------------|-------------------------|-------------------------|
| U. S. Treasury Notes | +\$21,709,526 | +\$21,562,705 |
| U. S. Treasury Bonds | + 28,929,233 | + 28,482,404 |
| Total | +\$50,638,759 | +\$50,065,109 |

**CLASSIFICATION OF GOVERNMENT SECURITY HOLDINGS, MATURITY DISTRIBUTION,
AND PARTICIPATION BY FEDERAL RESERVE BANKS IN SYSTEM OPEN MARKET ACCOUNT
NOVEMBER 2, 1938**

(In thousands of dollars)

CLASSIFICATION OF HOLDINGS

Treasury Bills

| | |
|--------------------|----------------|
| Due in 1 month | 204,078 |
| " " 1-2 months | 177,688 |
| " " 2-3 " | <u>230,357</u> |
| Total Bills | 612,123 |

Treasury Notes

| | |
|--------------------|------------------|
| Due 5/15/39 | 83,566 |
| " 6/15/39 | 85,197 |
| " 9/15/39 | 70,466 |
| " 12/15/39 | 102,676 |
| " in 1940 | 388,250 |
| " " 1941 | 165,760 |
| " " 1942 | 168,935 |
| " " 1943 | <u>99,715</u> |
| Total Notes | 1,164,565 |

Treasury Bonds

| | |
|--------------------|----------------|
| 1940-43 | 10,297 |
| 1941-43 | 14,183 |
| 1941 | 56,325 |
| 1943-47 | 27,678 |
| 1943-45 | 41,202 |
| 1944-46 | 45,195 |
| 1944-54 | 28,455 |
| 1945-47 | 41,443 |
| 1945 | 19,820 |
| 1946-56 | 15,331 |
| 1946-48 | 53,972 |
| 1946-49 | 11,671 |
| 1947-52 | 1,927 |
| 1948-51 | 54,502 |
| 1948 | 3,183 |
| 1949-52 | 31,404 |
| 1949-53 | 49,142 |
| 1950-52 | 36,558 |
| 1951-54 | 57,173 |
| 1951-55 | 31,295 |
| 1955-60 | 48,606 |
| 1956-59 | 53,435 |
| 1958-63 | <u>54,590</u> |
| Total Bonds | 787,327 |

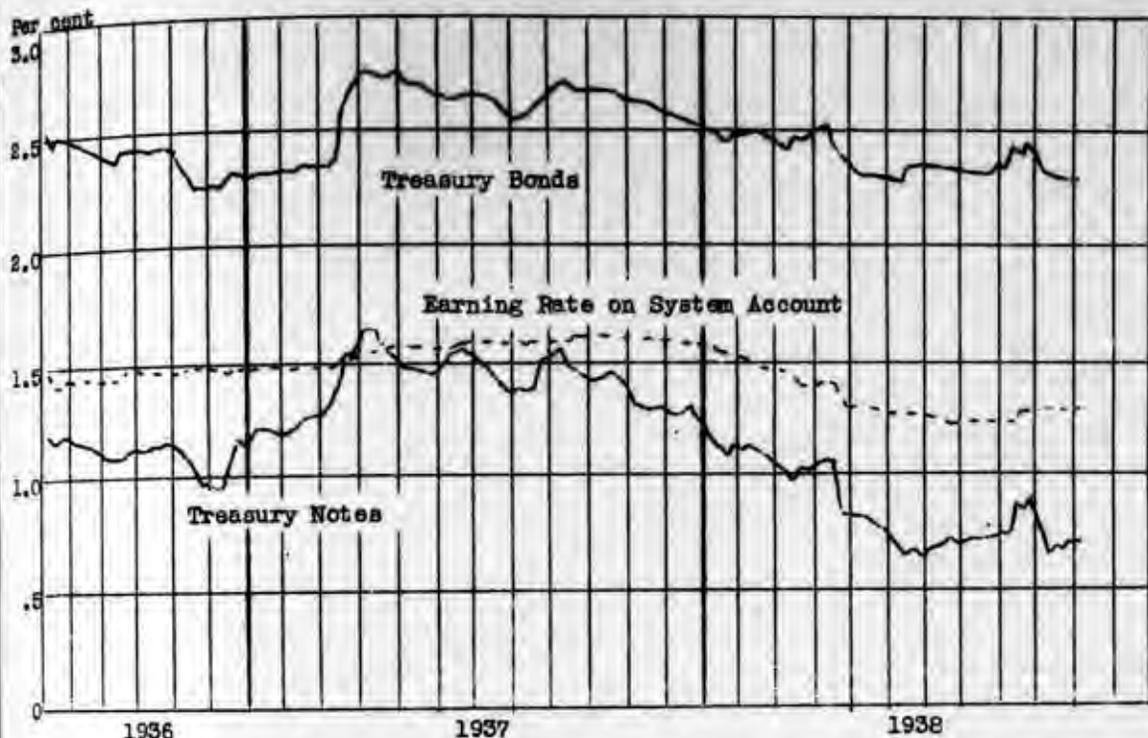
Total Holdings 2,564,015

MATURITY DISTRIBUTION OF HOLDINGS

| | | Net Changes From <u>Oct. 26, 1938</u> |
|-----------------|-----------|---|
| Within 6 months | 695,689 | - |
| " 1 year | 851,352 | - |
| " 2 years | 1,250,096 | - |
| " 2 to 5 years | 607,337 | - |
| Bonds 5-10 yrs. | 232,493 | - |
| " over 10 yrs. | 474,089 | - |

PARTICIPATION IN SYSTEM ACCOUNT

| | | Net Changes From <u>Oct. 26, 1938</u> |
|---------------|------------------|---|
| Boston | 192,971 | - |
| New York | 815,422 | - |
| Philadelphia | 222,761 | - |
| Cleveland | 257,819 | - |
| Richmond | 120,321 | - |
| Atlanta | 104,522 | - |
| Chicago | 276,389 | - |
| St. Louis | 106,791 | - |
| Minneapolis | 56,815 | - |
| Kansas City | 113,249 | - |
| Dallas | 94,258 | - |
| San Francisco | <u>202,697</u> | - |
| Total | 2,564,015 | - |



Average Yield on Outstanding Treasury Notes and Bonds and Average Earning Rate on Holdings of Government Securities in System Open Market Account

(Average of all Treasury Bonds due or callable after 8 years; average of all Treasury Notes maturing from 3 to 5 years)

RATES ON BANKERS ACCEPTANCES AND BILL MARKET CONDITIONS

Dealers' offering rates on prime bankers acceptances remained unchanged during the current week as follows: 1-90 day maturities 7/16 per cent, 91-120 day maturities 1/2 per cent and 121-180 day maturities 9/16 per cent.

Although there was a slight increase in New York in the volume of acceptances handled by dealers during the week as compared with the past four weeks, the market continued quiet. Dealers' purchases and sales were about equal and at the close of the week aggregate portfolios amounted to approximately \$38,000.

OPERATIONS IN BANKERS ACCEPTANCES AND OTHER BILLS

There were no transactions in bankers acceptances reported at the Federal Reserve Bank of New York. The System continues to hold no domestic bills in portfolio.

Foreign currency bill holdings of the System remained unchanged, amounting to \$541,000 on November 2.

Allen Sproul
First Vice President

Saturday,
November 5, 1938,
9:23 A. M.

Fine morning.

Archie
Lochhead:

I'm the only one in here just yet.

H.M.Jr:

Go ahead; let me talk fast, will you.

L:

Right, sir.

H.M.Jr:

Got a record on?

L:

I've got the record on.

H.M.Jr:

All right. Now, ah - ah - Mr. Daladier himself just called and talked in French, and all I could get was "How do you do?" And then he put Reynaud on, and the gist of the conversation was that they were making progress, and did I have confidence in Cochran, and could they talk to Cochran?

L:

Right.

H.M.Jr:

And I said "Yes." Now, I wish you'd get a call through to Cochran and tell him what happened, see?

L:

Yes.

H.M.Jr:

I don't want to do it from here.

L:

Right.

H.M.Jr:

Now, the other thing, if you and Miss Spangler could work this out, I have arranged with the Overseas Telephone Company that any call comes in here should be tied into District 2626.

L:

Yes.

H.M.Jr:

And - and you tell her I'm through - you better work this out with Lieutenant McKay, that from one o'clock today, until nine o'clock Monday morning, I want a man on duty at my office continuously.

L:

Yes.

- 2 -

H.M.Jr: So that if a call comes in they can tie it in and make a record of it.

L: Fine; I'll do that.

H.M.Jr: See?

L: Yes. I'll check with both Miss Spangler and - ah - Lieutenant McKay on that.

H.M.Jr: One o'clock today

L: From one o'clock today till nine o'clock Monday morning.

H.M.Jr: And somebody will have to be there to change those records, you see?

L: Yes, well I'll take - we will fix that up with your office.

H.M.Jr: Will you?

L: Yes. All right. Well, now then I'll get through to Cochran and tell him that he may be approached.

H.M.Jr: That's - that's it; that Daladier and the other fellow called me

L: Right.

H.M.Jr: ... and was it all right to talk to

L: Yes.

H.M.Jr: him, and I said "Yes."

L: And that all they said there - did - did

H.M.Jr: They're making progress.

L: They are making progress?

H.M.Jr: Yeah.

L: And then Paul Reynaud himself was in on this?

H.M.Jr: Reynaud.

- 3 -

L: Reynaud, rather. Well, that's interest-

H.M.Jr: They both got on the phone.

L: I see.

H.M.Jr: Now the other thing, will you call Cochran

L: Yes.

H.M.Jr: ...and tell him that I expect to leave here, at - ah - twelve-thirty today to go up to be with the President, and I'll be out for several hours.

L: I see. This afternoon you'll be out for several hours.

H.M.Jr: I won't be back until four.

L: Not till four?

H.M.Jr: Yeah.

L: All right, sir.

H.M.Jr: But you can tell - tell this to Hanes, White, and - and - ah - and Taylor.

L: Hanes, White, Taylor; right.

H.M.Jr: And I explained to Taylor; I called him up and explained to him what - that Bonnet was a - first I put it this way, that Bonnet was a personal representative of Daladier, and was over here with the President, talked to the President and myself and he took back a memorandum from Oliphant.

L: I see.

H.M.Jr: That the State Department did not know anything about it, and this was the business of the President of the United States.

L: I see. Well that - that makes - then we can tie in; from now on we can tie things in in the regular way.

H.M.Jr: That's right.

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L: All right, sir. There's nothing - there's nothing of news in the rates or anything this morning; everything is coming in the same.

H.M.Jr: Well, all right.

L: All right, sir.

H.M.Jr: Thank you.

L: Goodbye.

Saturday,
November 5, 1938,
9:44 A. M.

Archie
Lochhead: Hello.

Operator: He'll be right on, Mr. Lochhead.

Lochhead: Thank you.

Overseas
Operator: Go ahead, please.

H. Merle
Cochran: Hello.

Lochhead: Hello, Merle.

C: What?

Lochhead: This is Archie.

C: Oh, hello, Archie. How are you?

Lochhead: Fine. Ah, Merle, I'm calling you at the request of the Secretary, to let you know that he had a - a telephone call.

C: He had a what?

Lochhead: He had a telephone call.

C: Yes.

Lochhead: About half an hour ago.

C: Yes.

Lochhead: From Daladier.

C: From?

Lochhead: From the - ah - Daladier.

C: Yes.

Lochhead: Ah - the com- - ah - Daladier spoke mostly in French, and the only thing the Secretary got was "Good Morning."

C: Yes.

- 2 -

Lochhead: But he did have with him - ah - Reynaud.

C: Reynaud.

Lochhead: Paul Reynaud - was with Daladier when they - they called the Secretary.

C: I see.

Lochhead: Ah - they are apparently interested

C: They what?

Lochhead: They are interested

C: Yes.

Lochhead: And the thing they asked, was, that if they had anything to communicate - ah - or had to work through anybody over on their side, would it be all right to work - communicate with you.

C: I see.

Lochhead: The Secretary told them "Yes." That it would be all right, if they had anything that they wanted to communicate, they could do it through you.

C: I see.

Lochhead: So, therefore, I wanted to notify you in case anything comes up that you know that the Secretary has talked to them and given them permission to contact you, if necessary.

C: I see. I'm - I'm awfully glad you telephoned, because, yesterday when - ah - the men called me, you know, ah, about possibly putting a call in for you.

Lochhead: Yes.

C: Ah, I mean, call for the Secretary.

Lochhead: Yes.

C: They wanted me to come there, to see Powell at twelve o'clock today.

Lochhead: Yes.

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C: wanted me to be able to tell where I could find the Secretary.

Lochhead: Yes.

C: Now when, ah, this thing came up - I mean when I phoned you and found out they al- - had already talked.....

Lochhead: Yes.

C: Then I found out that - ah - the messenger was going to see him this noon.

Lochhead: Yes.

C: To go to that meeting, you see.

Lochhead: Yes.

C: And, ah, then, ah, the man I talked to first, called me back at twelve-thirty and said they had expected me, but I didn't want to go in before Powell had this message, you see.

Lochhead: Yes, well now, the message is there; as they discussed this in general terms, to say that ev- - they're interested.

C: Yes.

Lochhead: And so, they've asked - have asked if they can't communicate through you.

C: Yes.

Lochhead: And so the Secretary said "Yes," so the channels are all set now.

C: They asked - he asked me at twelve-thirty to - to come to see them at six-thirty tonight.

Lochhead: I see.

C: And I don't know whether that was before or after he had talked with - with you people.

Lochhead: Well, if it was twelve - if it was twelve-thirty, ah, your time, ah, it might have been just after they spoke, because, ah, the Sec- - well no, it's

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just a guess whether he did or not, of course.

C: Yes. Well, anyway, that's it.

Lochhead: But it's all right to go and see him now, you see.

C: What time is it with you now? Is it five or six hours difference?

Lochhead: Six - ah five hours; you see, ah, there's no daylight saving, you see; it's a five-hour time; it's - it's - it's now a quarter of ten o'clock here.

C: Well, the messenger phoned me just about that same time.

Lochhead: Yes.

C: But had no word from them yet. The idea was to call me in if they did talk by telephone.

Lochhead: I see. Well, that's probably what they're going to do.

C: Well, I don't know, now that they've talked this once.

Lochhead: Well, the only thing they called, was, ah - just simply, I think, to let him know that they got the message and they're interested, you see.

C: That's as far as it went.

Lochhead: And also to assure themselves that they could communicate through you.

C: I see.

Lochhead: In other words, the setting is made in case they want to do anything.

C: I see.

Lochhead: Now, ah, the Secretary will be up on the farm, still.

C: Yes.

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Lochhead: Ah, incidentally, between twelve-thirty, our time, and, ah, say about six o'clock, or seven, he will be with the President, so, ah, you can't get in touch with him during those hours.

C: Cannot get in touch.

Lochhead: No, not between twelve-thirty and, say, six, our time.

C: Uh huh.

Lochhead: But otherwise, if you have anything, you can call and don't hesitate, if you want to call, to call up to - up at the farm, because that's where he'll be.

C: Well, I'll - I'm to see this man at six-thirty, unless I hear something different.

Lochhead: Yes.

C: That would be a pretty close connection; you see, that would be seven when I got out.

Lochhead: Well, that, as I say, you wouldn't be able to get in touch with the Secretary, ah, for the - ah - for that time; I mean, there will be a blank spot in there.

C: Ah - I say, that would be too late, wouldn't it?

Lochhead: That would be too late, yes.

C: Yeah. Well, I'll call later in the night then.

Lochhead: I would say so, because, ah, I wouldn't say that they'd try to get him much before six o'clock, because he told me he - about twelve-thirty, he'd be away about four or five hours.

C: I see; I see. From twelve-thirty to six or seven.

Lochhead: Yes.

C: I see.

Lochhead: That's our time, of course.

C: Yes, yes.

Lochhead: So that's the way the thing stands - where it is; I don't believe there's anything for us to do here but to stand by.

C: Yes.

Lochhead: And wait to find out what the developments are there and what they may ask us.

C: Ah, was the messenger with them when they spoke?

Lochhead: Ah, ah - there was no mention made of him.

C: I see.

Lochhead: That is, the Secretary made no mention to me - with just those two gentlemen.

C: With just the two; and which one spoke?

Lochhead: Well, ah - the first one, ah, started the conversation,

C: Yeah.

Lochhead: ... but, ah, he apparently, ah, didn't have any great command of English and the only thing the Secretary could get was the greeting.

C: Oh.

Lochhead: And then the second man came on and apparently he was the one that did the talking, in English.

C: And he seemed interested.

Lochhead: Yes, that was the interesting part; he was with him; you see, they were both together.....

C: And, ah

Lochhead: and, ah, ... when the call came through.

C: I see; I see. Well, I'll - I'll stand by, and, ah, and ah, keep this appointment at six-thirty.

Lochhead: Yes.

- C: And ah - then I'm not going to wire - ah - even through that unusual channel.
- Lochhead: No. I tell you, I think you'd better wait and report by phone, and keep a record to be sent over by mail.
- C: Yes. Yes. I - I think that's it; I - I won't send any cable until I've told the Secretary the substance of it.
- Lochhead: That's right. And then the - unless he asks you to confirm by cable, I think you better just send over by mail.
- C: Well, yes. All right. Well, I'll - I'll be right here, and unless something comes up I'll go to the six-thirty appointment.
- Lochhead: That's right.
- C: And then I would report late at night.
- Lochhead: That's right.
- C: Then ...
- Lochhead: All right, then. Well, now that's a six-thirty meeting that you've been called for already?
- C: Yes, yes.
- Lochhead: All right, then. Well, I'll let the Secretary know when I speak to him on that.
- C: All right, fine.
- Lochhead: All right, Cochran.
- C: And -
- Lochhead: Yes?
- C: Thanks a lot. Ah, look - ..
- Lochhead: How's that?
- C: Ahh - no - no hurry; I'd better not ask you.

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Lochhead: (Laughs) I see.

C: All right.

Lochhead: All right then.

C: Goodbye.

Lochhead: Goodbye.

November 5, 1938.

12:04 p.m.

Operator: Go ahead.

L: Hello.

HMJr: Hello.

L: Yes, Mr. Morgenthau.

HMJr: How is the market today?

L: The markets are very quiet. The stock market is practically unchanged, a shade up but just fractional changes.

HMJr: Yes.

L: Commodity index is off a fraction .05.

HMJr: Yes.

L: Government bonds very quiet, and exchanges very quiet at 478 and $2/88$ ths and a $1/4$.

HMJr: Yes.

L: Now, acting under your instructions I got hold of Cochran.

HMJr: Yes.

L: And told them that he might be approached and told them of the conversation you had had.

HMJr: Yes.

L: He was glad to know that because he said that he had had an invitation to go over there at six-thirty.

HMJr: Six-thirty today?

L: That's right.

HMJr: Yes.

L: And he said that he didn't know whether he should have gone or not, you see, but now getting the message he'd go over.

HMJr: Yes.

