

DIARY

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 14, 1938

TO Secretary Morgenthau

FROM Mr. White

Subject: Interview with Bewley on dollar-sterling rate.

This folio contains first a copy of the statement that the group felt you might have before you when talking to Bewley. The intent was to include nothing in the statement which you would not wish the British to see in the event you decided to read it aloud or pass the notes to Bewley. The statement, as usual, presents a compromise. Some members wished to make it a little stiffer and others milder, but all agreed upon this formulation as a preliminary draft. It was expected, I believe, that you would supplement the statement with comments - possibly somewhat less circumspect in spots.

The remainder of the folio contains some condensed material relating to points which may arise in your discussion with Bewley. The material includes only a minimum amount of information and comment necessary to justify the position you would be taking, namely the pressing need for consultation and exchange of information and views.

This material is not an attempt to justify the view that sterling should not go lower. The pros and cons of that issue will be examined in a comprehensive memorandum which is now in preparation.

1

Preliminary Draft of Statement to be presented to Bewley either orally or in written form -- and supplemented with your own comments.

(Draft prepared by Viner, Williams, Hansen, Riefler, Goldenweiser, Taylor and White, November 10, 1938.)

We are concerned by the decline in sterling.

1. This decline if it should continue is likely to raise questions in this country concerning the meaning and usefulness of the Tripartite Accord.
2. We feel there is an important difference between a movement in exchange rates caused by sustained changes in current income account of the balance of payments (i.e., trade, shipping, tourist, interest, etc.) and a movement caused by capital transfers. The former movement is not necessarily inconsistent with the purpose of the Tripartite Accord, but a decline due to capital transfers seems to us much less justifiable and much more likely to be injurious to our trade, to the price structure, and to the stability of world currencies in general.
3. Given a continuance of the present economic recovery and the increase in American commodity purchases abroad likely to accompany it, we do not at present find in the trade positions of the two countries any apparent fundamental reason for the appreciation of the dollar with reference to sterling. Moreover, it appears to us that there are substantial reasons why a decline of sterling may not be in the British interests.
4. We feel that a continued decline may seriously endanger the world economic situation just at a time when American recovery is tending to check the general decline of trade now affecting most countries.
5. It seems to us to be in our mutual interests and entirely in accord with the spirit of the Tripartite Agreement to discuss with you capital movements and to endeavor to formulate a more definite policy with respect to such movement and to devise more effective techniques for protecting exchanges from the undesirable influences of such movements.
6. The seriousness of this problem is increased by the fact that so many of the world currencies are tied in effect to sterling. Because of this, movement of sterling with respect to the dollar means in effect a movement of world currencies with respect to the dollar, including the currencies of countries whose international balances, whether on income or on capital account, certainly do not warrant a fall in their currencies.

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7. In dealing with these questions, we find ourselves somewhat handicapped by the lack of information concerning the short-term capital and gold position of England corresponding to the information which we collect and periodically publish for the United States, and of information not published that we would be glad to exchange with the adherents of the Tripartite Accord. ✓

2

The decline in sterling is jeopardizing confidence in the effectiveness of the Tripartite Accord.

The Tripartite Accord has been widely interpreted in this country as an instrument designed to effectively stabilize exchange rates with particular attention to the relationship of the dollar to sterling. The behavior of sterling in the past few months is giving rise to feeling here that the effectiveness of the Tripartite Accord is weakening. (A table showing the course of sterling since January 1, 1938 is appended.) The successive declines in the French franc did not weaken the confidence of the American people in the effectiveness of the Tripartite Accord because (a) while the franc depreciated, sterling, which was so much more important, remained firm; and (b) the declines in the franc were regarded by the public as due to weakness in the French economic situation and not as an attempt to obtain a competitive advantage. If now, however, in addition to the recent declines of the franc, there is added the decline of the whole sterling bloc, then the American Congress and the American public will inevitably raise the question of the workability and effectiveness of the Tripartite Accord.

The American public, especially at this time, will be particularly sensitive to a changed monetary relationship which is favorable to England and unfavorable to us. The public's sensitivity at this time is due to (a) the intense interest in foreign affairs as a result of the recent political crises in Europe and (b) the trade agreement with England involves concessions granted by the United States in return for which we will receive concessions from England, particularly with regard to agricultural commodities. A decline in sterling, it will be claimed, will nullify the tariff concessions we have obtained from the trade agreement and make more valuable the concessions we have granted.

Unless the American public can be offered an adequate explanation for further declines in sterling -- an explanation which can satisfy the American people and Congress that there has been a careful evaluation by the British authorities and the United States Treasury of all factors concerned in a decline of sterling and that England's greater freedom with respect to the price of gold is not being employed to obtain presumed advantages at the expense of the United States and of currency stability -- then both the Accord and the present dollar price for gold are jeopardized.

Pound-dollar exchange rates — high and low of each month, 1938

(In cents per £)

	High	Low
1938 January	501.0625	498.9375
February	503.8125	500.5625
March	502.0625	494.6875
April	501.2500	496.1250
May	499.8750	493.4375
June	498.2500	494.1250
July	495.8125	491.3125
August	491.7500	485.3750
September	485.8125	461.0000
October	482.7500	473.1250
November <u>1/</u>	476.6250	472.8750

1/ Through November 12, 1938.

3

British Press on the Presumed Overvaluation of Sterling

1. An examination of the comment on sterling-dollar rates appearing in the British financial press ever since June indicated a support of the view that sterling was overvalued. It seems clear that the widespread comment in the British financial mediums to the effect that sterling is overvalued, unopposed as it is by any statement on the part of the British Treasury or the publication of any study by the British Treasury, cannot but have been an important factor contributing to the flight of capital from England.

2. These comments continue with increasing frequency and as sterling declined the tone becomes a little more partial to the view that sterling would reach lower levels. Much of the comment is purported to be based on an appraisal of the underlying basic factors which in their opinion justified lower sterling.

3. Appended are excerpts from the British press indicating a widespread expectancy that sterling might easily go lower than the then prevailing rate. Some of them should probably be interpreted as semi-officially inspired.

July 11, 1938 (\$4.928) - The Financial Times

".....the old parity of \$4.866 would today imply an overvalued pound. On this basis \$4.60 would be 'about right'.

"This suggests that even the recent recovery in the dollar leaves the pound still overvalued."

July 16, 1938 (\$4.927) - The Economist

"It is intimated that on purely economic grounds sterling at \$4.866 may be a more natural level than \$4.90."