- 2 -

- L: He can't quite figure out - before they asked about him seeing them this morning - but not having any instructions, he didn't go over -
- HMJr: Now, wait a minute. Say that again.
- L: They had spoken to him about seeing them this morning.
- HMJr: Who's they?
- L: The way I understand on that, he got that message through Monet.
- HMJr: Yes.
- L: To go over and see, probably either Daladier or Paul Renot.
- HMJr: Reno please.
- L: Reno.
- HMJr: Look up the spelling.
- L: So he didn't - he didn't go over at that time because they - then they postponed it until half past six. But he can't tell quite piecing up the time whether that was before they had spoken to you or after. Now, that's all he said. He has nothing further. That he's going to wait and then he's going to report. I told him that you would be out between twelve-thirty and for the next four or five hours after that.
- HMJr: That's right.
- L: So not to try and get in touch with you until after that time.
- HMJr: Well, I'm not English but I'm going to be with my - President of the United States at that time.
- L: Well, I should think you'd be entitled to be away from your desk for five hours.
- HMJr: What?
- L: I say I think you would be entitled to be away from your desk for five hours on a Saturday afternoon, and the other arrangements have all been made about any calls coming in.

- 3 -

HMJr: Yes. Well - because we've got to make a record of these things.

L: Yes. Well, that's - that's being taken care of, the records will be made.

HMJr: Right.

L: Mr. McKay has been down here and they've checked up with Miss Chauncey as to how everything should be operated.

HMJr: Yes.

L: And they're going to have somebody down here at all times.

HMJr: Well make sure though that whoever they send is discreet.

L: Oh, yes. Yes. Absolutely. They - Mr. McKay is taking care of that.

HMJr: Right. Now, is Hanes there?

L: Yes, Mr. Hanes is here, I'll put him right on.

Hanes: Good morning.

HMJr: Hello, John.

H: Yes, sir.

HMJr: You've never been through one of these French crisis.

H: Not yet.

HMJr: But - we have them about four times a year. Now - what I was running through my brain was this. If this thing breaks - well, what they said this morning was that they'll want me to handle the English end. - Hello.

H: Yes. Yes, I get you.

HMJr: Which means that we've got to handle it through **Bewley** but I didn't think, I sent word to **Bewley** because that isn't - that puts his tail up and he wonders what it's all about.

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H: Sure.

HMJr: So, I think we'll just have to sit tight, but I've had this thought, it was running through my mind, that if - I've got my plane standing by -

H: Yes.

HMJr: And if this thing breaks and they want a note, why I'M going to ask ~~some~~^{of} these men to come up here.

H: Yes.

HMJr: See?

H: Yes.

HMJr: And - but I wasn't quite clear - I know that Oliphant gave Monet a memorandum. Did anybody else give him one? Did White give him one?

H: Yes, White gave him one.

HMJr: What?

H: White gave him - three - he got three memorandums.

HMJr: Right. Well I never - I know he gave them, but I don't think I've ever seen them. Is White there now?

H: He's here now, yes.

HMJr: Is Bernstein there?

H: Yes, he's here too.

HMJr: Well, this is what I thought, that if this thing broke, I'd have Lockheed and White come up here, and if Oliphant wants to come, all right, if not Bernstein.

H: Yes. Yes.

HMJr: And I was going to ask - I didn't know whether you or Taylor wanted to come up or not. Use your own judgment.

H: Well, we will. Either one of us you want. I'd be delighted to come up if you want me.

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HMJr: Well, are you going to be down in Virginia tomorrow?

H: I was, but I don't have to be, I can come -

HMJr: Well, that's all right. As long as you leave word.

H: They know where to get me.

HMJr: - operator where you are.

H: I can get in in forty minutes.

HMJr: Well, that's fast enough. I can't get the plane down there in forty minutes.

H: Well, if - I can leave there any time and get here in forty minutes, so -

HMJr: This is the way I feel. When Renot got on the wire he sounded very enthusiastic - you see the first five minutes of the talk was in French - I couldn't get a thing out of it.

H: Yes.

HMJr: And - except that he was being pleasant.

H: Yes.

HMJr: And then Renot got on and he sounded very happy - he must know what's going on and they wanted to know whether it was all right to talk to Cochran.

H: Yes.

HMJr: Of course, if this thing goes through, it's just too good to believe, and if we take all the - I think the pressure off on both sterling and the franc we'd see some gold go out of here.

H: Yes.

HMJr: And I've thought it over and I want to stay up here so that I can be near the President and contact him.

H: Sure.

HMJr: So I think that - I've thought it over whether I should go down there and meet with the group or ask the group to come up here, but on account of the President being here I think - I've weighed it all

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and I think it's a little more important that I stay here.

H: Yes, I do too.

HMJr: And be within forty minutes of the President.

H: Sure.

HMJr: What?

H: I think so too.

HMJr: Don't you think so?

H: I do think so, yes.

HMJr: So I think the thing to do is that - I told - well, they know now that I'm going out at twelve-thirty.

H: Yes.

HMJr: As a matter of fact I'm leaving at sharp one-fifteen to meet the President too.

H: Yes.

HMJr: And I don't expect to get back until four or five, and if anything happens, why we could - what I - what was running through my mind was that I'd ask the people maybe to come up on the midnight.

H: Yes.

HMJr: And bring **Bewley** with you, you see?

H: Yes.

HMJr: I mean so - that's what I was thinking about, now - but - that gives you people some idea what I had in mind.

H: Sure. Well, we'll - you want me - now which do you want - you want Oliphant or Bernie Bernstein?

HMJr: Well, I - I want Oliphant and it's up to Oliphant whether he wants to bring Bernstein with him or not.

H: Oh, all right -

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HMJr: I imagine that he would.

H: Lochhead, White, Oliphant, Bernstein, Hanes and Bewley you want -

HMJr: Who?

H: Bewley did you say?

HMJr: Well, that's - if - that depends upon if they put it up to me to contact the English, then I'll want Bewley.

H: Yes.

HMJr: And I'll want Taylor.

H: Send Taylor.

HMJr: You see, I think this is one of the most important things outside of America that's happened - well since the Munich conference.

H: Yes.

HMJr: And if we could ^{put} France on its feet, it would be just - just too good to believe.

H: Yes. Well, were they going to call you back this afternoon, I didn't hear your conversation this morning?

HMJr: Well they know. I take it that Archie told Cochran that I will be out.

H: Yes.

HMJr: Until four. Is that what Taylor - Archie told them?

H: Wait a minute. - Yes, he told them that you'd be away until four-thirty.

HMJr: Well -

H: About four hours after twelve-thirty.

HMJr: If we have a conference I can't get you fellows up here tonight. My thought was to get you up on the midnight - come up here in the morning, then we'd talk it over.

H: Yes.

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HMJr: See?

H: Yes.

HMJr: Now, has anybody got any better idea than that?

H: Aside - (Have you got any other thoughts on it?) Archie says there's no guarantee that we'll hear anything from Cochran, because they're not - haven't given him any assurance that they were going to tell him anything. It's only in the event that he does get some information that we - we'll have to act, I assume.

HMJr: I - I understand that, but the point is that - last night they called me up - Monnet called me up at twenty minutes past one in the morning.

H: Yes.

HMJr: At his time, but he called me.

H: Yes.

HMJr: And he had just left a long -

H: Yes.

HMJr: - conference with the Prime Minister.

H: Yes.

HMJr: And ^{he} left the Prime Minister very enthusiastic.

H: Yes.

HMJr: But it was twenty minutes past one Paris time.

H: Yes.

HMJr: Now - eight o'clock here -

H: Yes.

HMJr: And so my guess is that I'll hear again, late tonight, and then the thing will be for us to maybe have a conference tomorrow at - they're very definitely going to ask me to handle the British end.

H: Yes.

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HMJr: And I'm glad to have a chance to see the President, because I would much rather work through the British Embassy here than I would through our own Embassy.

H: Yes.

HMJr: Now, maybe that's indiscreet to say that, but that's the way I feel, but I'm going to ask the President whether he feels that way.

H: Yes.

HMJr: See?

H: Yes, I see. Well, now Henry, we'll - why don't we just have everybody that you mentioned there available and ready to take the midnight tonight if we all get the word. The operator here will know - we'll keep the operator posted as to our whereabouts.

HMJr: That's right.

H: And - so that they can round us up in a short time and we can all get up to New York tomorrow morning.

HMJr: Yes. And **Bernstein** should call up Oliphant and tell him what's in the wind.

H: Yes, he will -

HMJr: I don't want to put Bewley on notice because I don't want him to get his wind up.

H: That's right. Well, we won't bother him until we hear later from you.

HMJr: Yes, because then he might cable right back what's going on.

H: Well, when you call the Treasury - I assume you'll call the Treasury and give the word here to round us up.

HMJr: That's right.

H: But when you call them you'd better be sure and leave word where to get Bewley.

HMJr: Any call that I make is going to be recorded in the Treasury.

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H: Yes.

HMJr: And then if I get a call and they put up a definite proposition to me.

H: Yes.

HMJr: That I've got to give a yes or no, then I'm going to ask you fellows to come on up.

H: All right. Fine. Well, I'll tell the operator here to get in touch with everybody and find out where they're going to be all this afternoon and tonight.

HMJr: Where is Wayne?

H: Wayne is down in Virginia. Isn't it -

HMJr: No, I thought he went to a football game.

H: Wait a minute - wait a minute - (aside - where) He's at Baltimore at the football game.

HMJr: Well, he'll be back by tonight.

H: Yes. Wait a minute - He'll be back about eight o'clock tonight.

HMJr: Well, that's - eight o'clock tonight.

H: Yes.

HMJr: Wasn't he in at all today?

H: He was here until about half-past ten.

HMJr: Oh! What?

H: He was here up until about half-past ten, this morning.

HMJr: I see. Well, I don't see anything else, but to do it that way.

H: All right, fine.

HMJr: I - when I talked to Monnet, he was very enthusiastic and he seemed to think - but he said he - that he felt - thought he was successful.

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- H: Yes. He thought he had been successful.
- HMJr: Yes, definitely.
- H: Yes. Well, that looks like you'll hear something more then today, during the course of the day, and we'll have to come tonight.
- HMJr: Now, what does anybody know that I should know, that they could mention?
- H: Well, I - answering for myself, I don't think I know anything that you ought to know, that you don't already know, and the others are shaking their heads, they don't seem to think there's anything here of very great interest.
- HMJr: Well, they might be interested in knowing that Dr. Beardsley Rummell was here for five hours yesterday afternoon.
- H: He was there for five - uh?
- HMJr: Beardsley Rummell was here for about five hours.
- H: Yes. Harry White says you must be all in.
- HMJr: I am. Rummell told me what kind of medicine he takes to give him pep.
- H: Yes (laughter)
- HMJr: I told him that I had to take **triple** bromides to hold myself down.
- H: (laughter) Well, he's a ball of energy all right, isn't he?
- HMJr: Well, we just - you've never been through one of these - they happen three or four times a year, but I hope this is going to be the last one.
- H: Well, we'll be ready. We'll be ready, and if you'll just call the Treasury, we'll be on tap.
- HMJr: Now, you turned down this fellow on wages and hours.
- H: I think Oliphant said that that was illegal, we couldn't do it.

- 12 -

H.M.Jr: No.

H: So I hope - I don't think he's found any new way yet, that I know of.

H.M.Jr: All right. Well then you have - fix it up with the switchboard, and we'll let you know.

H: That's right. We will, and we'll be ready whenever you holler.

H.M.Jr: And if these fellows come up here, tell them to bring their memorandi with them.

H: I will. I will.

H.M.Jr: Because I might like to look at them.

H: All right. Fine.

H.M.Jr: All right.

H: Thank you, sir.

H.M.Jr: Goodbye.

H: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro
DATE: November 5, 1 p.m., 1938
NO.: 254

My 250 of October 29, noon.

I am informed by the Director of Exchange that the Bank of Brazil will, during the week of November 7, close exchange for daily quotas and maturities from the 22nd of September to the 30th of September, inclusive.

CONFIDENTIAL. The Director of Exchange states that, due to the rise in coffee prices as well as to more efficient administration of exchange policy, there is improvement in the exchange position of the bank. The Director adds that it will probably be possible for the bank to allocate increased amounts of exchange in the near future, unless unforeseen developments occur. However, the bank officials consider it prudent before doing this, to accumulate a sufficient reserve so that when additional allotments are made they may be continued.

Will you please inform Commerce.

SCOTTEN

EA:DJW

Saturday
November 5, 1938
6:08 p.m.

Operator: All right. We're ready.

Overseas
Operator: Yes. Are you ready?

O: All ready.

O.O.: All right. Thank you. 519 is ready. Ready,
Mr. Cochran. Hello, Mr. Cochran.

H. Merle
Cochran: Waiting.

O.O.: Thank you. Go ahead, please.

HMJr: Hello.

Cochran: Hello.

HMJr: Cochran -

C: Well, Henry, I was just getting ready to put in
a call for you.

HMJr: Oh. Because I've got a lot of people tied up and
I want to know whether I should hold them tonight
or not.

C: Ah - I didn't think I could get you before eleven -
it's just come now. So I have everything here that
I can give you.

HMJr: Well, go ahead. I'm listening.

C: All right. Archie telephoned me this afternoon
giving a report of the conversation which these
people had with you.

HMJr: That's right.

C: And then ah - the messenger who came across came
up to my house and gave me the story of his being
present at the - when the two talked this over.

HMJr: When the - when the two?

C: Yes.

- 2 -

HMJr: Yes.

C: Saying he was not in all the time but he was there part of the time and he was there when they talked with you.

HMJr: Yes.

C: Then I went over at 6:45 and saw the second one.

HMJr: Yes.

C: And he was very nice;- he said that he had talked with you and you had told him that he could communicate through me if he wanted to.

HMJr: That's right.

C: And I showed him I wanted to be of any assistance to him and he asked me to reiterate to you his interest in and gratitude for the message.

HMJr: Yes.

C: And - I told him we wanted to help all we could and it looked like some real cooperation seemed possible.

HMJr: That what?

C: That some really / ^{assistive} cooperation seemed possible from our side.

HMJr: Seemed possible?

C: Seemed - seemed possible.

HMJr: Yes.

C: And ah - he said however, that he had been sworn to such secrecy here -

HMJr: Yes.

C: -that he did not feel free to consult his technical assistants on these ideas.

HMJr: Yes.

- 3 -

C: And he said that his - his number one,- his Chief, was "hot", as he put it, for the idea.

HMJr: Was "hot" for the idea?

C: Yes.

HMJr: Yes.

C: And he says it's up to him however, to study the technical phases of it.

HMJr: Yes.

C: And he said that he is now in the midst of preparing this whole series of financial affairs, you know.

HMJr: - Yes.

C: And he asked if we would approve his consulting his two leading technical experts.

HMJr: Who are they?

C: Fournier and Roueff.

HMJr: Fournier?

C: Yes.

HMJr: And Roueff?

C: That's right.

HMJr: What do you think?

C: Well, let - let me go ahead. I - I think it's reasonable.

HMJr: Yes.

C: Because he's so rushed with this thing you see.

HMJr: He's so what?

C: He's so rushed with these decrees which he's trying to get out.

HMJr: Yes.

- 4 -

- C: - by Saturday - that he says that he can't give absolute full attention to this and he says that he has to talk with someone of his people almost to see what's been going on and so on.
- HMJr: Yes.
- C: He said of course he has the general idea but he said that for drafting and so on he must depend upon some assistance.
- HMJr: Well, does he feel that I've limited him?
- C: He thought that ah - from his conversation with this gentleman who has talked with him -
- HMJr: Yes.
- C: - that he couldn't talk with anyone. And I said, "Well, I think you can talk with your two ah - assistants whom you trust entirely." But I said, "I'll check up with my friend on the other side tonight." And he said, well, if I would call him back in the morning or come and see him and tell that that's O. K. that he would get them both started on it tomorrow.
- HMJr: Yes.
- C: He said otherwise he was afraid there would be a delay.
- HMJr: Well, if - I'm satisfied if they're satisfied over there.
- C: Why, I - I don't see much way out of it.
- HMJr: Ah - well I - it seems to me like a reasonable request.
- C: Oh, absolutely. I think so.
- HMJr: Ah - Fournier and Roueff?
- C: Yes. Those two.
- HMJr: But nobody else?
- C: Oh no. No. Certainly it'd stop there and if we insisted on only one he would limit to one. But it's almost impossible to talk with one of them without the other.

- 5 -

HMJr: No. I - I'm satisfied if they are.

C: Good. Well, I thought you would be but I - I told him I'd have to speak with you first.

HMJr: No. I mean it's must as though somebody said well I couldn't consult ah - Archie.

C: Yes. Absolutely.

HMJr: What?

C: Yes. Absolutely. That is just the comparison I had in mind.

HMJr: No, I don't - and anyway, ah - they've got to know who they can trust over there.

C: Sure. Well, I mean it had been put up the other way a little bit - that no one was to know outside of four or five of us you see.

HMJr: Oh. Well, the answer on those two - I know them both and I personally trust them.

C: Absolutely. I do too.

HMJr: Don't you?

C: I do, absolutely.

HMJr: Yes. I mean I've found them very honorable people.

C: Yes. No, no question.

HMJr: Yes.

C: Well, if I can get that word to him then - he said he'd be at the office at 8 o'clock -

HMJr: Yes.

C: He'll get one or both of them -

HMJr: Yes.

C: - right away.

HMJr: Well, how do you feel the second man feels about it?

- 6 -

- C: Ah - not quite as enthusiastic as this gentleman lead me to think this afternoon.
- HMJr: I see.
- C: Now, I don't say that there - there are reservations.
- HMJr: Uh huh.
- C: But the story is just this. He - he's going ahead on a series of decrees which he hopes to get out next Saturday.
- HMJr: Oh, next Saturday?
- C: Yes.
- HMJr: Uh huh.
- C: From appearance here they're entirely orthodox.
- HMJr: What's that?
- C: I say they are entirely orthodox.
- HMJr: Good.
- C: And he gave out a statement yesterday to the press.
- HMJr: Yes.
- C: - - - denying again that any measures of constraint would be taken -
- HMJr: Yes.
- C: And so he was revolving this thing in his mind - not deciding one way or the other - it interests him tremendously.
- HMJr: It does what?
- C: I say it interests him tremendously.
- HMJr: I should think it would.
- C: Yes. But his only point was that, "Should we accept this - "

- 7 -

HMJr: Hello?

C: Hello.

HMJr: Should they what?

C: He said, "Should we take up this idea or should we wait, issue the decrees and follow this up very shortly - follow the decrees up with this plan?"

HMJr: Yes.

C: And he said, "That's what I wanted to talk to my experts about."

HMJr: No. This - this thing's got to come - if it comes at all it has to come first.

C: Yes. I said, "Well, hadn't you thought of making it a part - coming right along at the same time?" I -

HMJr: Yes. This should be a part of the - whatever - the first announcement he makes this should be a part of it.