July 19, 1938 (\$4.918) - The Financial News

"Market quarters suspect that continental quarters with large sterling balances are becoming alive to the manifest undervaluation of the dollar in relation to sterling, and foreseeing a prolonged period of pressure on the pound, are already removing funds from London to New York."

July 20, 1938 (\$4.921) - The Financial News

".....It is reasonable that the Exchange Account should release gold to offset the movement of capital, but only if the dollar is in equilibrium on income account. And that can only be when the dollar rate stands considerably lower than it does today."

August 10, 1938 (\$4.883) - The Evening Standard

"Towards 4.50. The view has often been attributed to our authorities that the \$5.00 to the pound rate seriously overvalues our currency, and that a rate nearer 4.50 is more in keeping with the true situation."

August 13, 1938 (\$4.872) - The Statist

".....Perhaps the retreat from that stabilization level $\overline{[4.86-2/3]}$ had become inevitable by reason of fundamental readjustments in the balances of payments of the sterling and dollar areas."

August 17, 1938 (\$4.881) - The Financial News

"There is at any rate a strong presumption, backed up by the actual pressure on the pound, that sterling is overvalued."

August 20, 1938 (\$4.880) - The Statist

"As regards the dollar, recent experience in the exchange market strongly supports the view that sterling is also overvalued in that direction."

August 26, 1938 (\$4.877) - The Financial News

".....the Tripartite Agreement still prevents the overvaluation of sterling against the dollar from being corrected."

August 29, 1938 (\$4.870) - The Financial News

".....the view was gaining ground that, despite the heavy decline of the past month or two, the overvaluation of sterling against the dollar has not yet been remedied and that the authorities will thus in the long run be forced to permit a further substantial depreciation."

September 1, 1938 (\$4.854) - The Financial Times

"The theoretical position today thus appears to be roughly as follows:

1. The pound is overvalued by not quite 15 percent against the dollar.
2. The dollar is overvalued by 15 percent against the franc.
3. The pound is overvalued by 30 percent against the franc."

September 6, 1938 (\$4.823) - The Financial Times

".....the pound might be held to be overvalued by some 10 percent and therefore bound, say, for a point in the neighborhood of \$4.40."

"Such probabilities lend powerful support to the views of those authorities who limit their expectation of sterling's fall to, say, the neighborhood of \$4.70."

September 10, 1938 (\$4.811) - The Economist

"It [sterling] has indeed been overvalued against the dollar ever since American prices began to fall in the autumn of 1937. As a long-term view, therefore, and quite apart from the immediate pressure on the pound \$4.86-2/3 has ceased to be an appropriate rate. On this argument, the pound's decline below that rate is not competitive depreciation, but quite the reverse....."

September 17, 1938 (\$4.81) - The Economist

".....in times of recession, particularly in the opening stages, the primary producer is hit worst by a fall in his prices, whereas the manufacturer finds that he is unable to reduce his prices and so is unable to sell his goods. The present overvaluation of sterling against the dollar is, so far as England is concerned, nothing more than a particular though striking symptom of this general disease, and so must be regarded as one of the necessary and automatic consequences of the world recession."

October 12, 1938 (\$4.75) - The Times

"Those who are convinced by the evidence that sterling has been and is overvalued - and they are in a majority - see in this movement a possible adjustment of the exchange value of sterling in accordance with our real commercial needs..... It certainly seems probable enough that the demands of expanded rearmament will tend to increase rather than lower the costs and prices of British goods relatively to those of our competitors. And the desirability of a lower rate for sterling is thus likely to increase rather than diminish during the next year or two."

October 24, 1938 (\$4.759) - The Financial Times

"Finally, sterling is certainly overvalued at \$4.86, and probably overvalued at \$4.75."

October 27, 1938 (\$4.768) - The Financial News

"The general view in London is that the £ is still considerably overvalued against the dollar at its present level."

October 27, 1938 (\$4.768) - The Financial Times

".....The adverse trade position of the sterling area vis-a-vis America has been another weight on the pound, and there is no sign that this influence will soon be relaxed. There are thus strong reasons for a relatively low dollar exchange rate....."

October 31, 1938 (\$4.756) - The Financial News

"Evidence of sterling's overvaluation indeed is so strong today that prospects of a rising trend in the price of gold must form part of the background of any investment calculations."

November 1, 1938 (\$4.7525) - The Financial Times

".....It is satisfactory to note that further City support was forthcoming yesterday for the opinion expressed here last Friday that the American authorities must by now have realised that it is undesirable to attempt to maintain exchanges at uneconomic levels."

November 12, 1938 (\$4.7375) - The Financial News

"Market circles in London still cling strongly to the view that the British authorities will not agree to de facto or de jure stabilization of the sterling dollar rate at the present time."

4

Loss of gold because of capital outflow vs. loss of gold due to changes in "current account".

A clear distinction must be drawn between the pressure upon exchanges arising from capital outflows, and the pressure arising from adverse balances on "current account". It is important to note the distinction not only because the effects of the two types of movement differ but because the remedy called for in each case is frequently different.

When there is pressure on the exchanges arising from a sustained adverse balance of payments on current account, an alteration in the exchange rates may be necessary to attain equilibrium. Alterations in exchange rates, when necessitated by a shift in fundamental economic factors, are not necessarily inconsistent with the terms of the Tripartite Accord.

Outflows of gold which are small in comparison with the gold holdings of the country in question do not need the corrective factor of a change in the exchange rate. The outflow may be checked within future months by unforeseen changes in the general situation or by the slow operation of economic forces which are sometimes set in motion by the existence of the adverse balance. In any case one of the important advantages of large gold holdings is to make feasible small gold losses for a long time without requiring drastic measures which have widespread repercussions.

A large loss of gold, induced chiefly by capital outflows rather than by an adverse balance of payments on current account, is not likely to be corrected by alteration in exchange rates except under special circumstances. It is necessary to study all the circumstances which are giving rise to the outflow of capital before a conclusion can be reached on this point.

When the capital outflow occurs chiefly as a consequence of anticipated exchange profit due to an expected decline in the country's currency, then the justifiable and correct method of checking that outflow is to dispel the expectancy of the exchange profit.

If, however, the capital outflow is taking place because of political instability at home and more attractive economic conditions abroad, then an alteration in the exchange rate may have an effect contrary to that which is desired and may serve only to expedite the emigration of capital. If a country cannot withstand the loss of gold occurring under such circumstances, and if there is no expectation that political stability will be restored or the economic situation improved within the near future, a corrective change may be called for but it need

- 2 -

not be alteration of the exchange rate.

It is claimed by some that the net outward movement of British capital from the United Kingdom is due largely to the growing belief that present trends in the underlying basic factors will in the near future force a decline in sterling. Our studies do not indicate that this belief is clearly justified. If discussion and analysis leads to the joint conclusion that the basic factors in the current income account of the British balance of payments do not justify a decline in sterling in the near future, it would be important that the British Treasury place that conclusion and its supporting analyses before the public. By so doing those fears which are contributing to the outflow of capital would be dispelled. This points to the importance of consultation in order to ascertain whether our view is correct or not.

The first essential task is, therefore, an analysis of the British balance of payments to determine whether the loss of gold is due chiefly to items on current account or whether it results chiefly from losses on capital account. After having determined the cause and extent of the adverse balance, it will be possible to determine more intelligently whether the remedy lies in a lower sterling rate or not.

5

British balance of payments on current account does not appear to clearly justify lower sterling at this time.

1. An examination of such information as is available to us on the British balance of payments does not, in our opinion, justify a lower sterling rate at this time. The adverse balance on current account is hardly large enough, nor is the trend certain enough, to warrant the conclusion that drastic corrective measures such as a decline in sterling are called for now.

We estimate that for 1938 the United Kingdom will have an unfavorable balance of about £60 million on current account. This unfavorable balance will probably be made up in the following way:

	<u>Net Outpayment</u>	<u>Net Inpayment</u>
(a) Net imports of merchandise and silver	410	
(b) Net government foreign payments	4	
(c) Net shipping income		100
(d) " foreign investment income		210
(e) " receipts from commissions		35
(f) " receipts from other sources		<u>10</u>
Totals	415	355

The unfavorable balance of £60 million compares with an unfavorable balance of £52 million for last year and £18 million the year before. (Table of balance sheets for previous years is appended.)

This sum of £60 million (\$285 million) must be compared with total British holdings of gold in order to get a proper prospective of its magnitude. At present the British Equalization Account has probably about \$3½ billion. An annual loss of \$285 million with holdings of \$3,500 can very easily be sustained for another year or two without serious consequences. The present adverse balance of payments on "current account" by itself hardly calls for lower sterling rates as a means of protecting her necessary gold holdings. Though we cannot estimate with

any degree of accuracy British balance of payments for next year there is reason to believe that, assuming a continuation of present trends and stability in the sterling rate, it will be no more unfavorable in 1939 than in 1938 and possibly less.

We have made the analysis using the official British data that is available to us. It is quite possible that the information needs to be more carefully compiled. In fact, numerous competent British authorities themselves have criticized these figures as containing a large element of error. The British Treasury has doubtless attempted to make such modifications and corrections as they have regarded warranted by the facts and they have also surely compiled a balance of payments for the year 1938 and possibly estimated the trend likely to prevail for 1939. We ought to know what their conclusions are so that we could compare them with ours to see whether any significant difference exists between their estimates and ours and if so, how much and why. Here we have an important exchange of information that is highly desirable if there is to be any agreement as to the solution of the problem in hand.

British Balance of International Payments
on Current Income Account ^{1/}

(In millions of £s)

	1930	1931	1932	1933	1934	1935	1936	1937
Excess imports of merchandise and silver (-)	386	408	287	263	294	261	345	443
Estimated net government foreign payments (-) or receipts (+) ^{2/}	+ 19	+ 14	- 24	- 2	+ 7	- 2	- 3	- 4
Estimated net national shipping income (+)	105	80	70	65	70	70	85	130
Estimated net income from foreign investments (+)	220	170	150	160	170	185	205	220
Estimated net receipts from commissions, etc., (+)	55	30	25	30	30	30	30	35
Estimated net receipts from other sources (+)	15	10	15	10	10	10	10	10
Estimated net "favorable" (+) or "unfavorable" (-) balance on current account	+ 28	- 104	- 51	0	- 7	+ 32	- 18	- 52

The accuracy of these estimates has been seriously questioned. The Macmillan Committee on Finance and Industry recommended strongly ^{3/} that these figures be put on a more exact basis, because "there is so much guesswork in them as to render them liable to an unduly wide margin of inevitable error". Nevertheless the figures are still compiled in the old

^{1/} Balance of Payments...1936, Geneva (1937) p. 201 and Board of Trade Journal, Feb. 17, 1938.

^{2/} This figure includes some capital items.

^{3/} Committee on Finance and Industry Report, Cmd. 3897 of 1931, pp. 179-180

6

Balance of payments between United States and United Kingdom
vs. that between United States and British Empire.

The balance of trade between the United States and the United Kingdom, which is heavily in our favor, is frequently cited as an obvious reason why the United States has to be lenient in its attitude toward the dollar-sterling rate.

This is an elementary fallacy. In the first place, it is not the balance of trade that signifies, but the balance of payments between the two countries that is relevant. Whereas we had a favorable balance of trade with the United Kingdom in 1937 of \$300 million, the balance of payments -- excluding capital -- coming to us was only half that amount.

In the second place, it is not the balance of payments between the United States and United Kingdom which is the important factor in this connection; it is the balance of payments between the United States and the whole British Empire. Though United Kingdom alone owed us on balance of current account about \$150 million, the balance due us in 1937 from the whole British Empire was negligible. It has been estimated by a competent British writer to have been only \$24 million in 1937, and this includes Canada. Without Canada in the picture, the balance would have been the other way; we would have had an unfavorable balance of about \$60 million. Canada, after all, is not in the sterling bloc, and therefore should not be included in the computations for the purpose in hand.

Below is a table of the estimated balance of payments between the United States and various portions of the British Empire. It is taken from a recent study made by a British economist. (Table attached)

British-American Balance of payments, 1937

(In \$ millions. A plus sign indicates a net balance to the credit, a minus sign a net balance to the debit, of the United State.)

	: United : : King- : : dom : : (1) :	: Crown : : Colonies : : (2) :	: Total : : Cols. (1) : : and (2) : : (3) :	: Canada : : and : : Newf'ld : : (4) :	: Other : : Doms. & : : India : : (5) :	: Total : : British : : Empire : : (6) :
Merchandise (Inc. silver)	+298	-174	+124	+104	- 18	+210
Freight and shipping	- 34	...	- 34	- 2	...	- 36
Tourists	- 36	- 15	- 51	-178	- 2	-231
Immigrants' re- mittances	- 5	...	- 5	...	- 11	- 16
Insurance	- 28	...	- 28	- 28
Interest and dividends ...	- 50	...	- 50	+160	+ 15	+125
Total invisible items	-153	- 15	-168	- 20	+ 2	-186
Total	+145	-189	- 44	+ 84	- 16	+ 24

7

Comparison of Recent Trade Trends of United States and United Kingdom

1. The trend of trade between the United States and the United Kingdom is changing. Our exports to the United Kingdom, which were 40 percent higher in the first quarter of 1938 compared with 1937, were 8 percent lower in the third quarter of 1938 than in the preceding year. Our imports from the United Kingdom are still at a lower level than last year but the percentage decreases, as compared with last year, are growing less.