C: Uh huh. Well he had one other scheme in mind.

HMJr: Yes.

C: Someone had drawn up for him.

HMJr: Who?

C: I say someone - some financial man - I don't know who it was, had given him a draft today of a straight Tri-Partite Agreement just on-along general lines - a little bit like some of those we've seen before.

HMJr: Well, I - I've spent -

C: I beg pardon.

HMJr: I've been at this now for five years.

C: Yes. Well, he asked what I thought of that and I said, "No." I said, "The people are waiting for you to do something." And I said, "They want

- 8 -

your decrees." And I said, "If this thing is to come out you ought to get it - go into it very shortly."

HMJr: Well, if - if they don't take this why ah - I'll be more than disappointed.

C: Now I - I don't mean to - to give you any reason to think that they won't.

HMJr: Yes.

C: But what I do mean is that this man wants to go into it early with the two men most competent to help him with it.

HMJr: Well, I - I - I - in the first place I have no right to object and in the second place I have no reason to object.

C: Fine.

HMJr: Now, there's one thing - I - well, I won't hear anything more tonight then, will I?

C: No. Nothing more tonight.

HMJr: Right.

C: Because I'm not to call him back until in the morning.

HMJr: Well, of course you gain a day by speaking to me now.

C: Yes. Yes. Well, then I'm to call him between - at nine o'clock in the morning - he said even at eight if I wanted to.

HMJr: Yes. Inasmuch as we're on such a confidential basis see if you can't find out what it was that Marchandean wanted to do.

C: Right.

HMJr: See? Hello.

C: Yes.

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HMJr: Ah what - what was Marchandean's program - see if you can't get that tomorrow.

C: All right.

HMJr: See?

C: Yes.

HMJr: And if you can get that I might put that into a cable.

C: All right.

HMJr: Via the State Department.

C: Via the State Department.

HMJr: Because if I could tell what Marchandean had and what the Cabinet voted down it would give me a little bit more a feel of the situation -

C: Yes, yes.

HMJr: You see what I mean?

C: Yes.

HMJr: And ah - if they were so inclined I would consider it helpful if they would tell me what plans he had.

C: All right.

HMJr: But ah - Cochran, ah - we spent so much time with the messenger that I can't on the telephone do any pleading, you see what I mean?

C: Absolutely. Yes.

HMJr: Ah - that messenger - nobody ever got more consideration or more attention - or more technical assistance than he did. Hello.

C: Hello.

HMJr: And I hope they're not going to put it up to me to plead their case, you see, over the telephone.

- 10 -

C: Yes. Yes.

HMJr: Because I can't do it.

C: No, no, no. I'll see that that doesn't come up.

HMJr: You see what I mean?

C: Yes. Yes. And I was disappointed a little that they called you yesterday because -

HMJr: Well -

C: - they got in touch with me first and wanted me to come today and they said they weren't going to call until today, you see.

HMJr: It's all right. But now, the other thing ah - they - I know they're going to ask me to sell the third party. See?

C: Yes.

HMJr: And I'm perfectly willing to do it.

C: Yes.

HMJr: But ah - if they think that I - I would be helpful - as I told them - I'll do anything to be helpful.

C: Well, that - that's the impression this man had from his talk with - with the messenger, you see.

HMJr: What?

C: That you would be willing to -

Yes. / But -

HMJr: I know - I think I know what's going to happen. I think the third party is going to say, "Well, can't they talk for themselves?"

C: Yes. Yes.

HMJr: But I said I would and I will.

C: Yes.

HMJr: See?

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C: Surely.

HMJr: I'll make the effort.

C: I didn't get that ah -

HMJr: Hello.

C: Hello.

HMJr: I'll make the effort.

C: You'll make the effort?

HMJr: But I don't want to be put in the position that number one calls me up to plead with number two.

C: Oh, no, no. And there's one thing which ah - our friend spoke from my house here last night you know - we talked together with you.

HMJr: Yes.

C: He said where he envisaged the possibility of number two being thrown out if he wouldn't follow number one -

HMJr: I see.

C: Now that's not ideal by any means.

HMJr: That's not what?

C: That's not the ideal result.

HMJr: No.

C: Because each one needs the other.

HMJr: Each one what?

C: Each one needs the other.

HMJr: Yes. Well, but you get the point - all I - I mean I hope that number one doesn't call me up to plead with number two.

C: That what?

- 12 -

- HMJr: That number one won't try to ask me to sell this to number two.
- C: Absolutely. Yes. Yes.
- HMJr: In other words, ah - I don't want to be in a position of trying to sell this over the telephone.
- C: No. No. The only question that's in my mind now - if I say when - if and when I see him -
- HMJr: Yes.
- C: - that I indicate any ah - ah - suggestion that if this thing comes out it must come out first.
- HMJr: Well, I would say - I would say ah - no, I - I - Well, I would say "simultaneous". I don't know what they have in their mind.
- C: Well, let's let them go and give us some sort of an answer the next day or two.
- HMJr: I don't think I would suggest that, Cochran. I think that - let's - they've got the thing.
- C: Yes. Yes.
- HMJr: Now let's see what they going to do with it.
- C: Yes, that's - that's my idea. ^{To} Tell them to consult their technical experts, then let us know.
- HMJr: I mean, it's - it's like ah - ah - the world expects them to give - (Laughs) birth to an elephant and they give birth to a - ah - /rabbit. Hello.
- C: Yes.
- HMJr: I mean I can't imagine ah - not doing the most important thing first.
- C: You see, he still has some desire to - on this confidence business to get it to come back if possible, you see.

- 13 -

HMJr: Well, I went all over that with the messenger and he and I agree.

C: Well, all right. Fine.

HMJr: He and I agree that that ah - well, too late.

C: Yes. Yes. Yes.

HMJr: What?

C: Yes.

HMJr: I mean that's the stuff they've been talking for four years.

C: Since you've been in - five years almost.

HMJr: Five years.

C: Yes.

HMJr: For five years they've been talking that.

C: And the money's been going out all the time.

HMJr: Exactly. Now, ah - I just - I suppose they're listening but that's - but if they're going to do the confidence act why then - that's just going to follow what's been going on for five years and - I should think they could read history by now.

C: Yes. Yes. Well, I'll get in touch with him the first thing in the morning.

HMJr: And that messenger - believe me, he's a realist.

C: What's that?

HMJr: He's a realist.

C: Yes. Yes. No question about it.

HMJr: What?

C: That's true - very true.

HMJr: And ah - I mean he had a week to soak this thing up.

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C: Yes.

HMJr: Did he present a letter to you?

C: No. He said he had one but I haven't see it yet.

HMJr: Yes. Well, that's nothing.

C: I had a talk with him. He's not with me now - he's at home.

HMJr: Well, that's all right.

C: Ah - but I phoned him after I came back from this visit tonight.

HMJr: But the only thing on now is - well you've got - you've made note that if you can find out what the Marchandean plan was and if you can, put that in a cable.

C: All right.

HMJr: Tomorrow.

C: All right.

HMJr: And ah - let's hope for the best.

C: All right, sir. I'll try and get that off in a cable tomorrow.

HMJr: Ah - what - well, what are the chan - what do you think the chances are?

C: I don't know. You see this is the first time I've talked with any of them since the change.

HMJr: I see.

C: I purposely refrained from any visits -

HMJr: Well -

C: - during this period of waiting, you see.

HMJr: I see.

C: This is the first talk I've had with this new man.

- 15 -

HMJr: Yes.

C: And I haven't even been talking with my usual fellows.

HMJr: Yes.

C: And just now I think I could get a little more idea when I'm trying around for this information as to what the old program was.

HMJr: Well, I - I - I - Secrecy is most important.

C: Yes. Yes. Absolutely.

HMJr: All right.

C: Fine.

HMJr: All right.

C: You'll be at the farm tomorrow?

HMJr: Yes. I'll be here until Tuesday afternoon.

C: Until Tuesday?

HMJr: Yes.

C: Good.

HMJr: All right.

C: Fine.

HMJr: Goodbye.

C: I'm not cabling any of this, of course.

HMJr: No - no.

C: Not even in that special way. I'm keeping notes on it and my friend here promised to give me notes of what he had had.

HMJr: Good.

C: When I wasn't present.

HMJr: All right.

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C: Goodbye.
HMJr: Goodbye.
C: Goodbye, sir.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, November 6, 1938.
11/5/38.

Press Service
No. 15-22

The Treasury Department released today revised monthly and annual averages of the yields of long-term Treasury bonds from 1926 to date. The revised averages, prepared by the Treasury Department's Division of Research and Statistics, are based upon the daily yields of all outstanding Treasury bonds not due or callable for twelve years or more. The new averages will replace those previously in use which were based upon Treasury bonds not due or callable for eight years or more.

Prior to 1935, there was very little difference between the yields of Treasury obligations of medium- and longer-term maturities. Since then, however, significant differences have appeared, thereby impairing the usefulness of the earlier averages as representative of the yields of long-term Treasury bonds.

The most striking aspect of the table of average yields presented on the following page is the substantial decline in long-term interest rates that is reflected even with the exclusion of the medium-term bonds. The average yield in January, 1926, was 3.77 percent. In October, 1938, it was 2.48 percent.

The monthly and yearly averages of the daily yields of all Treasury bonds not due or callable for twelve years or more, from January, 1926, through October, 1938, are presented in Table I attached hereto. The differences between the old and the new averages are shown in Table II. The two averages were based upon the identical bonds between January 1, 1926, and July 16, 1928.

Table I

Average Yields of all Treasury Bonds not Due or Callable
for Twelve Years or More

(Percent)

Average of daily figures. Yield to earliest call date
if market price is above par; to final
maturity date if below par.

| | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 |
|-----------|------|------|------|------|------|------|
| January | 3.77 | 3.51 | 3.18 | 3.52 | 3.43 | 3.20 |
| February | 3.71 | 3.48 | 3.19 | 3.62 | 3.41 | 3.30 |
| March | 3.71 | 3.37 | 3.17 | 3.74 | 3.29 | 3.27 |
| April | 3.70 | 3.35 | 3.20 | 3.64 | 3.37 | 3.26 |
| May | 3.67 | 3.31 | 3.24 | 3.64 | 3.31 | 3.16 |
| June | 3.67 | 3.34 | 3.29 | 3.69 | 3.25 | 3.13 |
| July | 3.68 | 3.36 | 3.42 | 3.64 | 3.25 | 3.15 |
| August | 3.70 | 3.32 | 3.48 | 3.71 | 3.26 | 3.18 |
| September | 3.70 | 3.30 | 3.46 | 3.70 | 3.24 | 3.25 |
| October | 3.68 | 3.29 | 3.47 | 3.61 | 3.21 | 3.63 |
| November | 3.62 | 3.23 | 3.38 | 3.35 | 3.19 | 3.63 |
| December | 3.66 | 3.17 | 3.45 | 3.36 | 3.22 | 3.95 |
| Year | 3.68 | 3.34 | 3.33 | 3.60 | 3.29 | 3.34 |

| | 1932 | 1933 | 1934 | 1935 | 1936 | 1937 | 1938 |
|-----------|------|------|------|------|------|------|------|
| January | 4.26 | 3.22 | 3.50 | 2.88 | 2.80 | 2.47 | 2.65 |
| February | 4.11 | 3.31 | 3.32 | 2.79 | 2.77 | 2.46 | 2.64 |
| March | 3.92 | 3.42 | 3.20 | 2.77 | 2.71 | 2.60 | 2.64 |
| April | 3.68 | 3.42 | 3.11 | 2.74 | 2.68 | 2.80 | 2.62 |
| May | 3.76 | 3.30 | 3.02 | 2.72 | 2.66 | 2.76 | 2.51 |
| June | 3.76 | 3.21 | 2.98 | 2.72 | 2.68 | 2.76 | 2.52 |
| July | 3.58 | 3.20 | 2.92 | 2.69 | 2.65 | 2.72 | 2.52 |
| August | 3.45 | 3.21 | 3.03 | 2.76 | 2.61 | 2.72 | 2.51 |
| September | 3.42 | 3.19 | 3.20 | 2.85 | 2.60 | 2.77 | 2.58 |
| October | 3.43 | 3.22 | 3.10 | 2.85 | 2.62 | 2.76 | 2.48 |
| November | 3.45 | 3.46 | 3.07 | 2.83 | 2.53 | 2.71 | |
| December | 3.55 | 3.53 | 3.01 | 2.83 | 2.51 | 2.67 | |
| Year | 3.68 | 3.31 | 3.12 | 2.79 | 2.65 | 2.68 | |

Table II
 Comparison of New and Old Averages of Yields
 of Long-Term Treasury Bonds
 (Percent)

| | New average 1/ | Old average 2/ | Difference |
|------|-------------------|-------------------|------------|
| 1926 | 3.68 | 3.68 | — |
| 1927 | 3.34 | 3.34 | — |
| 1928 | 3.33 | 3.33 | — |
| 1929 | 3.60 | 3.60 | — |
| 1930 | 3.29 | 3.28 | + .01 |
| 1931 | 3.34 | 3.31 | + .03 |
| 1932 | 3.68 | 3.65 | + .03 |
| 1933 | 3.31 | 3.31 | — |
| 1934 | 3.12 | 3.10 | + .02 |
| 1935 | 2.79 | 2.70 | + .09 |
| 1936 | 2.65 | 2.47 | + .18 |
| 1937 | 2.68 | 2.57 | + .11 |
| 1938 | 2.57 3/ | 2.38 3/ | + .19 3/ |

1/ Based upon daily yields of all Treasury bonds not due or callable for twelve years or more.

2/ Based upon daily yields of all Treasury bonds not due or callable for eight years or more.

3/ First ten months of 1938.

Sunday
November 6, 1938
5:38 p.m.

H. Merle
Cochran:

I just now came away. They decided to wait until 9:30 in the morning. They're going to see what the condition is and if it isn't that they'll operate then.

HMJr:

Well, I hope everything turns out all right.

Cochran:

Thank you so much. He's suffered a lot of pain the last three days so I've been here with him quite a bit.

HMJr:

And I told them not to disturb you at the hospital - that I could wait until you got back.

C:

Well, that's awfully good of you. Because when I went out I didn't know how long I'd be there. I just had my maid stay so she could tell anyone where I was, you see.

HMJr:

Yes.

C:

But they were going to decide in the morning at nine-thirty. They have a very good doctor and the condition is just one of those things - it - if it gets to the eyes you see and they will have to be pretty careful. But anyway, my friend here, the messenger, called while I was out too.

HMJr:

Yes.

C:

Have you spoken with him - or not?

HMJr:

No.

C:

Because I don't know what he wants. I don't think he has anything because I called back as soon as I came in; I found that two calls had come - and they said he was out. So then I put in a call for you.

HMJr:

Well, you think - you don't know what - what I was calling up to find out whether there was any news.

C:

I have nothing. What I'm quite anxious to do now is to telephone my red haired friend and see if I can see him yet tonight about that question which you raised last night.

HMJr:

Oh - I wouldn't rush it. What is it, eleven o'clock over there?

- 2 -

- C: It's a quarter till. I mean it depends on how urgently you want it.
- HMJr: No, no, no. Monday'll be - I'm in no such hurry as all that.
- C: Oh, I see. All right.
- HMJr: No. If you saw him tonight that would just excite him too much.
- C: I'm afraid it might. And I could have gone there this noon but I thought I'd give his chief time to let him know about this proposition, you see.
- HMJr: No. I think I'd wait.
- C: Fine. Well, I'll get over there after I leave the hospital in the morning. I'll be and I'll get in touch with him without too much obvious effort, you see.
- HMJr: Yes. But you haven't heard anything else?
- C: I haven't heard a thing because when I telephoned number two this morning -
- HMJr: Yes.
- C: I called him at 9 o'clock; he was already on the job, and I gave him your message and he said, "Fine. Then I'll go ahead and get in touch with him."
- HMJr: Fine.
- C: You see? And he'll - that's all - we just talked very briefly over the phone; - he was very nice. And when I talked to the messenger last night he thought it was rather hopeful that this man was calling on his assistants.
- HMJr: Yes. I see.
- C: And ah - I haven't seen him today. He was a little ill last night you see.
- HMJr: He was what?
- C: He was sick last night.

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HMJr: The messenger?

C: Yes.

HMJr: Oh.

C: And this morning when I talked to him he said he was feeling better and was up and around.

HMJr: Oh. Anything serious?

C: No, no, no. No - just a stomach upset.

HMJr: Uh huh.

C: So don't think this staff is going to pieces over here.

HMJr: Right.

C: No, no. I can work this thing in all right and I'll see the red haired fellow -

HMJr: Yes.

C: - tomorrow, oh by noon or shortly after noon, to get any message through.

HMJr: Yes.

C: But I - I purposely didn't go today when I had planned -

HMJr: Yes.

C: - I phoned this man that I didn't have a chance to speak with him you see.

HMJr: Well, ah - so far no Rist.

C: No. And I told the man this morning when I spoke to him, number two, I said, "Here's my home telephone number. When you have any message for my chief you give me a ring." He said, "That's understood;" he said, "that's the way we'll work it."

HMJr: That's right.

C: So I know he - I'm absolutely sure he was going to put those men on it today. He told me

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yesterday, he said, "I'm going over this." He said, "I'm retrenching," he said, "with that to develop in France if it brought things back, you see."

HMJr: Yes.

C: He said, "I want you to think of that - if I got it here what could I do?"

HMJr: Yes.

C: I mean he was really seriously thinking it.

HMJr: Yes.

C: The only thing was - I felt him out - sort of colder perhaps. I didn't want to be too enthusiastic everything was fine and it's all right too.

HMJr: Well, I think that's enough. And we'll - I'll wait until tomorrow.

C: Fine.

HMJr: See, what I want to do is to release my people now.

C: You want to what?

HMJr: I've got a lot of people standing by and I want to release them.

C: Yes. Surely.

HMJr: See?

C: Well, fine. Well, I'll see this man some time tomorrow surely and get anything he'll give me, you see.

HMJr: All right.

C: And then I'll always leave word - so - the number that you can get me on short notice if there's anything.

HMJr: All right.

C: Goodbye.

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HMJr: That's all. Goodbye.

C: Goodnight, sir.

November 7, 1938.
9:19 a.m.

Archie
Lochhead: Hello.

HMJr: Archie?

L: Goodmorning.

HMJr: How are you?

L: Very well, thank you. Do you want me to start off - just give you the markets first?

HMJr: Yes, please.

L: Sterling - sterling is 4.75 and 7/8ths.

HMJr: Yes.

L: The francs are 2.66 and 1/4. The francs apparently are stronger than the sterling this morning.

HMJr: Yes.

L: But not enough to say anything about.

HMJr: Yes.

L: No special comments. The market was about a moderate market on the other side. No comments of any type.

HMJr: Yes.

L: No - no further cables in. The securities on Sat - well there were some small sales over purchases.

HMJr: Well, the stuff that I said yesterday is on the record. Nothing happened.

L: Nothing happened.