United States Exports to United Kingdom

(In millions of \$)

	<u>1937</u>	<u>1938</u>	<u>Percent Change</u>
1st Quarter	108.3	152.9	+ 41.2
2nd Quarter	99.4	100.4	+ 1.0
3rd Quarter	135.2	124.3	- 8.1
July	32.1	32.2	+ 0.3
August	42.4	41.4	- 2.4
September	60.7	50.7	- 16.5

United States Imports From United Kingdom

(In millions of \$)

	<u>1937</u>	<u>1938</u>	<u>Percent Change</u>
1st Quarter	58.9	27.5	- 53.3
2nd Quarter	53.4	24.2	- 54.7
3rd Quarter	45.9	27.8	- 39.4
July	15.2	7.3	- 52.0
August	15.9	10.1	- 36.5
September	14.8	10.4	- 29.7

2. When the total export trade for this year is compared with last year's, United States makes a poorer showing than the United Kingdom. British exports during July, August and September indicate that the decrease in exports, compared with last year, is growing smaller. In contrast, export trade for the United States over the same months shows that the decrease, over last year's figures, is not growing smaller.

United Kingdom Exports

(Millions of £)

	<u>1937</u>	<u>1938</u>	<u>Percent Change</u>
1st Quarter	139.9	136.7	- 2.3
2nd Quarter	151.9	129.5	- 14.7
3rd Quarter	153.1	127.2	- 16.9
July	54.4	42.0	- 22.8
August	49.2	41.4	- 15.9
September	49.5	43.8	- 11.5

United States Exports

(Millions of \$)

	<u>1937</u>	<u>1938</u>	<u>Percent Change</u>
1st Quarter	723	828	+ 14.5
2nd Quarter	824	764	- 7.3
3rd Quarter	843	705	- 16.4
July	268	228	- 14.9
August	278	231	- 16.9
September	297	246	- 17.2

3. When the import figures of the United Kingdom and the United States are compared no clear picture is obtained. The imports of both countries are substantially lower than 1937, but the percentage decline compared with last year has been greater for the United States than the percentage decline for the United Kingdom.

United Kingdom Imports

(Millions of £)

	<u>1937</u>	<u>1938</u>	<u>Percent Change</u>
1st Quarter	230.3	245.6	+ 6.6
2nd Quarter	254.3	225.6	- 11.3
3rd Quarter	260.0	223.0	- 14.2
July	85.5	73.9	- 13.6
August	86.7	74.1	- 14.5
September	87.8	75.0	- 14.6

United States Imports

(Millions of \$)

	<u>1937</u>	<u>1938</u>	<u>Percent Change</u>
1st Quarter	827	507	- 38.7
2nd Quarter	858	445.4	- 47.1
3rd Quarter	744	475	- 36.2
July	265	141	- 46.8
August	246	166	- 32.5
September	233	168	- 27.9

8

Pertinent comments on United States - United Kingdom trade agreement.

(1) Since January 1934 the British have shown a tendency to raise rather than lower duties on imported articles.

Year	Total items on which duties were raised	Total items on which duties were lowered	Total dutiable items placed on free list
1934	32	7	2
1935	28	4	1
1936	22	6	none
1937	8	5	3
1938	5	none	2

In addition, some administrative orders were issued which had the effect of making dutiable some few items which were not previously included as dutiable.

(2) In contrast United States tariffs have been reduced on a great number of items. Reductions ranging up to 50 per cent of the existing tariff rates have been made through our trade agreements program. The reductions in duties which were embodied in the seventeen trade agreements signed by the United States have been extended to the British Empire by the most-favored-nation treaties.

(3) The United States gave its full proposal of concessions offered and concessions expected to be granted, to the United Kingdom on April 26, 1938. On that date the sterling rate was \$4.95. The April 26 offer represented the basis of negotiations and this basis was not changed throughout the period of negotiations.

(4) Appended is a summary analysis of the concessions granted and obtained in the proposed Agreement.

Summary of Concessions in United Kingdom -
United States Trade Agreement

1. Summary of concessions granted by the United States

Concessions granted by the United States cover about 88 percent of our imports from the United Kingdom, Newfoundland and the British colonies. Approximately 75 percent of the value of our imports from the United Kingdom is covered by the agreement, about 95 percent of the imports from the British colonies and about 20 percent of the imports from Newfoundland.

(a) Duties are reduced on 400 items. Imports of these items from British areas during 1937 amounted to \$53 millions, and covered about 11 percent of our imports from these areas. Total imports from all countries of these items was about \$100 millions in 1937.

(b) Existing rates of duties are bound on 49 items. Imports in 1937 from British areas of these items amounted to \$40 millions, and covered about 7 percent of our imports from these areas. Total imports from all countries of these items was about \$100 millions in 1937.

(c) One hundred and six items are bound on the free list; imports in 1937 of these items from British areas amounted to \$355 millions, and covered 70 percent of our imports from these areas. Total imports from all countries of these items was about \$600 millions in 1937.

<u>Major classes of items reduced</u>	<u>Percentage Reduction of present rate of duty</u>	<u>Total U. S. Imports in 1937 (In millions)</u>
Textile machinery - various types	37 - 50%	\$1.2
Furniture	38%	1.0
Kaolin or China clay	30%	1.2
Varieties of fish	50%	2.0
Mustard and mustard seeds	12 - 25%	1.4
Cotton yarns and cotton cloths (carefully restricted to thread counts and types of which U.K. is the principal supplier)	10 - 30%	6.3
Flax and flax yarns	25 - 50%	3.9
Woven fabrics of flax, hemp, jute vegetable fibre, except cotton, of selected products and specified characteristics	25 - 50%	21.0
Wool waste	10 - 50%	6.8
Wool products	10 - 32%	14.3
Leather and leather products	17 - 50%	14.5