HMJr: Nothing happened and we just sit and wait. I mean there's no use my even discussing it, because there's nothing there, and I talked to Cochran last night, and he's just waiting - he hasn't heard. The only thing that I told him was - was to see if they wouldn't tell him what Marchandean's plan was, which he lost on to give us that background, and I said if he got that information to put it in a cable.

- 2 -

- L: I see. That'll come by cable. Well then, I'll watch for that.
- HMJr: If they give -
- L: If he gets it. Yes, if he gets it.
- HMJr: But Cochran, in his usual very mysterious manner, said, "I will ask my red headed friend for that." Nobody listening could ever guess he meant **Roueff**
- L: (laughter) Like our friends across the channel.
- HMJr: Yes. Cochran is marvelous on his codes.
- L: Well now, I don't know if there's anything - anything further - anybody here wants, in regard to that. Let's see Mr. Gaston, Mr. Oliphant, Mr. White and Mr. McReynolds are here.
- HMJr: I wish that - they may have this - that on page 26 of today's Tribune, is a chart showing the back log of the cases on Labor Relations Board. Is Haas there or Oliphant?
- L: Mr. Oliphant's here.
- HMJr: And I'd like them to do one like that for me on the Board of Tax Appeals and see what it looks like.
- L: Right. Aside: Mr. Oliphant take a note of that.
- HMJr: It's on page 26, of the Tribune.
- L: Right.
- HMJr: And it's very interesting. It's done by a Mr. Gustaal.
- L: Gustaal.
- HMJr: I've never seen it done showing just the thing in that way.
- L: Quite. Well, Mr. Oliphant said he would take care of that.
- HMJr: And Haas can do it.

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L: Yes.

HMJr: Now, is Mac there?

L: Yes. Just a second and I'll put him right on.

McReynolds: Good morning, Mr. Secretary.

HMJr: Hello, Mac.

M: Yes.

HMJr: Mac, I wish you'd get together with whoever it is necessary and put down on a piece of paper, very simply, for me, consider yourself a million dollar housing authority in New York.

M: Yes, sir.

HMJr: And you were going to go ahead and finance. Now, how - what you get from the Federal Government - just the money - and then when you come down to a place where you can go two routes, I'd split the page in half and put on the one side - you could follow route A and sell your things locally and what you'd have to do. On the other side you'd follow route B and you have the Federal Government guarantee them and sell them, see?

M: Yes.

HMJr: But do it, - oh, in a very simple way, you see?

M: Yes.

HMJr: Now, and then in that say - I'd point out when they follow the local thing that it - about ninety per cent mortgage on the property and there's no guarantee and what proportion - I mean that - of the interest has to be raised each year by Congress, you see?

M: Yes.

HMJr: Hello.

M: Yes.

HMJr: I mean - in other words I'd try it several ways, but - my thought was splitting the page in half when they come to that place where it could go either way.

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- M: Yes.
- HMJr: Because I'd like to have it worked out as I have it in my mind - it's a ninety per cent mortgage on a property, and if they rent, say five dollars a room, they can only earn about one-third of the interest requirement.
- M: Yes.
- HMJr: The other two-thirds will have to come from Congress on an annual appropriation basis.
- M: Yes, I get the idea.
- HMJr: And I want to do it as simply as that. I want to see what it looks like and I'd like to have the President understand it once.
- M: All right.
- HMJr: I'm sure he doesn't.
- M: O.K. We'll work it out.
- HMJr: I'd like to have that Wednesday, but just on the straight **financial** and try it on two or three different patterns and let anybody help you that needs to.
- M: O.K. I will.
- HMJr: But I want to get it down - to get it into his head that if you sell this thing - and I was thinking - I wonder if I'm not right that these bonds would have somewhat the same status in the minds of the public if - as a joint stock land bank to be correct - whether they are or are not instrumentalities and all the rest of that stuff.
- M: Yes.
- HMJr: And ask Oliphant if I'm right on that.
- M: He says they're not as good as a joint stock.
- HMJr: Well it - then it'd be perfectly fair to compare them to a joint stock.
- M: Yes.

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HMJr: What?

M: Yes.

HMJr: And after all, personally, the only reason I can see a fellow would buy ~~them~~ because they were tax exempt.

M: Yes, undoubtedly.

HMJr: What?

M: Undoubtedly.

HMJr: And then the other point is, I don't know whether the law limits what you can charge per month, per room, but I mean - I think it would be interesting show to make them carry themselves - how much you'd have to increase the price per room in order to make them carry themselves, if Congress didn't vote the subsidy.

M: Yes.

HMJr: You see what I'm thinking?

M: Yes, I get the idea.

HMJr: In other words, I - I don't - you'll have to try it two or three different ways, but I'd like to say - "All rightie go a way this way and Congress doesn't vote, then what happens to this housing outfit."

M: Yes, I get the idea.

HMJr: Well, then, the people would have to jack up the price. How high can they go?

M: Uhhuh.

HMJr: And what have you got if you put a hundred dollars into one of these bonds, what have you got?

M: Yes, I get the idea.

HMJr: I don't - I'm not sure that I understand it myself. I think I do.

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M: Well I - I think you do.

HMJr: You know you and I made that...

M: I - I think you do too.

HMJr: You and I **sweated** that fellow for six hours.

M: Yes.

HMJr: And I think we understand it, but the President, in a half kidding way, the other day, on the train, he said that - he said, "Wasn't I good with Lambert considering I didn't know what I was talking about." And I said, "You're wonderful."

M: Well, we'll have this worked out for you.

HMJr: But he understands that Lambert thing thoroughly now.

M: Uhhuh.

HMJr: And I'd like him to understand the other thing as well.

M: O.K.

HMJr: Because to have eight hundred or five hundred or a billion dollars worth of these bonds flopping around on the market I think would drag down all the other guaranteed bonds like Farm Credit, the Home Owners' Loan and all the rest of them.

M: Yes.

HMJr: Or anybridge authority.

M: I think so.

HMJr: And I'd like to sell some good bonds in the future, and not have these flopping around and discrediting anything else we might want to do in the future.

M: All right, we'll work it out.

HMJr: Anybody disagree with me?

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M: I haven't seen anybody shaking a head. You haven't heard anything more about that Boyd thing?

HMJr: The which?

M: The Boyd.

HMJr: No, have you?

M: Yes, he - they've suspended him.

HMJr: They did what?

M: They suspended him Friday night.

HMJr: Justice?

M: Yes.

HMJr: Yes.

M: And they had him on the grill before they - well, our boys had him until they got through with him, and then the Grand Jury took him over. He admitted borrowing money from these fellows that he had supposed to pick graft from.

HMJr: Yes.

M: So, it looked like the boys were on the way.

HMJr: Uhuh.

M: And the Justice people - well Irey had a little run in with them on Friday because their Assistant United States Attorney were trying to butt in on their conferences with him.

HMJr: Yes.

M: Well, Homer Cummings cleared that.

HMJr: Yes.

M: So that they weren't bothered until they finished, and then the boys turned him over to their Grand Jury. There's nothing specific come up on the other end of it yet, although the boys are running down the angles of it.

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HMJr: Good. Now, what else?

M: - I have nothing

HMJr: While we're on that put Oliphant on. I want to tell him something that I did.

M: Right.

HMJr: Please.

M: He's on the way.

Herman
Oliphant: Hello.

HMJr: Hello Herman.

O: How are you?

HMJr: Fine.

HMJr: Herman, the other day when I had lunch with Harold Ickes -

O: Yes.

HMJr: He got on to **Moe Annenberg** because he's going to make his favorite speech tonight I think.

O: Yes.

HMJr: And Harold said, "No matter how bad I am on **Annenberg** can I libel him?" I said, "No, go the limit, you can't libel him". Then I got, what may be, one of my sudden steams of light, and partly after talking with Irey, and that is if we could get the President now, right after election, to appoint a special United States District Attorney to handle this **Annenberg** case and work with Irey and advise us just the way Stimson advises us on the Spanish thing - I think it would be terrifically helpful.

O: Uhuh.

HMJr: And I asked Harold Ickes to be thinking of who - in the Middle West stood as high as Stimson does in the East.

O: Yes.

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HMJr: And he's been thinking, and I think he said former Judge Clark.

O: Yes.

HMJr: I think was the man he said - a Republican.

O: Uhhuh.

HMJr: Hello.

O: Hello.

HMJr: But right after election I'm going to ask him for that name or names again, and I want you to be thinking about it, too.

O: Well, in the meantime I'm going to look up our previous experiences in appointing special -

HMJr: Yes.

O: That is I want - find out what -

HMJr: Well get the idea because if we could get an outstanding man - I mean who - all through the middle West, who could be advising Irey from now on and familiarize himself with the case -

O: Uhhuh.

HMJr: Then have it recognized **he superseded Igoe.**

O: With no publicity at this time of course.

HMJr: No. Just have him there to assist Irey.

O: Yes. Assist Irey.

HMJr: Irey.

O: Yes.

HMJr: I think it would be most helpful.

O: Yes. All right.

HMJr: And I think - I'm quite sure that I could get the President to do it.

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O: Yes.

HMJr: And - **after all** - if it's correct that Bruce Kremer is familiarizing himself with the case in behalf of Mr. -

O: Uhhuh.

HMJr: Annanberg, why shouldn't we -

O: Yes.

HMJr: At least be permitted to do as much.

O: Yes. All right.

HMJr: Think about it.

O: I'll turn that over in my mind.

HMJr: See?

O: Yes.

HMJr: And then -

O: It has two angles, first, the right man and second, one under the **statutes** to whom he'd have to report what his responsibility would be.

HMJr: Yes. All right. Is Duffield there?

O: Yes, he's here. Just a minute.

Eugene Duffield: Good morning, Mr. Secretary.

HMJr: Your report on your conversation with those men over at the Fed was so - such good reporting that I couldn't tell how you felt about it yourself.

D: You mean about - how I feel about them or about the situation?

HMJr: Oh, you don't have to do on the phone. Mrs. Morgenthau read it and when she got through she said, "Well Duffield is so good," she said, "I can't tell whether - where - how he feels himself." I said, "That shows how good he is."

D: Yes. Well I didn't think you were interested in how I felt about it. I thought you wanted to

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know how they felt about it.

HMJr: I do. I'm trying you in a procedure

D: (laughter) Thank you.

HMJr: That's all.

D: Yes.

HMJr: This is a good report and tell the group about it.

D: Yes.

HMJr: It shows what a problem we've got.

D: It certainly does.

HMJr: And -

D: The first problem - the first problem is to educate those people down there about what this thing contains. I think only McKee understands it very well.

HMJr: Well, from your report I'd say he was our only hope, but I think there are some first class fellows over there and that if they did understand it that they might be as interested and as shocked as I am and the rest of the fellows.

D: I think - think it's only natural though that they - hope if it ever gets into their hands they'll realize how nasty it is.

HMJr: Well, this - this bank subsidiary / ^{thing} what are they called Banks of - Banks America?

D: Yes.

HMJr: Well, there's a good example. If Mr. Giannini wants to reform why doesn't he come clean on this.

D: That's right. That's right.

HMJr: What.

D: That's right.

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HMJr: And if they think that you can sit down and argue with them, and talk with his son and wife, why don't they do it on that case?

D: (laughter) -

HMJr: Unimportant one.

D: Right.

HMJr: What?

D: Right. Absolutely.

HMJr: And keep the people that are following that, in my office, informed as you go along.

D: All right, I will do so. I - I want to see the rest of the Board members, particularly Chester Davis, but I didn't have time that day.

HMJr: Right. Now may I talk to Taylor a minute?

D: Uhuh.

Wayne C. Taylor: Good morning.

HMJr: Hello, Wayne. Wayne, I have a very passionate note from Herbert Feis pleading with me that I change my position on a - what they should take up with Lemar Hello.

T: Yes.

HMJr: I wish you'd talk it over with him and - and think about it yourself and be ready to recommend something to me on Wednesday.

T: All right. I'll get a copy of what you said from who - Miss Chauncey?

HMJr: Yes. Yes, she'd have it. They sent me a complete copy of everything that happened so that Feis has it.

T: Yes.

HMJr: Miss Chauncey will give it to you, and the point is this, I am opposed to conferences at a fixed time, when you don't know - you haven't got a program, see?

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T: Yes.

HMJr: And to have a conference in the summer of '39 in Washington with all the Treasuries of South America - Central America, when we don't know what we want. Well, it just scares me to death.

T: Uhhuh.

HMJr: Now if we had a program and we knew what we wanted I'd be delighted to sit down with them. I wouldn't mind getting indigestion from all the banquets, but we haven't got any program. Now that's my position, and I think it's unreasonable and unfair to ask us to have a meeting next summer of all the Treasuries of South and Central America when we can't get together as to a program with the State Department. What do you think?

T: Well, I think - just sit around and talk about **love and** whatever it might be, why it would be kind of a waste of time.

HMJr: Well that might be fun, but it wouldn't get us anywhere.

T: Uhhuh.

HMJr: Hello.

T: Yes.

HMJr: It wouldn't get us anywhere, and we have no program on finances with South America.

T: We - we might have one by then but -

HMJr: Well if we did then we could invite these fellows to come up.

T: Right.

HMJr: But also, I'd like to invite them to come up one by one, because I can't - I can't work with more than one country.

T: Uhhuh.

HMJr: Or two at the most. The way I feel -

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T: What?

HMJr: - if they still think I'm wrong why it's not a - it's a vital matter but I don't want to sit down with those fellows next summer with no program.

T: Well, I'll - I'll talk to Herbert and be prepared to talk to you on Wednesday about it.

HMJr: And the other thing - as soon as - the first breathing spell I'd like to see whether we couldn't use Brazil as a model and try to work out a program with Brazil and then get the President's permission to work with them direct - on finances.

T: Yes.

HMJr: See?

T: Yes.

HMJr: I wish you'd be thinking about that.

T: Right.

HMJr: They've got - I mean, just say - well, now, let's try it with Brazil and we'll work with them and see if we can't work out a program.

T: Right.

HMJr: And concentrate on Brazil.

T: Check.

HMJr: So if you'd be thinking about that.

T: Right.

HMJr: And - no news from abroad. I mean they - they're working over there and as soon as I hear I'll let you fellows know.

T: Right.

HMJr: All right.

T: Right. Anybody else?

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HMJr: No, I'll be on the phone again this afternoon.

T: Wait. Just a minute. Harry White wants to say something.

HMJr: Right. Would somebody look at the Daily News, on my desk, and see what - it's usually on page 2, what they say about the New York State election.

Harry White: Hello.

HMJr: Hello Harry.

W: This is in reference to something else. You said that you were going to have that group come down here on the 10th -

HMJr: Yes.

W: To discuss the situation. I didn't know whether, at the time, you realized that the 10th was the day before the holiday -

HMJr: Yes.

W: And that you might have some difficulty in getting many of them down.

HMJr: They've all been invited over ten days ago.

W: Oh, they have.

HMJr: Miss Chauncey knows which are coming. I think they all accepted -

W: I see.

HMJr: Except Walter Stewart.

W: I see. I didn't know that's been taken care of.

HMJr: Well, this is what happened. Riefler most urgently asked me to get them together because he's sailing on the 12th for Europe.

W: I see.

HMJr: And he said to go over there and not know where we stood would be a terrific handicap, and he would consider it a great favor if we could get together and give him something of where we did stand.

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Then if we had something we wanted to use him, he'd be available.

W: I see.

HMJr: So the reason - the real reason for the date is as - as a service to Win Riefler.

W: I see.

HMJr: See?

W: I see.

HMJr: "I'm going to sit around", he said, "In Geneva for a month, and not to know where my own Treasury stands", he said, "It's just too terrible."

W: I see.

HMJr: "Now won't you get these fellows together, so I can know, and as I could be of some service". I thought that was very reasonable.

W: All right. Second matter - Mr. Oliphant and myself have prepared a statement on Latin American assistance and a special case on Brazil.

HMJr: Yes.

W: Now, if you want that examined here before you get it, by everybody -

HMJr: I do.

W: Yes.

HMJr: I wish - I wish that Taylor could collaborate.

W: Yes.

Then we'll send around and get the various views and changes and comments and have it ready for you when you come back.

HMJr: All right

W: O.K. You wish to speak with Herbert. He's looking at the news.

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Herbert
Gaston:

Hello.

HMJr:

Hello.

G:

The news this morning says that Dewey is in the lead, that he is going to win barring rain, official straw poll indicates the District Attorney will get 51.12 - 51.12 of the total two party vote and that Lehmann will get 48.88.

HMJr:

That he'll win barring what?

G:

Barring rain. But the prediction of the Times says very close. Of course I suppose you noticed that.

HMJr:

Yes, we -

G:

And they carried the pre- then the Tribune carries the opposing prediction - each about two hundred and fifty thousand. Frank Waltman told Duffield that about this News poll, this morning, that some adjustments would have to be made, I presume on account of the Farmer Labor party vote, and that after making those adjustments it looked unlikely that Dewey would win.

HMJr:

Unlikely.

G:

Uh!

HMJr:

Unlikely.

G:

It looked unlikely. In other words Frank Waltman of the Republican National Committee is inclined to think that Lehmann will be elected notwithstanding this News poll. The weather generally fair, continued warm today, rain tonight or tomorrow, much colder tomorrow afternoon. Herman Oliphant points that out - they may get a heavy rain in the morning, in the country.

HMJr:

Well, all right. This is the first day I've felt normal since I've been up here.

G:

Fine.

HMJr:

And I hope this French thing stays quiet, and I won't have to see you fellows.

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G: Well, from what Archie says it looks as if it will stay quiet for some days.

HMJr: Well Archie - Archie is a speculator, you can't go by him. All right.

G: All right. Anybody else?

HMJr: No thank you.

G: Right. Goodbye.

Monday,
November 7, 1938.
9:51 A. M.

Operator: Go ahead.

H.M.Jr: Hello.

H.Merle
Cochran: Hello.

H.M.Jr: Hello.

C: Hello, Mr. Secretary.

H.M.Jr: Ah - How - how is Mrs. Cochran today?

C: Ah - they did not operate this morning; the definite decision will be at five-thirty, and I think they will operate then.

H.M.Jr: Well, I hope everything will be all right.

C: Thank you so much. Well, I'm - I'm at home now, and I'll go out there again after the call.

H.M.Jr: Yeah.

C: But this morning I went to see my red-haired friend.

H.M.Jr: (Laughs)

C: And I found out that his chief had talked to him about this matter.

H.M.Jr: Yes.

C: He asked for more details; I told him that ah - that I had notified Number One that a messenger was coming.

H.M.Jr: Yes.

C: But then, ah, Red Head asked me the source of the idea, and I told him that the messenger had communicated everything, and my remark was, ah - well, first, Red Head suspected this man, at London, you know.

H.M.Jr: Yes.

- 2 -

- C: And at London, of having something to do with it, because these two are good friends.
- H.M.Jr: Yeah.
- C: And I said, "Well, can't say anything about that; it's my understanding that this man is not even to be used in this affair."
- H.M.Jr: That's right.
- C: I says, "It's quite the contrary impression.
- H.M.Jr: Yeah.
- C: And, ah, I said, "Irrespective anyway of the ideas, I was pressed by the limit to which I understood my people were willing to go. If the people here found these ideas of interest, as they had already indicated...." and then they told us that they were disposed to act thereon. And I told him that this was much wider cooperation than they would ever have ventured to ask from us.
- H.M.Jr: Yes.
- C: And he's been struck with it - I mean, he's just a little overcome.
- H.M.Jr: Yeah. Well now - hello.
- C: He was to lunch today with his chief, to discuss this matter.
- H.M.Jr: Well, ah, hadn't they already taken him into their confidence?
- C: Yes. Oh yes. I didn't say anything till - till he started talking, you see.
- H.M.Jr: Oh, he knew about it?
- C: Oh yes, he knew all about it.
- H.M.Jr: What?
- C: He knew ^{nearly} everything. He'd already been taken in; that's the first thing he said.

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HMJr: Oh yes.

C: He said, "My Chief told me about your talk." Then he wanted to know if I knew anything more, you see. And he brought up this point as to the origin of the idea, but I - I told him what a big idea it was; that it went much further than anything I'd - ah - ever contemplated.

HMJr: I'm sorry - I'm sorry. Would you mind repeating your last sentence?

C: I say, I told him that this went much further than anything I had ever contemplated in agreement.

HMJr: Yes.

C: And - ah - he said, well what are they to do? And I said, "Well, you've indicated your interest in this."

HMJr: Yeah.

C: "You indicated directly to my chief."

HMJr: Yeah.

C: But I said, "Now, we want you to tell us whether you are going ahead on it, and on what line."

HMJr: Yeah.

C: Communicate this, through me, to you, and we'll see if we are in agreement.

HMJr: Yes.

C: If what they say would be enough to inspire us to do what we could.

HMJr: Yeah.

C: And I said, "Then"

HMJr: Hello.

C: Hello.

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H.M.Jr: Yes.

C: I said that then you were willing to make the record with our cousin.

H.M.Jr: Yeah.

C: If necessary.

H.M.Jr: That's right.

C: And then he asked me to call him back this evening sometime after four o'clock.

H.M.Jr: Yes.

C: Ah - to see whether they want to see me late this evening.

H.M.Jr: Well now, is this fellow trying to block this?

C: No, no, no; not at all.

H.M.Jr: Well, what does he think of it?

C: Well he - he wanted more information from me.

H.M.Jr: Oh.

C: And I said, "This is all; you have the whole proposition put there."

H.M.Jr: Yeah.

C: And he addressed - had the one talk with his chief, and they were to meet again today at noon at lunch and ^{to} go over it.

H.M.Jr: I see.

C: And he wanted me - us to say (what) we're supposed to do. I said, "Well, it's up to you to make the next move."

H.M.Jr: Sure.

C: And so that's ^{- he's} going to -- he wants me to phone him at four.

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H.M.Jr: Yes.

C: To see whether or not they are ready to make a move.

H.M.Jr: Well, let me just give you this thought, and this describes what I consider my relation to this situation. Hello.

C: Yes.

H.M.Jr: And I - inasmuch as you've been seeing doctors, you will find that this is a very pointed comparison. Hello.

C: Yes.

H.M.Jr: Ah - after all, you call in a consultant, to diagnose the case.

C: Yes.

H.M.Jr: And I've been called in as a consultant.

C: Yes.

H.M.Jr: And, in this particular case, I consider it a life and death matter, and I recommend an operation.

C: Yes.

H.M.Jr: But I'm not a surgeon.

C: Yes.

H.M.Jr: I'm simply a consultant.

C: Yes.

H.M.Jr: And they've got a - a - they can take my advice or they can reject it.

C: Yes.

H.M.Jr: But - but they're the surgeons, and there, a major operation.

C: Yes.

H.M.Jr: Now the rest is up to them.

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- C: Well, I - I - I put it up strongly to them that the move is to them.
- H.M.Jr: Now - but you - you get the comparison.
- C: Yes, I - I get it, and I'll repeat it this afternoon when he calls me.
- H.M.Jr: But that - that's the whole thing, and I'm not going to go - I'm not going - I'm not going to operate.
- C: No, no, certainly not.
- H.M.Jr: I'm not - I'm simply a consultant.
- C: Yes.
- H.M.Jr: And, ah, I spent one week - ah - in transmitting my advice, and I have nothing more to add.
- C: And I can say definitely that this is your advice.
- H.M.Jr: Oh well, the fellow knows that.
- C: Yes, yes.
- H.M.Jr: I mean, the man was over here; he knows all - yes - yes it is, and, and I - I went much further in my diagnosis....
- C: Yes.
- H.M.Jr: ... as far as being frank is concerned; I've never been as frank as I was with this man.
- (Operator): (Six minutes.)
- H.M.Jr: Hello.
- C: Hello.
- H.M.Jr: I say I've never been so frank. I - I can't add anything to it.
- C: Oh no. Well, I - I just wanted to let you know that, and then I - I - he's to call me. The next move is to come from them absolutely.

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- H.M.Jr: . . . Now this fellow that was over here knows just where I stand.
- C: Yes.
- H.M.Jr: And he - he - he knows now - how seriously I feel about it, and everything else.
- C: That's right.
- H.M.Jr: But when it comes to operating, they'll have to use a French surgeon.
- C: Right.
- H.M.Jr: See?
- C: Well, there's - there's nothing more then until they - they call me, and I - I'll - I'll make the move come from them.
- H.M.Jr: Right.
- C: But I - I put up as my purpose in doing all this as between him, and talk about the market and about the the old plan,
- H.M.Jr: Well, did you get that.
- C: I asked him - he was a little hesitant. He said, "Well, they really wanted - ah - you couldn't call it a plan because it'd never approved by the Government," but I said, "He had ideas." And he said, "Yes," that there were several pieces of individual drafting. It would give him assorted control, without calling it such. He said this scheme, as outlined, would have been entirely unworkable.
- H.M.Jr: What scheme?
- C: There's a scheme that was outlined by this draftsman,...
- H.M.Jr: Oh yes.
- C: . . . which he didn't see until just two days before this man went out of office.
- H.M.Jr: Yeah.

- 8 -

C: Would have been unworkable.

H.M.Jr: Yeah.

C: And then, this noon, after I left there, I dropped by my other friend, at the other place, you know.

H.M.Jr: Yeah.

C: I mean on the exchange matter.

H.M.Jr: Yes.

C: I just asked him how the market was going; it's very quiet; everyone's waiting the decree.

H.M.Jr: Yeah.

C: And expecting to come out on Friday night, or Saturday.

H.M.Jr: Yeah.

C: He didn't wish to make any knowledge of this, so of course I didn't suggest the slightest change.

H.M.Jr: No.

C: But I did say, "Oh, what was that program which this fellow had who went out?"

H.M.Jr: Yeah.

C: And he said, "Well, very briefly, it was this:"

H.M.Jr: We-

C: And ah, I can com- - just two lines here.

H.M.Jr: What's that?

C: It's - six - only a couple of lines.

H.M.Jr: Yes.

C: It's requisition of gold that has gone in bank balances.

H.M.Jr: Yeah.

C: But not as security.

H.M.Jr: Uh huh.

C: And he said it would involve, behind that screen, ah, inflation of about fifty billion francs.

H.M.Jr: Uh huh.

C: And therefore that no Government economies were ah, anticipated.

H.M.Jr: Well, now, Cochran, while I have you on the wire,

C: Yes.

H.M.Jr: I sent you a copy of that United Press Dispatch, didn't I?

C: I - yes, I have that.

H.M.Jr: The one which said that they were going to consult us in all acts.

C: Yes, yes.

H.M.Jr: Well, we're very curious to know where that came from.

(Operator): (Nine minutes.)

C: Oh.

H.M.Jr: Hello.

C: Yes.

H.M.Jr: So if you get the chance you might find out sometime about that.

C: All right, I'll do that, just as soon as things quiet down a little bit.

H.M.Jr: Yes; there's no hurry.

C: I mean, I - I hesitate to bring it up while there's a live question.

H.M.Jr: No, I'd wait until after the fifteenth. I'd - I'd wait until after the fifteenth.

- 10 -

C: Oh, and - ah - one moment, sir. When I was talking with the red haired fellow.

H.M.Jr: Yeah.

C: I said, "We've, ah - ah - have even - ah - cited - ah - and - ah - the law - and decided which would permit us to do so and so.

H.M.Jr: What's that?

C: I say we even - I told the red headed fellow....

H.M.Jr: Uhh.

C: that we had even looked up the law which would give us the privilege of doing this thing.

H.M.Jr: Yeah.

C: Then I said, "Have you the law?".....

H.M.Jr: Yeah.

C: "...that - ah ..."

H.M.Jr: Yeah.

C: And he said, "Well, we have,

H.M.Jr: Yeah.

C: And I said, "Well, to make the local people think it necessary," I said, "you'd have to use your present authority."

H.M.Jr: Yes.

C: He said, "Yes, we'd have to do that before it expired."

H.M.Jr: Yeah.

C: So I was pressing him for time a little bit there.

H.M.Jr: Yeah.

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- C: And since talking with him, I - I dropped by also and saw the messenger.
- H.M.Jr: Yeah.
- C: And he had seen Number One yesterday,
- H.M.Jr: Yeah.
- C: at his own request; that is, the messenger's request.
- H.M.Jr: Yes.
- C: And - and Number One is a little vexed because the second man is taking so much time to retrench.
- H.M.Jr: Is a little bit what?
- C: Ah - a little bit upset; a little bit annoyed.
- H.M.Jr: Yes.
- C: Because Number Two is taking so much time to retrench.
- H.M.Jr: Yes.
- C: And - ah - the messenger said, "Well - well, be patient; let him think it over and let it work up somewhat as his idea.
- H.M.Jr: Yeah.
- C: And - ah - that is just about all.
- H.M.Jr: Now this call didn't come through London, did it?
- C: No, I put it in the other way.
- H.M.Jr: That's right. All right - ah.
- C: Now, Henry, I'm going out to the hospital now in a little while, and I'll send the rest at - ah - a little after four, you see.
- H.M.Jr: All right.
- C: And I'll get a message to you - it will be probably late tonight because I don't think they'd want me to come over now.

- 12 -

H.M.Jr: No.

C: If they do want me to come, I - I'll go, after this other matter.

H.M.Jr: Well, just remember what I said, though, in

C: It may be between ten and midnight sometime.

H.M.Jr: All right.

C: But - ah - I'm sure you wouldn't hear from me before unless it's very urgent.

H.M.Jr: Well now you remember what my capacity is.

C: Yes.

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

C: Well, I think that's all then before long late, and I'll only call then if I - if they have consulted me.

H.M.Jr: All - well - ah - call me in any event - ah - not later than ~~if~~ you can - say - six o'clock our time, which is eleven, yours.

C: Eleven, mine.

H.M.Jr: Call me - yeah - call me, not later than eleven o'clock, your time.

C: Yes, but you don't want me to call if - if they have nothing.

H.M.Jr: Yes, call anyway.

C: Call anyway?

H.M.Jr: Yeah.

C: All right; fine.

H.M.Jr: All right.

C: The only - ah - thing at all would be if my - if there's something serious at the hospital.

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H.M.Jr: Well

(Operator) (Twelve minutes.)

H.M.Jr: All right.

C: That would be over by that time.

H.M.Jr: All right.

C: Fine.

H.M.Jr: Thank you.

C: Goodbye, sir.

Treas. Operator: Hello. Hello.

Overseas Operator: Finished?

Treas. Operator: All through.

Overseas Operator: All through? Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 11-7-38.

TO Secretary Morgenthau
 FROM Wm. H. McReynolds

The following table has been prepared for the purpose of comparing the capital financing of a typical housing project under (1) a plan whereby a loan of 90% would be made by the United States Housing Authority, the other 10% to be furnished locally, and (2) a plan proposed by Mr. Straus and now under consideration whereby 90% of the cost of the project would be raised by the sale of bonds of the local housing authority to private investors, the remaining 10% to be sold to the United States Housing Authority.

The computations are based upon a project assumed to cost \$1,000,000 which, in a typical city such as Poughkeepsie, would contain 800 rooms. This assumes a per room cost of \$1,250 (\$250 for land and \$1,000 for construction). The further assumption is made under plan (1) that the bonds of the local housing authority purchased by the United States Housing Authority would bear $\frac{3}{8}$ interest, while under plan (2) the local housing authority would be able to dispose of 90% of its obligations to local investors on a 2- $\frac{3}{4}$ % basis. The $\frac{3}{8}$ interest rate assumed on bonds of the local housing authority sold to the United States Housing Authority under plan (1) is based on the fact that the interest rate on all such bonds, under the provisions of the United States Housing Act of 1937, is determined by the rate at which the Federal government borrows its money, i.e., not less than the rate specified in the most recent issue of bonds of the Federal government at the time the loan is made having a maturity of 10 years or more, plus $\frac{1}{2}$ of 1%. Under present circumstances, the rate for such local housing authority bonds cannot be less than $\frac{3}{8}$ per annum. The 2- $\frac{3}{4}$ % interest rate assumed on bonds of the local housing authority sold

-2-

to local investors under plan (2) is based upon the fact that proponents of the plan represent that such bonds can be disposed of on this basis.

(1) Annual debt service and subsidy where 90% is borrowed from the USHA and 10% is borrowed locally.

\$1,000,000.00 = project cost - \$900,000 of which is a Federal loan, the other 10% being borrowed locally.

\$ 36,355.93 = annual debt service on \$1,000,000 loan at 3% to be amortized in 59 equal payments. While the rate for the 10% of the issue to be sold locally will not be affected by the provision restricting the rate on local housing authority bonds purchased by the USHA to 3%, under present circumstances, as a practical matter no dealers would purchase them at an interest rate less favorable than the rate for the balance of the issue unless the USHA would agree not to sell the bonds purchased by it.

\$ 35,000.00 = maximum annual Federal contribution authorized, i.e., 3½% of project cost.

\$ 7,000.00 = minimum required annual local subsidy, i.e., 20% of Federal annual contribution.

\$ 3.79 = debt service per room per month.

(2) Annual debt service and subsidy where 90% is borrowed locally and 10% is borrowed from USHA.

\$1,000,000.00 = project cost - \$900,000 of which is a loan from sources other than the Federal government, the other 10% being borrowed from the USHA.

\$ 34,641.97 = annual debt service on \$900,000 at 2-3/4% and on \$100,000 at 3%, to be amortized in 59 equal installments. As has been indicated, it is assumed that the local housing authority will be able to sell 90% of its bonds locally with a 2-3/4% coupon and, under present circumstances, the local housing authority bonds purchased by the USHA will bear 3% interest.

\$ 35,000.00 = maximum annual Federal contribution authorized, i.e., 3½% of project cost.

\$ 7,000.00 = minimum required annual local subsidy, i.e., 20% of Federal annual contribution.

\$ 3.61 = debt service per room per month on \$900,000 at 2-3/4% and \$100,000 at 3%.

-3-

It will be noted that the difference in debt service per room per month between the two plans is only \$.18. Against the lower rentals thus achieved and other advantages claimed by Mr. Straus for his proposal must be weighed the possible dangers inherent in his plan. The bonds of the local housing authority maturing serially from one to sixty years could be sold to the public with a 2-3/4% coupon only if prospective purchasers thought that the credit and good faith of the United States was pledged to the payment of the bonds, i.e., that Congress would every year, for the full term of the bonds, make an annual appropriation of the subsidy involved, and that it would be used to pay principal and interest on the bonds of the local housing authority. This becomes apparent when it is observed that the maximum annual Federal contribution is more than sufficient, under Mr. Straus' proposal, to service the bonds of the local housing authority and that the subsidy is required to be pledged to the payment of principal and interest on the bonds.

Having purchased the bonds upon a representation that Congress was obligated to make annual appropriations over the life of the issue sufficient to service bonds of the local housing authority, if a particular Congress failed to make such an appropriation; or if the United States Housing Authority for good cause withheld payment of the subsidy; or if the local housing authority failed to use the subsidy to pay principal and interest on its bonds, it is not difficult to see that the holders of these bonds would regard the ensuing default by the local housing authority as a default by the government of the United States. No present administrative or legal determination can remove this uncertainty. Future Congressional and administrative action is, and will be, conditioned upon satisfactory performance of numerous future acts by the local housing authority. It is the future withholding of the subsidy by the United States Housing Authority, not its position as a minority bondholder, that was intended as the sanction

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to compel the local housing authority to act in the future as it should. Thus the obligation to make future appropriations and payments is subject to substantial conditions, and hence the bonds of the local housing authority are not the equivalent of government guaranteed bonds, although the public would buy them on such terms and on such a low yield on no other basis.

Hopkins Gives Rosy Vote Report; Murphy 'In,' He Tells President

Back From Trip Across Nation, WPA Head Predicts Wide New Deal Victories—Says Democrats Will Win on Coast

New York Times

By FELIX BELAIR JR.

Special to THE NEW YORK TIMES.

HYDE PARK, N. Y., Nov. 6.—Confident of a Democratic victory in his own State, President Roosevelt received assurances today from Harry L. Hopkins, Works Progress Administrator, just back from a trip to the West Coast, that New Deal candidates would be elected in Western States through which he passed.

Mr. Hopkins was most definite in predicting victories for Governor Frank Murphy in Michigan and for Culbert Olson and Sheridan Downey, Democratic Governorship and Senatorial candidates in California. He predicted also that the voters of California would reject the "ham and eggs" pension plan.

President Roosevelt has publicly endorsed Governor Murphy and the two California candidates, and in his radio address of Friday night he included an additional specific appeal in behalf of Governor Murphy.

"You can take my word for it that Murphy is in," Mr. Hopkins declared today. "If there had been any doubt about the outcome that was removed by the President's

espousal of his candidacy the other night."

Mr. Hopkins was equally confident of a Democratic victory in New York State, but was less inclined to predict the party's majority than when he last visited the President here several weeks ago. He predicted then that Governor Lehman would win by at least 500,000. He would not talk about Thomas E. Dewey, to whom he previously referred as "Sir Galahad."

In California Mr. Hopkins spent a fortnight visiting James Roosevelt, the President's son, who is recuperating from an operation. He made stops on this trip to address WPA field agents and to size up the political and economic picture. Among States in which he made special observations were Illinois, Michigan, Colorado and Utah.

He said today that he found evidences of a business upturn wherever he went, adding that this would not only aid Democratic election prospects but would make possible a reduction in relief rolls.

President Roosevelt passed a quiet

Continued on Page Six

Hopkins Is Sure Democrats Will Win California

Assures Roosevelt Downey
and Olson Will Go In but
Not 'Ham and Egg' Plan;
Sees NOV. 7-1938 Victory

By a Staff Correspondent

HYDE PARK, N. Y., Nov. 6.—

After a swing around the country, Harry L. Hopkins, Works Progress Administrator and close friend of President Roosevelt, arrived at the President's Hudson River home today to report not only on W. P. A. matters but the political situation as well.