<u>Major items bound at present duties</u>		<u>Total U. S. Imports in 1937 (In millions)</u>
Whiskey, rum and gin	Bound at \$2.50 per gal.	\$ 55.0
Jute woven fabrics	Bound at 1¢ per lb. (un-processed)	41.1
 <u>Major items bound on the free list</u>		
Rubber, crude		247.5
Tin		104.3
Cocoa or cacao beans		52.3
Furs and fur skins, undressed		41.0
Tea		21.4
Copra		17.9
Artistic antiquities, works of art, etc. produced prior to the year 1830		15.5
Diamonds		14.3
Coal tar crude		10.0
Chrome ore or chromite		7.3
Pulp and waste material used for paper making		7.2
Platinum		5.9
Original paintings, pastels, drawings and sketches		4.5

2. Summary of concessions granted to the United States

The concessions granted to the United States cover about 62 percent of the total value of our exports to the United Kingdom, Newfoundland and the British colonies. Reductions in duty were secured on about 12 percent of the total value of our exports to these countries, and 50 percent of the trade is covered by bindings against increases in duty or bindings on the free list. Binding of the present tariff status is considered as being important to the United States because it modifies or reverses the policy followed by the United Kingdom in recent years of granted preferences in duties to British colonies and dominions. The following are considered as being important concessions granted to us:

- (a) The granting of free entry of wheat (there is a 4.8 percent ad valorem preferential duty against United States wheat now) and lard.
- (b) Increased quota on hams.
- (c) Reductions in duties on rice, apples, and other fresh and canned fruits.

(d) Concessions on lumber which will permit increased volume of exports to the United Kingdom.

(e) Reductions in duties on numerous Machinery and Apparatus items, such as office machinery, typewriters, refrigerators, etc. Most of these reductions are from 20 percent ad valorem to 15 percent. Patent leather duty is reduced from 15 percent to $7\frac{1}{2}$ percent ad valorem and duties on items of paper manufactures are reduced.

(f) The duty on automobiles is bound at existing levels.

9

Course of world currencies since August 1, 1938

The table below shows how large a portion of the world currencies have followed sterling down.

(In U. S. cents per unit of foreign currency)

Country	Monetary unit	Rate on -		Percent change
		August 1, 1938	November 12, 1938	
United Kingdom	Pound	491.5000	472.9652	- 3.8
Bolivia	Boliviano	5.00	3.50	- 30.0
Spain	Peseta	5.7500	5.1000	- 11.3
Argentina	Free peso	26.10	23.30	- 10.7
Argentina	Peso	32.7670	31.5280	- 3.8
Peru	Sol	22.87	20.80	- 9.1
Uruguay	Free peso	42.50	38.75	- 8.8
Uruguay	Peso	64.7016	62.2617	- 3.8
France	Franc	2.7588	2.6428	- 4.2
New Zealand	Pound	394.7687	378.0875	- 4.2
Straits Settlements	Dollar	57.3625	55.0000	- 4.1
Hong Kong	Dollar	30.7187	29.4987	- 4.0
British India	Rupce	36.7362	35.3160	- 3.9
Finland	Markka	2.1681	2.0845	- 3.9
Sweden	Krona	25.3403	24.3646	- 3.9
Australia	Pound	391.6000	376.7562	- 3.8
Denmark	Krona	21.9389	21.1125	- 3.8
Japan	Yen	28.6485	27.5615	- 3.8
Norway	Krone	24.6962	23.7656	- 3.8
Union of South Africa	Pound	486.6666	468.1875	- 3.8
Greece	Drachma	.9010	.8683	- 3.6
China (Shanghai)	Yuan	16.3281	15.7625	- 3.5
Portugal	Escudo	4.4433	4.2900	- 3.5
Ecuador	Sucre	7.25	7.00	- 3.5
Yugoslavia	Dinar	2.3175	2.2787	- 1.7
Netherlands	Guilder	54.8533	54.1466	- 1.3
Switzerland	Franc	22.9069	22.6469	- 1.1
Canada	Dollar	99.6855	99.2167	- 0.5
Czechoslovakia	Koruna	3.4508	3.4337	- 0.5
Bulgaria	Lev	1.2350	1.2325	- 0.2
Hungary	Pengo	19.6650	19.6250	- 0.2
Poland	Zloty	18.8300	18.7950	- 0.2
Chile	Official peso	5.1716	5.1700	- 0.1
Chile	Export peso	4.0000	4.0000	-
Colombia	Free peso	49.00	49.00	-
Colombia	Peso	56.1800	57.1500	+ 1.7
Cuba	Peso	99.9333	99.9500	-
Italy	Lira	5.2606	5.2600	-
Guatemala	Quetzal	100.00	100.00	-
Venezuela	Bolivar	31.50	31.50	-
Belgium	Belga	16.9025	16.9116	+ 0.1
Brazil	Milreis	5.8540	5.8625	+ 0.1
Russia	Leu	.7292	.7300	+ 0.1
Mexico	Silver peso	20.40	20.75	+ 1.7
Mexico	Peso	19.8333	20.1300	+ 1.5
Germany 1/	Free mark	40.1718	40.0400	- 0.3
Germany	Credit mark	5.00	4.98	- .4
Germany	Registered mark	18.45	17.96	- 2.7
Germany	Emigrant mark	4.13	4.91	+ 18.9
Germany	Securities mark	4.13	4.54	+ 9.9
Germany	Support mark	19.18	18.49	- 3.6
Germany	Haavara mark	19.18	18.49	- 3.6
Germany	Travel mark	21.49	20.92	- 2.7

German rates - free mark from Federal Reserve Board. Blocked mark rates from The Financial Times London, for August 3, and November 3, 1938, converted from marks per pound.

10

Business Conditions in the United Kingdom

Summary Statement

There seems to be a growing feeling in England that the recession has reached its low point and that business conditions will improve in the coming months. The most recent business statistics may be interpreted as indicating that the recession has been halted in its downward course, but the indexes do not, on the whole, indicate an upturn as yet.

The recovery in the United States is considered to be the most important factor presaging an upturn in England, and it is the major factor on which optimists in England base their claims.

Appended are the most recent indexes of business activity in the United Kingdom that are available to us.

Indexes of Business Activity in the United Kingdom

1. Industrial production. The Board of Trade index of industrial production for the second quarter was down almost 10 percent on the first quarter of 1938 and more than 10 percent on the second quarter of 1937.

Board of Trade Index of Industrial Production

<u>1937</u>	
1st quarter	131.3
2nd "	133.8
3rd "	130.4
4th "	136.6
<u>1938</u>	
1st quarter	132.4
2nd "	122.1

a. Iron and steel. While seasonal upswing in steel production continues - it rose from 658,900 tons in August to 754,700 tons in September - September 1938 production is 35 percent less than September 1937, and the production of steel in the third quarter of this year is 34.7 percent below the third quarter of 1937.

Crude Steel Production
(In thousand tons)

	1937	1938	Percent Change
1st quarter	3,105	3,255	+ 4.8
2nd "	3,234	2,673	- 17.3
3rd "	3,210	2,097	- 34.7
4th "	3,417	-	-

The nine months output of steel for 1938 is 15.6 percent less than during the same period of last year. Since the armament program probably entailed heavier demands for steel in 1938, it is likely that steel production for civil and export purposes declined much sharper proportionately than total steel production.

October figures show a further increase. Steel production rose to 854,000 tons, an increase of 12.3 percent over September and the highest since May, though it was still about 25 percent less than October 1937.

Pig iron production reached the lowest level of the year in September 1938; 430,000 tons. Production in October was 469,400 tons, which is the first increase since July, though again still 39 percent below October of last year.

b. Shipbuilding. At the end of the third quarter of 1938 there were only 885,481 tons in construction as compared with over a million tons in the previous quarter and almost 1,200,000 tons in the corresponding quarter of 1937. Tonnage of vessels commenced shows an even sharper drop. Vessels commenced totaled only 87,463 tons at the end of the third quarter as compared with 156,970 tons in the second quarter and 218,557 tons in the third quarter of 1937. It is reported that 46 percent of the shipbuilding yards are now empty. These figures include construction of ships for the British Admiralty.

c. Building plans approved. Building plans approved totaled £6,877,000 in September as compared with £6,302,000 in August - a less than normal seasonal increase. Compared with September of 1937, there is a drop in building plans approved of over 25 percent.

d. Automobiles. An estimate by The Statist based on figures for the first nine months of the year showed that automobile production will be 12 percent less this year than in 1937.

2. Unemployment. The number unemployed in September 1938 totaled 1,728,000, an increase of 30,000 over the previous month and an increase of 337,000 over September last year. The total number of registered employed in September was 11,380,000, a decrease of 20,000 compared with August 1938 and of 310,000 compared with September 1937.

However, Chamberlain indicated, in a statement reported by cable yesterday, that the figures to be published that day, (which are not yet available to us) would indicate a revival of employment.

The rise in unemployment seems to have been greatest in iron and steel and textile industries, i.e., the industries which are most adversely affected by a decline in exports. There had already been a heavy concentration of unemployment in the textile industries before the present recession set in.

3. Foreign trade. The unfavorable balance of trade in the second and third quarter of 1938 is less than the unfavorable balance in the same quarters of 1937. Exports are running about 15 percent less than last year, and imports, particularly of raw materials, are 13 percent lower than last year.

United Kingdom - Foreign Trade

	<u>Exports of</u> <u>U. K. goods</u>	<u>Retained</u> <u>Imports</u>	<u>Import</u> <u>Balance</u>
(In millions of pounds)			
<u>1937</u>			
1st quarter	121.1	211.2	90.1
2nd quarter	130.1	232.4	102.3
3rd "	134.4	239.6	105.2
4th "	135.9	271.4	135.5
<u>1938</u>			
1st "	120.9	229.4	108.5
2nd "	112.3	207.3	95.0
3rd "	113.5	208.0	94.5

The favorable balance of United States trade with United Kingdom remained at high levels. Our exports to United Kingdom are running less than last year, and our imports from United Kingdom are almost half of the level of last year.

United States trade with United Kingdom

	<u>Exports</u>	<u>Imports</u>	<u>Export</u> <u>Balance</u>
(In millions of dollars)			
<u>1937</u>			
1st quarter	108.1	58.1	50.0
2nd "	99.3	53.4	45.9
3rd "	135.2	45.9	89.3
4th "	191.8	44.6	147.2
<u>1938</u>			
1st "	152.9	27.5	125.4
2nd "	100.4	24.2	76.2
3rd "	124.3	27.8	96.5

4. Trend of prices. The Board of Trade wholesale price index for September was 98.4, a drop of 11.5 percent compared with September 1937. Reuter's index of sensitive commodity prices, which fell sharply at the beginning of September, and then rose as the prospects of war increased, is now back to the low levels prevailing at the beginning of September.

While the Board of Trade wholesale price index has fallen 11.5 per cent in the last year, cost of living index has fallen only three points, from 158 in September 1937 to 155 in September 1938.

5. Retail trade. The Bank of England index of retail sales was 111 in August, 1938 but increased to 120 in September 1938. The money value of the total daily sales reported for September 1938 was slightly higher than for September 1937.

6. New capital issues. New capital issues, excluding conversions, were £218 million during the nine months of 1938, compared with £ 411 millions in the same period of 1937.

	<u>U. K.</u>	<u>British Empire excluding U.K.</u>	<u>Foreign Countries</u>
9 months of 1937	351	57	2
9 months of 1938	167	48	3

All except £20 million of the £218 million new issues of 1938 were issued in the first half of the year.

7. Security prices. The index of 56 industrial stocks has undergone sharp fluctuations in the last two months. It reached a low of 91.2 on September 28, recovered by September 30 to 104.5, but since then has shown a tendency to sag. The index as of November 9 was 102.1.

Consols also underwent strong fluctuation in spite of the fact that for a few days before September 28 the market was being regulated. 2½ per cent consols were down to 65 on September 26. They then recovered to 74-1/4 by September 30. Since then they have been falling and on November 9 were quoted at 72-7/16. The market for government securities is somewhat nervous, faced as it is with the prospect of new government issues for the armament program.

8. Government revenues and expenditure. Total ordinary revenue for the six months ending September 30th was £306.2 millions, a decline of £2.7 million on 1937. Expenditure rose from £443.3 to £510.3 in the same period, while the deficit for the first six months of the current fiscal year is £166.3, compared with £98.5 during the same period last year. In addition to this deficit must be added armament expenditures from the National Defense loan, budgeted for £112 million for the whole of this fiscal year. The amount spent so far this year has not been reported.

11

United States and United Kingdom wholesale prices - foreign exchange aspects of international competitive position compared.

The table on the following page contains the indexes of foreign exchange - wholesale price relationships for the United States and for the United Kingdom. There are three various methods of weighting as indicated in the tables. Though the indexes vary somewhat according to the method of weighting, they all show that the situation from the point of view of foreign exchange - wholesale prices has become less favorable for the United States since February 1938. The average of the indexes arrived at by the use of varying systems of weights dropped from 113 in February 1938 to 106 in October 1938. This is to be contrasted with an increase in the index for United Kingdom of from 98 to 104 during the same period.