He assured the President that from his observations in California, where he spent most of his time, that the Democratic candidates for Senator and Governor, Sheridan Downey and Gilbert Olson, would be elected. The "ham and eggs" program which they espoused in the primary campaign, but which they have sought to soft-pedal in the election campaign, will be defeated, Mr. Hopkins was also able to tell the President.

"You can take my word for it," Mr. Hopkins told the press later, "that Downey is in. If there had been any doubt of the outcome before, that is removed by the President's espousal of his candidacy the other night."

Mr. Hopkins expressed himself as equally confident of a Democratic victory in New York, although he would make no prediction of the size of the plurality. As to the close contests in the Mid-West and Middle Atlantic States, he let nothing out to the press.

Mr. Hopkins reported to the President that improving business conditions were to be observed throughout the parts of the country he traversed. He thought the improvement would be reflected soon in a cut in W. P. A. spending, he said.

Mr. Hopkins was with the President a large part of the afternoon and is expected to remain at Hyde Park until he returns to New York to cast his ballot on Tuesday. It is possible that he will return to Hyde Park that night to receive election returns with his chief.

The President attended services this morning at St. James's Episcopal Church. He was accompanied by his mother, Mrs. James Roosevelt. After the church services he took a short drive about the countryside.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 7, 1938

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending November 5, 1938.

Conclusions

(1)

Business activity continues to improve. Steel operations, stimulated by a heavy volume of orders from the automobile industry for delivery before the end of December, have risen above last year's level. Automobile production has expanded further, and the weekly output has almost reached last year's figures. The outlook for cotton mill activity has been improved by a heavy volume of orders at the end of October. Steel scrap prices have turned stronger. Retail sales have been stimulated by the approach of cooler weather. Industrial production to date has recovered about one-half of its loss since the early summer of 1937, and in November will probably exceed for the first time the corresponding 1937 level.

(2)

While various factors favor a continuation of the rising business trend, the recovery cannot be considered "safe" without a definite upward turn in commodity prices. Sensitive commodity prices have shown no more than a slight rising tendency since the recovery began, and during the past week have again tended downward. Deflationary foreign factors, which appear to have been largely responsible for the failure of prices to rise actively with improving business, apparently continue operative. Their influence is shown by a declining trend of prices in Great Britain since the middle of October, as measured by Reuter's index, as well as by recent weakness in sterling exchange.

Secretary Morgenthau - 2

The steel situation

The effect of recent temporary price cuts in stimulating steel orders is apparent in the new orders reported this week by the U. S. Steel Corporation (probably representing orders actually received by the various branch offices a week or so previously) which jumped to 220,000 tons, or the equivalent of about 64 per cent of capacity. (See Chart 1.) Orders during the previous two weeks had been at the rate of 45 and 46 per cent. For the industry as a whole, the Iron Age estimates that steel bookings during October were at least 20 or 25 per cent over September, most orders on the books being for automobile makers.

Responding to the sharp rise in orders, which doubtless was even more pronounced among the independent steel companies, steel operations this week increased 3.1 points to 56.8 per cent of capacity, exceeding for the second time the corresponding rate in 1937, as shown in Chart 1. A further abrupt rise to 61.0 per cent of capacity has been reported this morning by the American Iron and Steel Institute for the week beginning today.

The fact that steel orders taken at recent price concessions were contingent upon delivery being specified before the end of December has been a factor in the recent upturn in steel activity. Mills are urging their customers to specify delivery early, owing to the possibility that a tight delivery situation may develop at the end of the year, and are themselves speeding up production of the required materials. At Detroit the Great Lakes Steel Corporation is operating at 100 per cent of capacity, and some finishing mills on automobile steels are operating close to that level.

The speeding up of production on these concentrated orders during November and December, while strengthening the immediate business trend, may result in some let-down in the steel operating rate during the first quarter of next year, unless a marked improvement in other orders should occur.

Heavy buying of steel scrap this week, both for domestic consumption and for export to Japan, has strengthened scrap prices somewhat at Chicago and Youngstown, raising the Iron Age composite price for No. 1 heavy melting scrap to \$14.42 a ton. This compares with \$14.17 last week and with \$14.25 a month ago.

Secretary Morgenthau - 3

Automobile production increases

The output of automobiles increased this week to an estimated 80,000 units, which compares with 73,300 units produced last week. Production last year during the corresponding week declined slightly to 89,800 units.

Another increase in production equal to this week's gain would carry the total above the 85,400 units produced during the week ended November 12 last year. Trade reports indicate that further increases are likely, since some companies are just getting under way in the production of 1939 models. Some trade observers are now talking of a possible total production of 1,000,000 cars and trucks during the fourth quarter, which compares with estimates a few weeks ago centering around 850,000 units.

The rapid recovery in the automobile industry has undoubtedly been one of the most powerful factors in the recent extension of the business recovery, and has contributed greatly to the general feeling of optimism which now prevails. There appears some slight danger in this situation, however, since the rapidly built up optimism may stimulate production during the fourth quarter to a level in excess of the current level of consumer demand. For this reason, the trends of automobile and steel production during the fourth quarter, in relation to our estimates of basic demand in these industries, will bear close watching.

New orders improve further

Increased orders for steel and textiles during the last week of October has raised our weekly index to a new high for the year (See Chart 2), and strengthened the immediate production outlook in these two leading industries.

Our monthly index of new orders, which is more representative and covers more industries than our weekly index, continued its upward trend during September, and seems likely to show a substantial gain in October on the basis of information now available. In Chart 3 we show the monthly index through September in comparison with the FRB index of factory output. This chart tends to confirm our basic demand study in indicating that the level of demand, as measured by the dollar value of new orders, remains somewhat above the current level of factory production.

Secretary Morgenthau - 4

In the lower part of the chart we show a breakdown of new orders through September by industries, with estimates for the month of October wherever data are available. The upturn in recent months in orders for steel, textiles, and building materials is especially noticeable. Textile orders, which expanded sharply during July, but fell off in August have recently shown renewed improvement. Automobile orders showed a seasonal decline in September.

The price situation

A disappointing feature in an otherwise favorable series of business developments is a sagging trend of commodity prices over the past week or more. Industrial raw materials as well as agricultural products have shared in the declining tendency, though the former have shown somewhat greater stability. The strong influence of increased industrial demand, plus the effect of the monetary expansion program, have so far not been sufficient to raise commodity prices in the face of outside deflationary influences.

Increasing supplies, principally for agricultural products, were a depressing price factor earlier in the year, but in the majority of cases the supply trends during the past month or more have been in the opposite direction. Foreign deflationary influences growing out of weakened monetary and business situations and political difficulties abroad, particularly with reference to Great Britain and France, apparently continue the principal depressing factor in the price situation. Reflecting these influences, Reuter's index of prices in Great Britain has been slowly declining since the middle of October.

Sterling exchange, likewise reflecting deflationary influences, has remained at a relatively low level throughout the past month (See Chart 4), though recently showing a tendency to stabilize around the \$4.76 level. In view of the fact that sensitive commodity prices during the past year have been somewhat slower than sterling in reflecting foreign deflationary influences, the downturn in the Dow-Jones futures index during the past week, as shown in Chart 4, may represent a delayed reaction to the forces which caused the decline in sterling during October.

Secretary Morgenthau - 5

Current business news

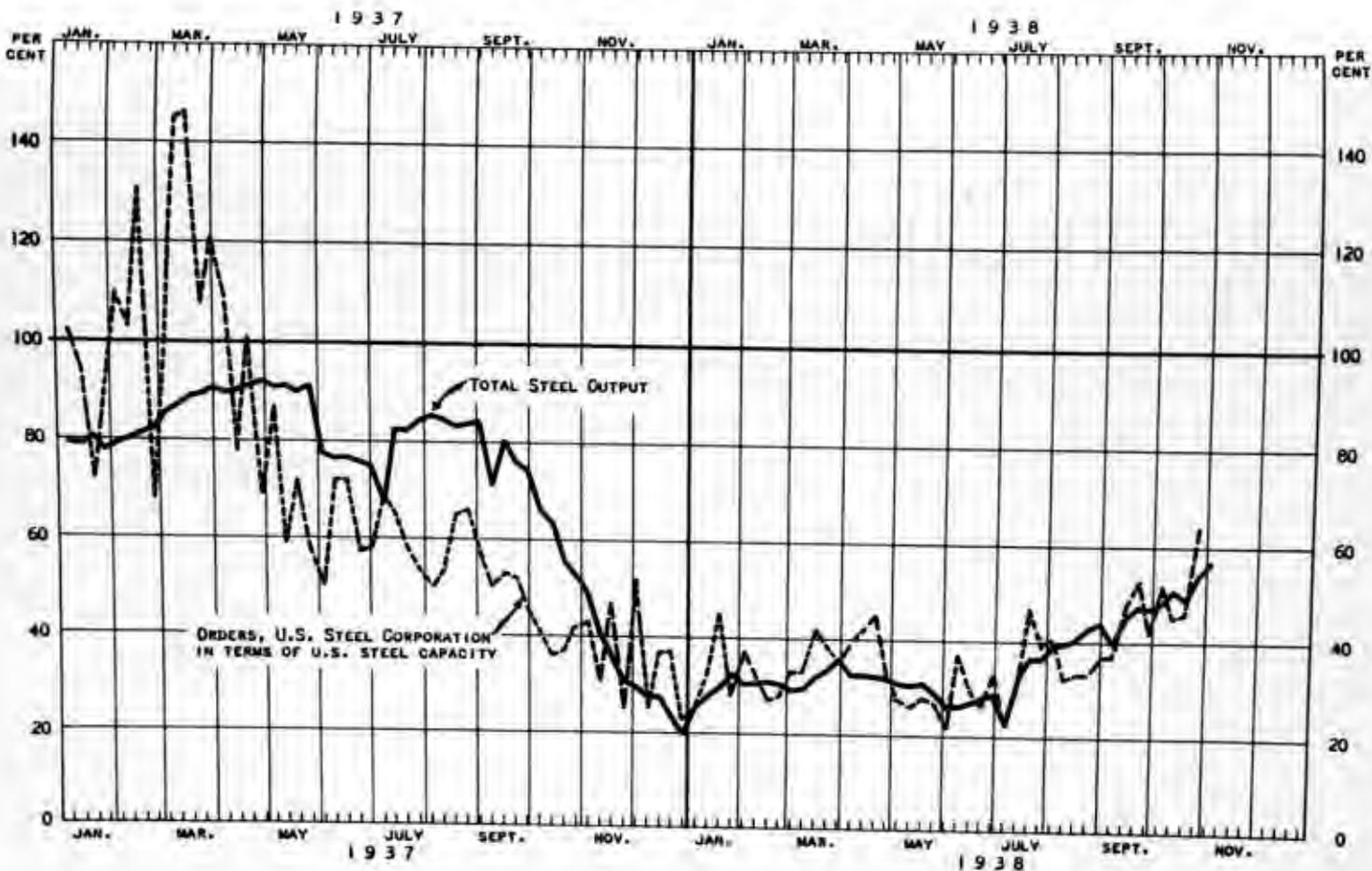
The New York Times business index for the week ended October 29 rose 1.3 points to 89.0, a new high since the week ended November 13, 1937. Increases in automobile production, steel production, electric power production, and "all other" carloadings were partly offset by a decline in lumber production, with other components showing minor changes. Data available on automobile and steel production indicate the probability of a further rise in the combined index for the following week.

Department store sales during the week ended October 29, aided by more favorable shopping weather, rose to a level only 5 per cent below that of the corresponding week last year. During the previous week they had been 9 per cent below last year's level.

A compilation of corporation sales data by the National City Bank of New York, covering the first nine months of 1938, tends to confirm our studies indicating a relatively high level of basic demand as compared with industrial production, and reflects the influence of inventory liquidation on manufacturers' sales. The compilation shows that the total sales of a group of representative merchandizing concerns during the first nine months of the year declined to \$2,340,000,000, as compared with a total of \$2,506,000,000 for the same period last year, or less than 7 per cent. Total sales of a group of manufacturing concerns, on the other hand, declined from \$3,401,000,000 to \$2,490,000,000, or 27 per cent.

The FRB index of industrial production has recovered in five months approximately one-half of the amount lost during the 12-month period from May 1937 to May 1938. The rise of 19 points in the index from 76 in May to approximately 95 in October compares with a total decline of 42 points. Present indications are that the FRB index in November will equal or exceed the October figure, and will exceed the figure of 88 for November 1937. While factors in the longer outlook appear generally favorable, the business prospect would be immensely clarified by a definite upward turn in commodity prices.

TOTAL STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS
Expressed in Percent of Capacity

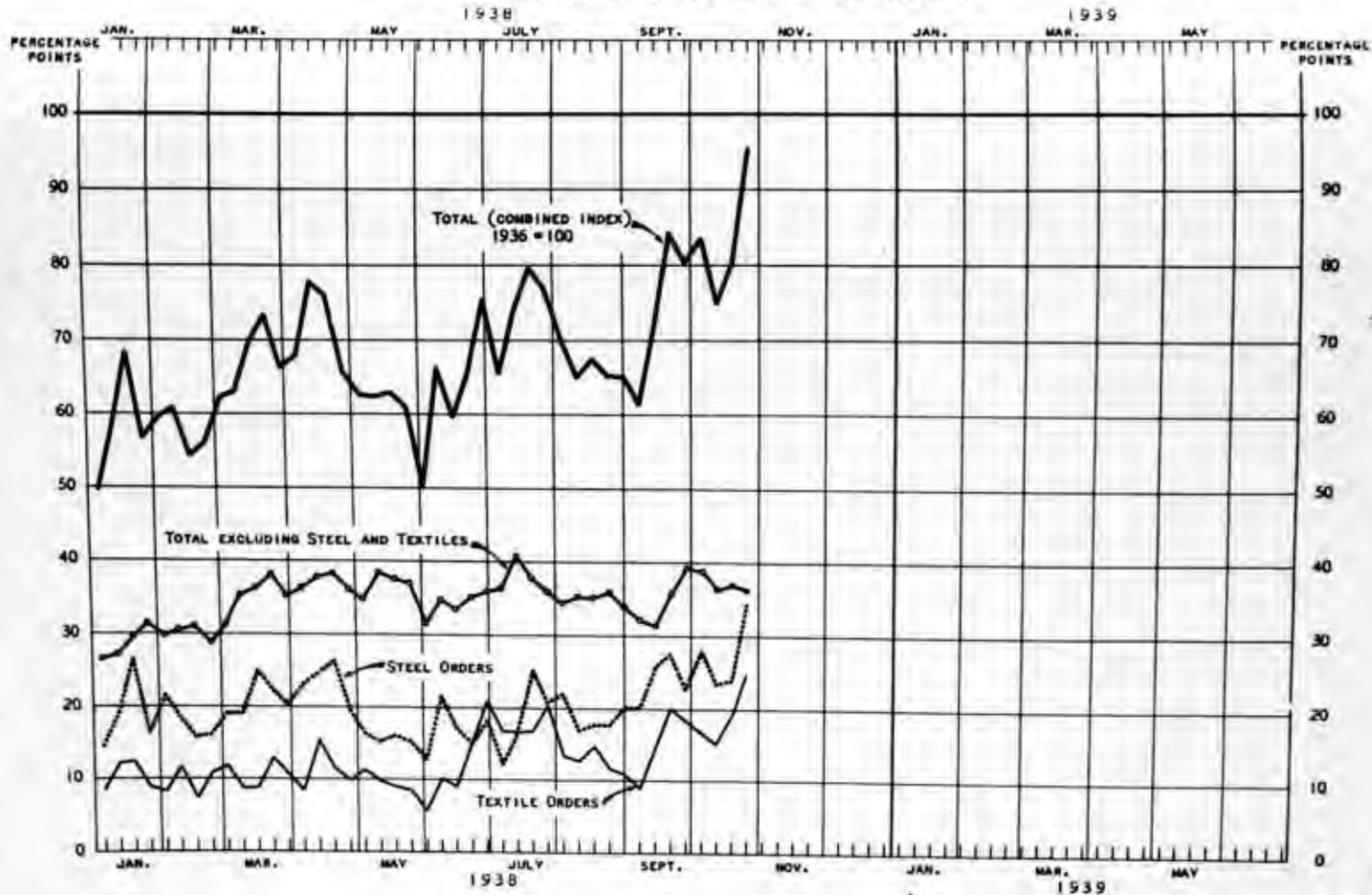


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Chart 1
(CONFIDENTIAL)

Office of the Secretary of the Treasury
Bureau of Research and Statistics

INDICES OF NEW ORDERS
 Combined Index of New Orders and Selected Components



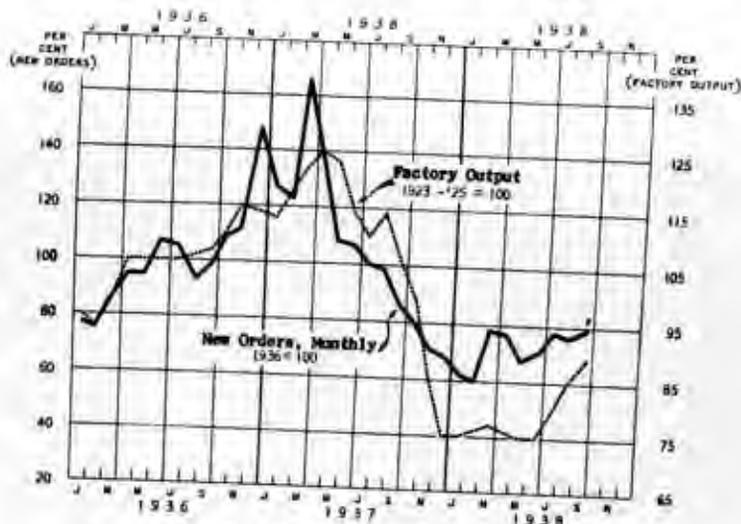
Office of the Secretary of the Treasury
 Division of Economic and Statistics