In so far as exchange rates and wholesale price indexes are an indication of the altered international competitive position of each country with respect to its foreign markets, our calculations show that the situation for the United States is becoming substantially and steadily less favorable while that for the United Kingdom is becoming substantially and steadily more favorable.

Of course, the exchange rate - wholesale price relationships show only one aspect of the picture. Nonetheless, it is an important aspect, and one that casts serious doubt on the validity of the claim that a lower sterling rate is called for.

There are also appended two other tables - one showing the so-called "purchasing-power-parity" between the leading countries and the United States and a similar table between the leading countries and the United Kingdom. Though these indexes are much less significant than the ones referred to above, they are the ones which are frequently employed to demonstrate undervaluation or overvaluation of currencies. These figures indicate in general that this aspect of the international competitive situation of the leading foreign countries is growing more favorable relative to the United States. Despite their limited significance, these indexes constitute additional evidence to support our contention.

These latter indexes are not included because of their real importance; they are included only because they are frequently used by others as being important -- much more important than we think they are.

Summary Table

Indexes of Foreign Exchange - Wholesale Price Relationships
for the United States and for the United Kingdom(Weighted (a) by Imports, (b) by Exports,
(c) by Total World Imports, and (d) by
an Average of the three Weights)

(1936 = 100)

	United States				United Kingdom			
	Import Weights	Export Weights	World Imports Weights	Average	Import Weights	Export Weights	World Imports Weights	Average
1936	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1937								
September	104.7	109.4	101.6	105.2	94.4	103.0	91.7	96.4
October	105.7	111.1	103.2	106.7	94.4	103.0	91.2	96.2
November	106.9	113.2	105.2	108.4	94.6	103.6	91.6	96.6
December	108.9	115.1	107.0	110.3	94.7	104.3	92.1	97.0
1938								
January	110.6	117.2	108.3	112.0	94.6	104.0	91.9	96.8
February	112.2	118.0	109.1	113.1	95.4	105.0	92.9	97.8
March	111.0	116.0	107.6	111.5	96.0	105.6	93.7	98.4
April	112.6	116.0	108.2	112.3	96.5	106.1	94.3	99.0
May	110.5	115.0	107.6	111.0	96.6	106.6	94.4	97.2
June	110.2	113.9	106.9	110.3	97.6	107.5	95.6	100.2
July	108.7	112.5	105.4	108.9	98.2	108.7	96.1	101.0
August	107.9	111.6	105.2	108.2	99.4	109.4	97.1	102.0
September	106.1	109.8	103.3	106.4	101.0	111.2	99.1	103.8
October	105.9	109.4	102.9	106.1	101.6	111.5	99.5	104.2

For explanations and notes, see Appendix.

Table X

Indexes of "Purchasing-Power-Parity" between Leading
Countries and the United States for Selected Months
of 1937 and 1938

(1936 = 100)

	1936	1937		1938		
	Average	September	December	March	June	September
United Kingdom	100.0	92.3	88.4	89.1	91.1	96.4
Canada	100.0	94.8	91.2	88.7	91.1	97.5
France	100.0	122.4	118.6	125.1	132.5	138.7
Italy	100.0	125.1	111.2	111.5	106.8	106.1
China	100.0	90.7	78.4	81.1	114.4	110.6
Japan	100.0	90.0	82.7	77.9	76.2	78.7
Belgium	100.0	92.9	89.9	90.2	90.4	91.8
Denmark	100.0	94.3	88.1	89.7	91.9	95.7
Netherlands	100.0	105.1	99.1	99.8	100.7	104.8
Germany	100.0	106.5	100.1	97.1	95.7	96.4

Formula: $\frac{\text{Index of Wholesale Prices in the United States}}{\text{Index of Wholesale Prices in Second Country}} \times \text{Index of Rate of Foreign Exchange on Second Country - in New York}$

A decline in the index indicates presumably a less favorable competitive position of the country cited relatively to the United States ~~in each other country.~~

An increase in the index indicates presumably a more favorable competitive position of the country cited relatively to the United States ~~in each other country.~~

Table XI

Indexes of "Purchasing-Power-Parity" between Leading
Countries and the United Kingdom for Selected Months
of 1937 and 1938

(1936 = 100)

	: 1936 :	: 1937 :			: 1938 :	
	: Average :	:September :	: December :	: March :	: June :	:September :
United States	100.0	108.5	113.3	111.9	109.8	103.7
Canada	100.0	102.8	103.2	99.5	100.0	101.2
France	100.0	132.8	134.4	140.2	145.5	144.0
Germany	100.0	115.5	113.3	109.0	105.0	100.0
Japan	100.0	97.7	93.7	87.3	83.7	81.7
Belgium	100.0	100.7	101.8	101.1	99.3	95.3
Switzerland	100.0	133.3	130.4	128.2	125.3	121.8
Italy	100.0	135.6	125.9	124.7	117.3	110.1
Denmark	100.0	102.3	99.7	100.6	100.9	99.3

Formula: $\frac{\text{Index of Wholesale Prices in the United Kingdom}}{\text{Index of Wholesale Prices in Second Country}} \times \frac{\text{Index of Rate of Exchange of Pounds in terms of Dollars}}{\text{Index of Rate of Exchange of Currency of Second Country in terms of Dollars}}$

A decline in the index indicates presumably a less favorable competitive position of the country cited relatively to the United Kingdom, ~~in both countries.~~

An increase in the index indicates presumably a more favorable competitive position of the country cited relatively to the United Kingdom, ~~in both countries.~~

12

Information we Would Like to get from the British

In general we would like to learn the criterion, or criteria, by which the British Treasury is guided in its decisions with respect to the sterling price of gold. Does the British Treasury wish to achieve a lower sterling rate? How much gold does it regard as reasonable to lose before permitting the price of gold to rise one penny? Do they intend to permit sterling to rise as gold flows in in the same proportion as they let it fall when gold was flowing out? If the outflow of gold from England to France is the consequence of the improved situation which we have all been eager to promote, would an outflow of gold from London to France be regarded as justification for further declines of sterling with reference to the dollar?

It is probably too much to expect comprehensive answers from the British on the above questions even if they can give them -- and I think their technicians can. Yet these questions do not go beyond the spirit of the Tripartite Accord.

We would also like to have such of the following information as is available to the British Treasury. In all cases the information for which we are asking is either now available to the British Treasury or we would be glad to supply such information as we have that is not now available.