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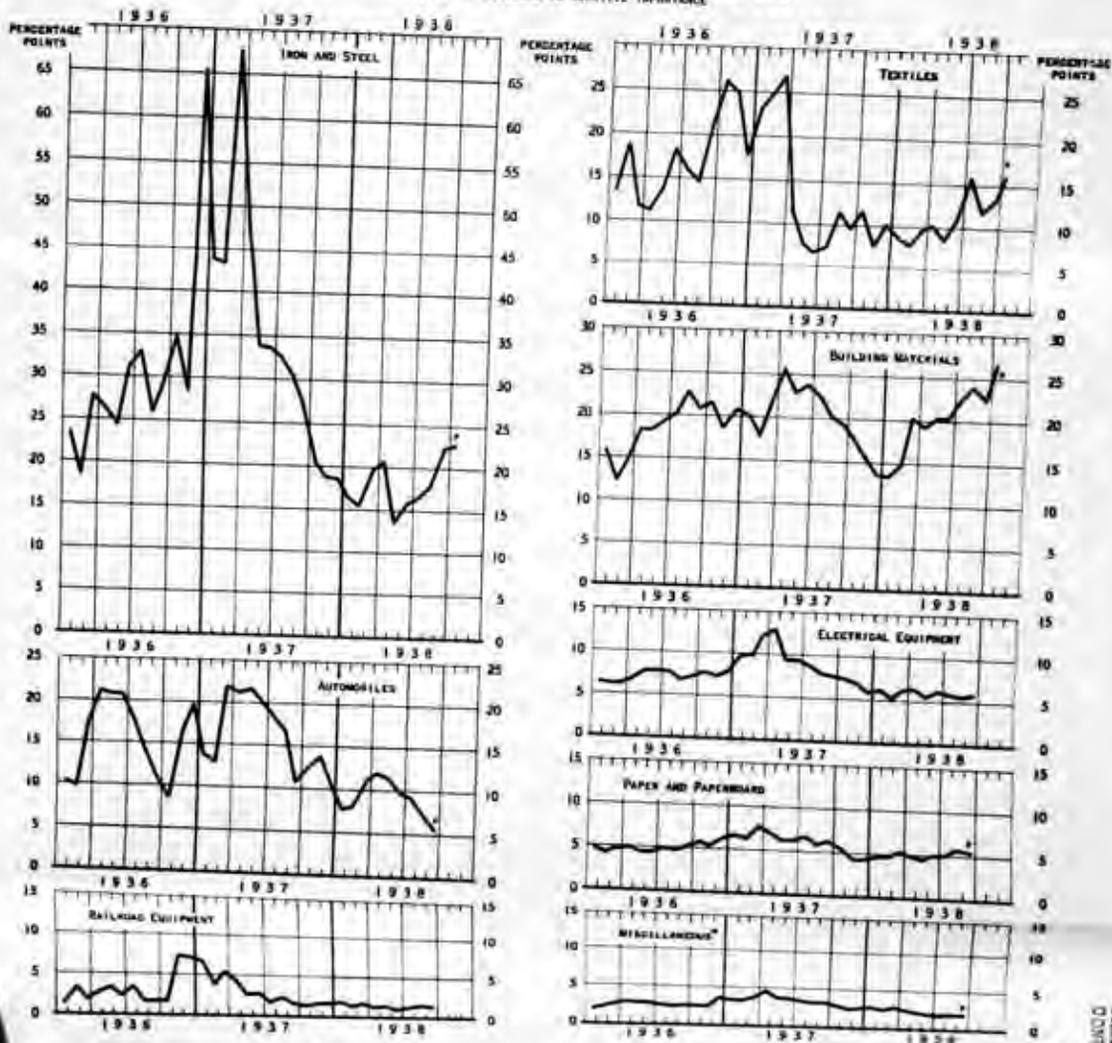
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 Chart 2
 CONFIDENTIAL

Regraded Unclassified

NEW ORDERS AND FACTORY OUTPUT



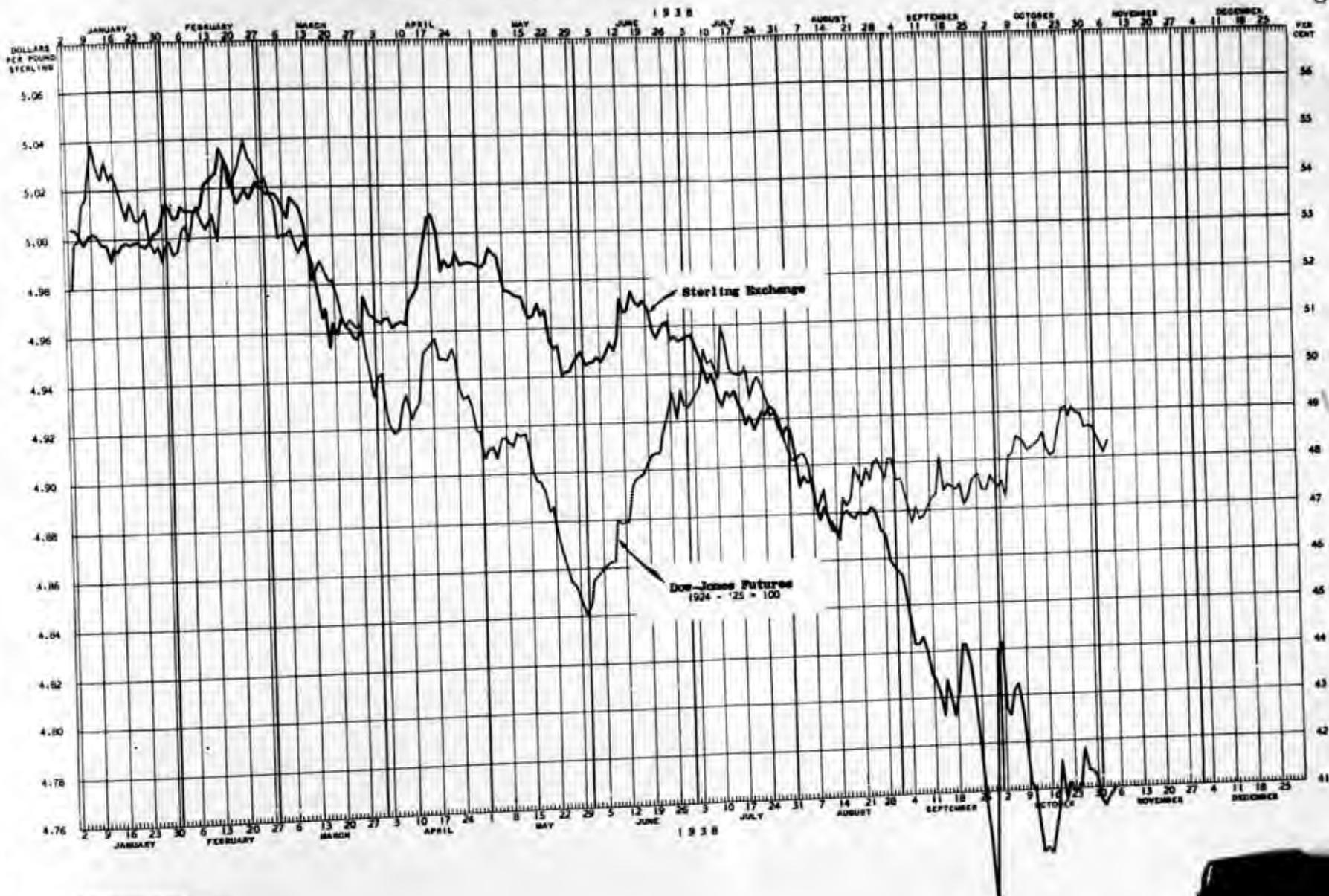
New Orders Grouped by Industries
WEIGHTED ACCORDING TO RELATIVE IMPORTANCE



* INCLUDES MACHINE TOOLS, AGRICULTURAL EQUIPMENT AND OTHERS

CONFIDENTIAL
300

STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES



Office of the Secretary of the Treasury
Division of Research and Statistics

Monday,
November 7, 1938,
5:04 P. M.

H.M.Jr: Hello Cochran.
H. Merle
Cochran: Mr. Secretary, I want to let you know that this afternoon I talked by telephone with our red haired friend, at the appointed hour.

H.M.Jr: Yes.

C: And I gave him that simile of a consulting doctor and the operating surgeon.

H.M.Jr: Yes.

C: Gave it to him in his own language; he understood it, perfectly.

H.M.Jr: Yes.

C: And he asked me to come and see him tomorrow morning at twelve-thirty.

H.M.Jr: Yes.

C: I offered to come tonight, and he said, "No, come tomorrow noon."

H.M.Jr: Yes.

C: So I'm going by at eleven forty-five to check up with our messenger then to see if he knows anything before that time.

H.M.Jr: I see.

C: This evening's press carries the following communique from the Ministry of Finance.

H.M.Jr: Yes.

C: It says, ah - "The delay of five days, which Paul Reynaud asked for - ah - asked for striking a balance...."

H.M.Jr: Yes.

- C: ".... expires today. The balance is struck. This evening the in princip will be taken. The days which follow will be given over to establishing the which will involve technical conversations, particularly with the Premier and the colleagues of the Minister of Finance,"
- H.M.Jr: I see.
- C: ".... as well as with specialists in different fields."
- H.M.Jr: Yes.
- C: "The decree laws will appear in a Journal"
- H.M.Jr: Yeah.
- C: "... at the end of the week, as announced from the first day."
- H.M.Jr: Yes.
- C: "The date for the Cabinet meeting has not yet been fixed." Now that was /communique. The third one: the
- "It was felt that the Minister of Finance - ah - ah - would - ah - - ah - would come before the meeting of the Cabinet - ah - today - ah - to present, or at least tomorrow - tomorrow to present the things which he was to finish in those five days.
- H.M.Jr: Yes.
- C: But you see this indicates that there's no date now fixed.
- H.M.Jr: I see.
- C: The procedure will be in the balance. But I - evidently they're thinking over something.
- H.M.Jr: What?

C: They - they're evidently thinking over something before calling a Cabinet meeting.

H.M.Jr: I see. Well, I would say that was encouraging.

C: Yes. And today the market was calm; French securities were up, ah, but there's not much trading in any of the - of the currencies. They're all waiting the - the - ah - the laws, you see, decree laws.

H.M.Jr: Uh huh.

C: And ah, the press attributes the - ah - the good market to - ah - confidence in the Minister of Finance and in another place they suspect some open market

H.M.Jr: Uh huh.

C: operations.

H.M.Jr: Well sterling was strong here today.

C: Sterling was strong there?

H.M.Jr: Yes.

C: Is that so?

H.M.Jr: Yeah.

C: And - ah - I want to let you know they had operation on my wife this afternoon at seven-thirty.

H.M.Jr: Yes.

C: And she came through in very good shape.

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

C: They - they found an abscess right in the corner - between the nose and the eye, you see.

H.M.Jr: Oh, my!

- 4 -

C: So it's - ah - very painful; and she'll have a

H.M.Jr: But she's all right?

C: But - ah - the doctor said it was successful, and it ought to go all right.

H.M.Jr: Oh, I'm very glad.

C: And she's still sleeping now.

H.M.Jr: Well, there'll be nothing more tonight, then?

C: No, nothing more tonight. I - I offered to come over, I told my friend I could easily come, and he said, no - he said - ah - ah - come tomorrow. at - at - ah - that fixed hour. I offered to come any time at all. So that's that.

H.M.Jr: I see.

C: Well, best of luck to you and your neighbor tomorrow.

H.M.Jr: Thank you.

C: Things look very good, of course?

H.M.Jr: Very good.

C: Goodbye.

H.M.Jr: Goodbye.

C: Then this - tomorrow; see, I'll be seeing this man at twelve-thirty.

H.M.Jr: Yes.

C: Then - ah - could you accept a call, say around - ah - one o'clock - between - ah - about two o'clock, my time; that is - ah - nine o'clock your time?

H.M.Jr: Nine o'clock would be perfect for me.

C: Fine; I'll try to get it through at - at two sharply then.

H.M.Jr: At nine o'clock would be perfect.
C: Fine; I'll try and get it through at that time.
H.M.Jr: All right, then.
Goodbye.

Operator: Hello.

Overseas
Operator: Hello.

Operator: Hello.



DEPARTMENT OF STATE
WASHINGTON

November 7, 1938.

My dear Mr. Secretary:

I enclose for your information a paraphrase of telegram No. 1866, November 5, noon, 1938, received from the American Embassy at Paris, concerning a statement issued from the Premier's office in answer to certain political rumors afloat.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:
As stated.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: November 5, noon, 1938

NO.: 1866

A statement was issued last night from Daladier's office, in answer to yesterday's crop of rumors of continued disagreement in the Cabinet with respect to financial policy; of formulating a recovery plan without recourse to some of the proposals advocated by Marchandea; of alleged difficulties now apparent to Reynaud; of intrigue within the Cabinet against Daladier looking to a Reynaud Cabinet with socialist participation; of a possible request under the circumstances for the extension of full powers, to the effect that the Prime Minister's view of the necessity to apply liberal methods for recovery has not changed; that the Prime Minister continues resolutely opposed to the establishment of restraint and of exchange control.

The charges leveled against the Prime Minister by a large section of the press of unnecessary delay in the elaboration of the decree laws are refuted by Daladier's statement which asserts that the text of these laws will be studied in a Cabinet meeting next week and will be promulgated before November 15; that the Prime Minister has

no

-2-

no intention of requesting an extension of the full powers and that the rumors of a Cabinet reorganization and possible enlargement "are based upon nothing concrete" and that Parliament will be convened at the beginning of December as originally planned.

"Taking note of information published as coming from an official source that measures of restraint are for the moment shelved", the Ministry of Finance issued a statement yesterday that such measures are "definitively shelved".

It now seems probable that when it materializes, Reynaud's plan may prove of such a nature as to require wide political support if it is to be successful. Therefore, the foregoing statements have not put to rest all rumors of possible important political changes in the near future.

WILSON

EA:DJW

REB

GRAY

London

Dated November 7, 1938

Rec'd 5 p. m.

Secretary of State,
Washington.

1295, November 7, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The city is eagerly awaiting the full statement on "defence" which the Prime Minister promised would be made in the House of Commons in the near future (paragraph two, No. 1272, November 1, 6 p. m.) in the expectation that it will (a) give some indication of the magnitude of coming expenditure and (b) some assurance that even without a Ministry of Supply with certain powers of compulsion the production of instruments of war can nevertheless be expanded sufficiently rapidly. It is recognized that the policy of the Prime Minister, which has been accepted by Parliament, is directed towards a rapprochement with Germany and Italy; that an emergency national concentration on armament production is not now being undertaken in the hope that his promised "active and positive steps" will lead to the desired negotiated settlement of outstanding differences, sealed by an agreement upon the stabilization of armaments.

Needless

REB

2-#1295, From London, Nov. 7, 6p.m.

Needless to say there are not a few in the city who have the gravest doubts as to whether under present arrangements production of armaments can be sufficiently accelerated so that Great Britain can meet with Germany in negotiation or otherwise on anything like terms of equality. They point for example to the Minister of War's public statement of October 21 in which he admitted that "to obtain an appreciable acceleration or an appreciable enlargement within the given time of our armament program it would be necessary to revive the war time method under which every other consideration is subordinated to this." However, he and others are being led or made to toe the dominant party line.

The effect of the recent past and the uncertain outlook for the future have not conspired to produce a feeling of confidence in any real sense; the mood of the city is very mixed and ranges from bewilderment to belligerency.

The foreign exchange market has again been relatively inactive. The dollar has remained steady around 4.75 3/4, as has the franc around 178.72. Of the 208 bars sold at gold fixing at 146 shillings one pence some 175 were supplied by the British fund. With the belge remaining on parity it seems evident that some of this steady gold demand is for that market.

KENNEDY

NPL-EMB

JR

GRAY

Paris

Dated November 8, 1938

Rec'd 9:20 a.m.

Secretary of State,
Washington.

1878, November 8, 10 a.m.

FROM COCHRAN.

The following semi-official statement was published in LE TEMPS November 5 with introductory explanation:

"We have been able to obtain the following information from authorized quarters with respect to the various stories which have been published on the failure of the Daladier Government to publish the decree laws:

'It will be remembered that as soon as Parliament authorized the Government to issue decree laws to restore the financial and economic situation the Premier directed the interested Ministries and principally his collaborator, the Minister of Finance to submit proposal.

In the course of time opposite conceptions becoming apparent in the point of view of the President of the Council and of his collaborator, Daladier requested the latter, after the Marseille Congress, to bring to him modified proposals along the lines which the Premier personally desired.

WILSON

KLP:DDM

EG

GRAY

Paris

Dated November 8, 1938

Rec'd 9:35 a.m.

Secretary of State,
Washington.

1878, November 8, 10 a.m. (SECTION TWO)

However, during the two meetings of the Cabinet which were held at the commencement of the present week Marchandieu declared that the measures which he envisaged were alone susceptible of securing the desired results.

As the President of the Council held a different opinion, Daladier then requested Paul Reynaud to prepare a policy of financial restoration which was more in agreement with the personal views of Daladier. As a matter of fact the new Minister of Finance had already expressed himself in agreement with the President of the Council.

It was indicated that the Government will now play the liberalism "card" in the matter of financial and economic policy. Measures of constraint have for the moment at least been set aside. It may be stated finally that the President of the Council is not likely to ask new powers from Parliament.

Furthermore,

-2- #1878, November 8, 10 a.m. (SECTION TWO)

FURTHERMORE, rumors of a change in the Cabinet are without foundation.

The decree laws will be published and adopted in the Journal Official before November 15. Cabinet meetings, followed by a Council of Ministers, will be held during the coming week to discuss and to decide upon the new reconstruction program".

WILSON

WWC:RR

EG

GRAY

Paris

Dated November 8, 1938

Rec'd 9:45 a.m.

Secretary of State,
Washington.

1878, November 8, 10 a.m. (SECTION THREE)

The next announcement of an official character was given to the press by the Ministry of Finance yesterday. As published in LE TEMPS of November 8 it reads as follows:

"The time limit of five days which Paul Reynaud allotted to him for the establishment of a balance sheet expires this evening.

The balance sheet has been completed.

This evening the decisions of principle will be agreed upon.

The next few days will be devoted to the drafting of the texts which will require conversations of a technical order principally with Premier Daladier colleagues of the Minister of Finance and the specialists in different fields.

The decree laws will appear in the Journal Official at the end of the week as indicated at the outset. The date of the meeting of the cabinet has not yet been fixed."

LE TEMPS

-2- #1878, November 8, 10 a.m. (SECTION THREE)

LE TEMPS adds that it learned from sources close to the Minister of Finance that certain rumors relating to the intentions or to decisions of the Minister are purely fantastic and without any basis. END MESSAGE.

WILSON

WWC:RR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 8, 1938, 11 a.m.

NO.: 1879

FROM COCHRAN.

This morning at half-past eleven I had a talk with the Bank of France. The French stabilization fund by that hour had gained one million pounds sterling around 176.70. Through the Chase bank it was acquiring some dollars.

The French fund gained one-quarter million pounds yesterday. According to my friend, this movement is still mainly by professionals who anticipate that Reynaud in his decree laws will follow an orthodox and liberal policy. In the press yesterday's rise in French shares and rentes is attributed to the same belief prevailing on the market.

This morning Lazard has been selling dollars, and has begun covering through sterling which for the moment at least is slackening the intake of sterling by the control.

WILSON.

EA:LWW

REB

PLAIN

London

Dated November 8, 1938

Rec'd 3:30 p. m.

Secretary of State,
Washington.

1300, November 8, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Answering the leader of the opposition's comments on the King's address the Prime Minister referred to "the enormous" British armament programs "the full cost of which we are not yet in a position to estimate".

He also stated "of course, we know there has been a certain recession in trade during the course of the present year but I see no reason to take a gloomy view of the future. The figures that have been published today indicate that there is a revival of employment to some extent and there are other favorable factors which may I think be taken into consideration such as the indications of a revival of business in the United States of America which must always vitally and powerfully affect the rest of the world.

I have on more than one occasion expressed the view that the principle and proper function of the Government

in

REB

2-#1300, From London, Nov. 8, 6p.m.

in relation to trade and employment is to try and create conditions under which industry itself could carry on its enterprise with confidence and success and it is to that end that the policy of the Government has been consistently directed." After referring to the efficacy of the Ottawa and other trade agreements past and pending he continued: "If we look forward we notice this interesting fact -- that the fall in primary commodity prices which perhaps is the main cause of the recession we have experienced, because it immediately reduces the purchasing power of the agricultural countries which are our best customers, has been arrested and with the general easing of political conditions I do not see why we should not hope that during the coming year the recession which we have had to face this year will pass away and be succeeded by another upward turn. I am sure that our industrialists who have in recent times so enormously improved their organization will take every opportunity which may present itself to them to increase their enterprise and to restore if possible that international trade to which we must look forward in the future largely for the resources with which

REB

3-#1300, From London, Nov. 8, 6p.m.

which to meet the demands that will be made on us by our defence programmes."

The foreign exchange market has been more active and erratic today. The dollar which opened at 4.76 $\frac{3}{8}$ remained steady until the early afternoon when speculative rumors apparently originating in Paris began circulating on the Continent and in London to the effect that the London gold price would be changed to bring about a 4.50 sterling rate. As a result the dollar moved to 4.75 $\frac{3}{4}$. Holland and Switzerland were strong buyers of dollars.

Of the 195 bars sold at gold fixing at 145S 11 $\frac{1}{2}$ D only a small number were supplied by the British fund which gave gold somewhat reluctantly at higher prices after fixing.

The French fund on balance acquired a moderate amount of sterling.

KENNEDY

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 8, 1938, 6 p.m.

NO.: 1881

FROM COCHRAN.

A big demand for gold mining shares developed at half-past one today on some rather intangible rumor from London about changing the price of gold there. There was bidding for dollars, and the impression here is that they had to be sold by the British control. The tide turned against the franc in Paris after it had had a good forenoon of acquiring sterling and dollars. The rate moved to 178.78, and the French control was selling sterling when I talked with the Bank of France at 5:00 o'clock. Today the belga weakened, with the Belgian Prime Minister experiencing difficulties in his Government and opposition to his deflationary policies developing. Today there is a report in the press of an Italian decree imposing a new 7 1/2 percent levy on the capital value of commercial and industrial concerns whose net yearly profits amount to more than 10,000 lire.

At noon today at the Ministry of Finance I had a talk with Rueff. Rueff told me that the new decree laws which are to be issued over the weekend shown to (omission) and courageous constitute the best program possible in the
circumstances

- 2 -

circumstances and there should be a good reception of them.

This afternoon at half-past five the French control had sold 300,000 pounds of the sterling which was acquired this morning; professionals are responsible for the whole movement.

END MESSAGE.

WILSON.

EA:LWW

Tuesday
November 8, 1938
9:14 a.m.

Overseas
Operator: Hello, Mr. Morgenthau.

HMJr: Hello.

O.O.: Go ahead.

HMJr: Hello.

H. Merle
Cochran: Hello. Hello, Mr. Morgenthau.

HMJr: Hello.

C: Hello, Mr. Secretary.

HMJr: Good morning.

C: Can you hear me all right?

HMJr: Yes. I hear you.

C: I saw the red haired friend at 12:45.

HMJr: Yes.

C: Just before I saw him I had a visit with the messenger.

HMJr: Yes.

C: Ah - the red haired one had nothing definite to say.

HMJr: Yes.

C: They welcomed the idea. He personally appreciated the magnitude thereof.

HMJr: Yes.

C: They would be interested in an arrangement of that involving exchange of fiscal information.

HMJr: He would what?

C: They would be interested in a simple arrangement involving exchange of fiscal - that is party information, -

- 2 -

HMJr: Yes.

C: - the present number two plan...

HMJr: Well now look, Cochran, I wouldn't go into this over the phone. Hello? Hello?

C: Yes.

HMJr: I'm afraid to discuss it on the phone.

C: Well, then, let me just - I won't go much further than that.

HMJr: Than what?

C: The point is - I said he was not definite. They would like just that one feature

HMJr: They'd like what?

C: They'd like to have that one feature and nothing else.

HMJr: I'm sorry. You'll have - I don't get it. They'd like what?

C: To have some arrangement for the exchange in party information.

HMJr: Yes.

C: I said, "Well, that's a negotiation or a treaty anytime."

HMJr: I'm sorry. I - you'll have to repeat. I don't think they - we haven't got such a good connection today.

C: I told him -

HMJr: Yes.

C: - a treaty in regard to reciprocal party information -

HMJr: Yes.

C: - could be negotiated any time.

- 3 -

HMJr: I see.

C: That we had really discussed that in the past -

HMJr: Yes.

C: - and had decided in that direction.

HMJr: And it had been favorable.

C: Beg pardon?

HMJr: That we were favorable.

C: Yes.

HMJr: Yes.

C: I said that that could be handled separately.

HMJr: That's right.

C: This thing is urgent.

HMJr: That's right.

C: I said if we vote on this present idea it would cover that in a grand way.

HMJr: Yes.

C: And he said, yes, this was much more than they had ever asked of us.

HMJr: I see.

C: And I told him then it was necessary for them to give us something definite.

HMJr: That's right.

C: But particularly if they want us to talk to anyone else they would have to do it soon.

HMJr: That's right.

C: I told him that I had talked to number two and that the answer had come from him.

HMJr: Yes. They - they - yes.

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C: So he is going to see him this afternoon.

HMJr: Yes.

C: And will get a memorandum - would be preferable - or at least reasoning - giving both their ideas.

(Strange voice interrupts - not understandable)

HMJr: Well - ah -

C: And he said that number two would probably have to see number one before that.

HMJr: Uh huh.

C: And I said, "Well, naturally

HMJr: Yes. Well then you really have nothing have - I mean, they haven't told you anything?

C: Except that - well, that much, that they'd like the one feature of it.

HMJr: Well, that's unimportant.

C: What's that?

HMJr: That is very unimportant.

C: Yes. That's just what I said. I said that we have been interested in and you can get any time.

HMJr: Yes.

C: I said this will be another party.

HMJr: Yes.

C: I said, "That part is separate, isn't it?" That'd leave us out of the loophole.

HMJr: Yes.

C: I said it was just new. And he said, "Well, the other things are being drawn up." He said, "They are a fine bunch of documents - orthodox, and it'll have a good effect."

- 5 -

HMJr: It'll have what?

C: Will have a good reception.

HMJr: Yes. Well now, what I'm much more interested in is - when you saw the messenger - is he - how does he feel that the thing is progressing?

C: I didn't hear you then.

HMJr: You said you saw the messenger this morning.

C: Yes.

HMJr: How does he feel the thing is progressing?

C: Well he hasn't done anything since I talked with him yesterday.

HMJr: I see. So he's -

C: And I haven't seen him since I went there because I was afraid if I sat around that I wouldn't get out in time to phone you.

HMJr: Oh.

C: And -

HMJr: Did you - did you see him today?

C: I have agreed that I shall press him for Sunday.

HMJr: Yes.

C: And he thought that idea which I mentioned the other day has probably been defeated by number - (line became disconnected.)

HMJr: Hello. Hello.

French Operator: Hello. Sorry.

HMJr: Hello.

London Operator: One moment, please.

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Overseas
Operator: What's happened, London? Hello, London.

London
Operator: Just a moment, please. I've got my party.

O.O.: Righto.
(Long pause)

L.O.: I'm ready again now, New York. Go ahead, please.

H. Merle
Cochran: Hello. Hello. - Hello.

London: Hello, New York.

O.O.: Yes, London.

London: I'm waiting again

O.O.: Thank you.

Cochran: Hello.
(Long pause)

O.O.: Just a minute, London, we're getting the party.
Go ahead, London.

London: Go ahead.

Cochran: Hello.

HMJr: Are we going through London?

C: Ah - it's sem-private; I asked for the other way.

HMJr: I'm afraid we're through London.

C: Well, listen, perhaps I had better see my
messenger.

HMJr: Now look, Cochran, will you - look, will you
listen please. Hello.

C: Yes.

HMJr: Now, Cochran, I - we'd better wait until we
have something formal, you see?

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C: Yes.

HMJr: When you have it - I mean something definite, see?

C: Yes.

HMJr: I will be in Washington tomorrow.

C: Yes.

HMJr: And if you get anything formal I would put it in a regular cable. Hello.

C: Yes. .

HMJr: I mean a regular State Department cable.

C: You would?

HMJr: Yes.

C: Yes.

HMJr: I mean if anything comes now which is formal - which puts up a formal proposition I don't want to take it on the phone - I would take it in a regular formal cable.

C: I mean, it's - it will be informal in a way - I doubt if they hand it to me - I think it will just be oral.

HMJr: Well, whatever it is - I mean, because I'm leaving here at noon - I'm going down to New York and I'll get to Washington tomorrow morning.

C: Well, would you prefer that I put it in that other special - the way they

HMJr: No. Only - ah -

C: Because I've kept everything away from the other people here.

HMJr: I see.

C: It'll be a little difficult. But the thing - is a little embarrassing you see.

HMJr: I see.

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C: Well, ah - if it's positive then we'll probably get all of one message and we might as well send this the other way.

HMJr: Uh huh.

C: What do you think?

HMJr: Well, I was just thinking - ah - because we're on the London phone now.

C: Gosh, what a dummy. I asked for the other direct.

HMJr: Yes.

C: But there are certain hours they won't put you on.

HMJr: Uh huh. Well - ah - I tell you; I - I think in view of that, what I would do is, I'll be in the Treasury tomorrow morning by nine o'clock.

C: Yeah.

HMJr: And if - if you have anything definite from them, call me on the phone.

C: Ah - call you tomorrow morning - ah - that is your time; that will be the same time as I called today - two o'clock, my time.

HMJr: Yeah.

C: From the Treasury.

HMJr: If you have something definite. Ah - but there's no use calling me until you have something definite.

C: All right. Fine.

HMJr: See?

C: But I wanted to get this much to you before you left up there.

HMJr: Well, it really doesn't - it doesn't help any.
Hello.

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C: Yes.

H.M.Jr: I mean - ah - ah -

C: No, it - it is not final. That - that - it certainly is an indication as to how they're feeling.

H.M.Jr: Yes. Well, I gather that - that they're really working.

C: And, ah, it - it may seem that - ah - when - when the one goes to consult the other this afternoon, that there'll be a change, but we can't tell.

H.M.Jr: Well, I - I'll have to wait now, but they - or rather they'll have to wait till I get to the Treasury tomorrow morning.

C: All right.

H.M.Jr: Ah - we'll be leaving here - I'll leave the farm, in case you want to get me - I'm here until three o'clock.

C: I couldn't do anything then, because he won't see me before, ah, between seven and eight tonight.

H.M.Jr: Plenty of time. Well, then, we'll let it go until tomorrow morning.

C: Fine.

H.M.Jr: And - ah - you can call me up and let me know, and - ah - ah - how is Mrs. Cochran?

C: She's getting on very well; she - she stood it remarkably well.

H.M.Jr: Good.

C: I was out at nine o'clock. I haven't seen her since then; I've been back since noon.

H.M.Jr: Just one more question. Is the messenger nervous, or how does he feel?

- 10 -

C: Ah, no, he's not nervous, only he felt that I ought to press ...

(Operator) (Nine minutes.)

C: for something definite, you see?

HMJr: I see.

C: And - ah - ah - we talked about this idea; he brought it up.

HMJr: Yeah.

C: As I'd mentioned the other day as having been interested by

HMJr: Yeah.

C: That is as his story's going out, and then this thing coming.

HMJr: Yeah.

C: And - ah - this - and the messenger thought that we should not - ah - rule that out.

HMJr: Yeah.

C: But - ah - it is pretty hard for them to do this other thing right now. I mean, with the politics - and so on.

HMJr: Yeah.

C: He said he didn't think we ought to rule this - take that out.

HMJr: Uh huh. Well, I'll wait now until I hear from you tomorrow morning.

C: But even if I should run into something definite tonight, you don't want me to go ahead and cable it?

HMJr: I - yes, I think so, because I think it would save a lot of time.

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C: O. K. If I get something definite tonight I can put it in that special code.

HMJr: All right.

C: Then I could call you in - at the sixth hour.

HMJr: I - I think I would do it that way, yes.

C: I-- I think so. Ah - if I don't have anything definite I'll just call you. If I get something definite I'll send it in that special code.

HMJr: Yeah; that saves time.

C: Yes, that's easy.

HMJr: And - and the man at your end is obliging, is he?

C: and absolutely dependable.

HMJr: And obliging?

C: Oh yes. A good friend of mine.

HMJr: Ah - there's just one person there?

C: Ah - just one - well, his - his superior officer - the two of them.

HMJr: Yeah.

C: Ah - it's the second man who does it.

HMJr: But he does it himself?

C: He does it himself; he's the best

HMJr: And - and - ah - I take it that he rather enjoys it - what?

C: Well, he's only had the two, but he's been tickled to death to get in on it.

HMJr: Yes. All right.

C: So - very anxious to help us.

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HMJr: All right.

C: So - then I shan't call until tomorrow.

HMJr: Right.

C: Even though I have something definite.

HMJr: All right.

C: Ah - the man is here, and he's pretty good.

HMJr: What's that?

C: I sent two cablegrams just before noon.

HMJr: Yes.

C: Giving the text of the couple of communiques which I had already mentioned to you.

HMJr: Yes.

C: And the other, telling that the market was fairly strong.

HMJr: Good.

C: And then we've taken in that million pounds by eleven o'clock.

HMJr: Fine.

C: All right. thinks they'll go far.

HMJr: Right.

C: Well, all right, sir.

HMJr: Goodbye.

C: Goodbye.

Operator: Hello. Hello.

Lochhead: Hello.

Operator: Through, Mr. Lochhead?

Lochhead: Ah, yes; I'll hang up here.

Operator: I think the Secretary will probably be calling us now.

Lochhead: Fine; well, I'll go back to my own office.

Operator: All right.

November 8, 1938

For the Secretary:

Attached are summaries of telephone conversations with Randolph Burgess, John Williams, Jacob Viner, Winfield Rieffler and Tom K. Smith with respect to the possible appointment of Lauchlin Currie as economist in the Office of the Comptroller of Currency.

It does not seem feasible to me to appoint Mr. Currie as a Deputy Comptroller of the Currency. That is an administrative position. I have thought it desirable, as you know, to establish an Economic or Research Division in the Comptroller's Office. Two considerations make it difficult: One is the expense involved, and the other is a question of space for housing such a division.

If we are to have only one person on an economic staff, it would not seem to me that Mr. Currie would be the one to give us the maximum help of the kind we need. If we had a staff of four or more, I think it might be well enough to have him as one of them.

Upm *Upm*

Enclosure

November 5, 1938

TO THE SECRETARY:

I talked to Randolph Burgess about the possibility of Currie for Director of Research and Statistics in the office of the Comptroller. Mr. Burgess said that while he regards Currie as a good statistician he thinks he has a terrific bias and thinks up a lot of crazy things. He said he thought he could see some value in getting him out of the Federal Reserve Board staff. On the whole, he regards him as academic and theoretical and an economic recluse. He is a little bit afraid of him. Mr. Burgess says that he is able and that we could do worse. He suggested a man named B. B. Smith, now with the New York Stock Exchange.

I talked to John Williams about the same matter. He said that he has a very high opinion of Currie and regards him as awfully good on money and banking statistics and how to improve statistics in this field. He has no reservations about his fitness and regards him as a competent technician. He thinks, however, that we ought to ask a few bankers what they think.

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Dr. Viner said that it would be grand if we could get him. He is full of ideas and brilliant. His brilliance is rated higher by Viner than his judgment. Dr. Viner thinks that he would have to have one or two or three assistants if he came and that it would mean an outlay of probably \$40,000 for the Department.

I talked to Mr. Rieffler about the same thing. He was inclined to doubt that Currie would be interested. He says that the Comptroller's office has always been interested in banking problems as such, rather than in monetary problems which are Currie's main interest. He does not think that Currie would be happy in the Comptroller's office unless he were working on very much the same sort of thing that Harry White works on for the Treasury. And that would mean that the Comptroller's office is going in for a quite different function than it ever has before.

UPM *Upm*

November 7, 1938

I talked to Tom K. Smith in St. Louis and asked him what he and other bankers would think about the employment of Lauchlin Currie as economist for the Comptroller's office. Mr. Smith said that he would think that Chairman Eccles is getting a finger in the Comptroller's office. Another Member of the Federal Reserve Board tells Tom that Currie is responsible for most of Eccles' funny notions. Three Members of the Board told him so recently when they were in St. Louis.

Every one will think, according to Tom, that the Comptroller's office has gone completely haywire. He says he can understand why Currie might want to get away from the Federal Reserve Board because Mr. Smith understands that the Eccles influence is distinctly on the down-grade and that there are even those who are predicting that he will not be there much longer. Tom strongly recommended that we get somebody else if we get anybody at all.

In addition Mr. Smith told me that Chairman Eccles is now denying that he ever took the position that the Federal Reserve Board could not reduce reserve requirements because of their need for earnings and that he denies ever having said that in the event reserve requirements were reduced the Board might have to ask Congress for an appropriation for expenses.

UPM *[Signature]*

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: November 8, noon, 1938

NO.: 255.

With respect to the telegram of October 19 which the Federal Reserve Bank sent directly to the Bank of Brazil, regarding the gold plan, reported in my despatch No. 971 of October 24, the Embassy is now in receipt of a letter from the Bank of Brazil, dated November 4, acknowledging receipt of the telegram referred to. The letter contains a statement that this matter is now being studied by the Minister of Finance. I am informed by the Director of Exchange that the bank would prefer to have all further correspondence on this matter routed through this Embassy or by telegraph.

I am informed by the Director of Exchange that, in anticipation of the final approval of the plan by the Government of Brazil, the bank has accumulated approximately a ton of gold for eventual shipment to the Federal Reserve Bank of New York.

Will you please inform Federal Reserve Bank of New York.

SCOTTEN

EA:DJW



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 8 November, 1938.

SECRET

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

Message from Miss Jacobson.

Following is statement of Central Bank with Federal Reserve Bank in an account entitled, "The Central Bank of China, for account the Currency Reserve Board.": Gold ounces, 1,427,012.249, equivalent to \$50,070,292.29. Ordinary account, \$4,847,849.81, or total of \$54,918,142.10 less due Federal Reserve Bank, New York. Chinese dollars 165,000,000, equivalent to \$48,487,500, or a balance of \$6,430,642.10, close of business November 5. Local Central Bank officials unable to give an accurate statement of their overbought position in all currencies.