1. The loss of gold sustained by the Equalization Fund by weeks during the past three months and the amount the Fund contains now.
2. Estimate of the amount of gold in hoards in England and the amount estimated as added to the hoards since August 1, 1938.
3. Amount of gold earmarked in the United Kingdom for foreign account.
4. Information with respect to the foreign short-term banking funds now held in the London market broken down by leading countries, and changes which have occurred since August 1.
5. British short-term funds held in foreign countries other than the United States, classified by leading countries.

6. Monthly or quarterly figures showing security transactions in the London market for account of foreigners in British domestic securities and foreign securities.
7. Confidential estimate of the British balance of payments for 1938 as drawn up by the British Treasury.
8. Their position on forward exchange of leading currencies.

Appendix

Net Capital Movements
(In millions of dollars)

	: From Dec. 29, 1937 :		: From July 20, 1938 :		: Week ending :		: Week ending :	
	: to :		: to :		: Oct. 19, 1938 :		: Oct. 26, 1938 :	
	: Oct. 26, 1938 :		: Oct. 26, 1938 :		: Oct. 19, 1938 :		: Oct. 26, 1938 :	
Net flow of capital consisting of:	Inflow	249.3	Inflow	649.4	Inflow	105.9	Inflow	22.1
1. Banking funds	Inflow	167.7	Inflow	620.0	Inflow	94.4	Inflow	13.3
(a) Change in balances of foreign central banks and governments with the Federal Reserve Bank of N.Y.	Outflow	47.5	Inflow	83.4	Outflow	.7	Inflow	15.5
(b) Change in all other short-term balances (mostly private funds)	Inflow	215.2	Inflow	536.6	Inflow	95.1	Outflow	2.2
2. Net security transactions	Inflow	73.0	Inflow	35.4	Inflow	11.6	Inflow	9.9
(a) Domestic securities	Inflow	19.1	Inflow	23.5	Inflow	8.7	Inflow	11.8
(b) Foreign securities	Inflow	53.9	Inflow	11.9	Inflow	2.9	Outflow	1.9
3. Brokerage balances	Inflow	8.8	Outflow	5.8	Outflow	.04	Outflow	1.0

Net security transactions reported by the S.E.C.	Oct. 20 to 26	Oct. 26 to Nov. 8
	Inflow .8	Inflow .7

Addition to monetary gold stock, 12/31/37 to 10/28/38	+ 1,300.3
Net gold imports through October 28, 1938	+ 1,507.8
Net release of gold held under earmark for foreign account 12/29/37 to 10/26/38	- 240.1

November 15, 1938.

M E M O R A N D U M

Re: Sterling rate and
British trade agreement.

Yesterday at lunch I gave the President a copy of the talk between Bolton and Kneke that took place at 10:30. I said to the President, "I thought you ought to know this in view of the proximity of our signing the British trade treaty." I said, "My own feeling is that I'd like to wait until the British trade treaty is signed, because it means so much to Mr. Hull; but we're watching it from day to day and the drop which took place today and their attitude is very serious." I said, "I don't want you to feel that in any sense I'm putting you on notice, but I do want your advice as to how I can put the State Department on notice."

So he said, "Let me keep the memorandum."

Then I explained to him that the treaty was worked out on the basis of around 4.93 and now it was 4.70. He said, "Well, how low do you think it can go before it really hurts us, because so far our import-export business hasn't fallen off."

I said, "No, but that (sterling) falls off slowly (at first), but it gains momentum very rapidly and it's very difficult to stop."

So he said, "Well, just how low can the pound go before it (trade) drops?"

I said, "Well, we've been doing a lot of work on it." I said, "Very confidentially, it might go to 4.60 or it might even go to four dollars and a half without hurting us; but I don't want to say that to anybody else. We don't know. But we've done a lot of work on it."

So he said, "Well, now about the Canadian dollar? That isn't affected."

I said, "Not particularly. But from a competition standpoint," I said, "for example, it might help the Swedes to have a low sterling - they might get a distinct trade advantage where the English mightn't - or some other country in the sterling area." I said, "Furthermore, the sterling area does approximately one-third of the world's business."

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So the President said, "Very much between us" - he said, "I'd like to sign it." He said, "I can't get a trade treaty with Canada unless I get one with England, and I very much want one with Canada." And he said, "If you'll tell me that the Canadian dollar is all right, let's let this thing go." And he said, "We'll sign the British trade treaty, but when we sign it - and at the time of signing we'll put the British on notice."

Then, much to my surprise, Taylor phoned me at a quarter to seven last night, and it seemed that immediately after the four o'clock meeting the President sent for Mr. Sayre and asked him about this whole sterling business and put Sayre on notice, and told Sayre to put the British on notice; and we'll get the details from Taylor. Taylor asked me whether I was at the bottom of this. I said, why, yes, but I hadn't asked the President to do anything. And he said, well, he told Sayre - he, Taylor, told Sayre that my attitude was that I wanted to wait before doing anything until the British trade treaty was signed, I didn't want to interfere.

H.M.Jr.

(Following dictated by Mr. Taylor:)

Mr. Sayre called me over about a quarter of five last night and said that he had something that he'd appreciate if I'd come over for, but it was so important that he didn't want to tell me about it on the telephone. I went over to his office, and he and Hawkins and Pasvolsky were there. Mr. Sayre said that the President had called him over, called his attention to the sterling rates, and said that he was very seriously disturbed about it, and asked Sayre what he would do if the rate, for example, went to 4.55 on the day that the trade treaty was signed.

Mr. Sayre was apparently asking for my advice as to what to do. I described to him what had happened in the market today, that the pressure had come largely from the conversion of sterling into francs: repatriation; told him the amount of business that had been done, but also said that there were a great many rumors going on, such as that there was a figure of 4.50 contained in the trade agreement; that we had had a great many inquiries over the past few days and quite a few of them today about the same rumor; and that until those rumors were stopped, which could probably only take place actually at the time that the trade treaty was

-3-

published, we didn't know very much what to do about it.

And he asked me what could be done about it, and I said, "Naturally, the British can hold the thing, unless it gets completely out of hand. If it gets completely out of hand, why, there isn't money enough in the stabilization fund to do it, on account of the large amount of foreign balances that they have there." I said, "However, that's - if they really want to try, why, they probably can. The other thing that could be done is that we - that we do it and they say, 'All right,' or a combination of those two."

He then wanted to know about seeing the British Ambassador, and I said, well, I felt that that would be certainly agreeable to us as it came up in connection with the trade treaty, and the President had spoken to him in connection with the trade treaty; but that we would be rather reluctant to do it at this time unless they asked us to, because your (H.M.Jr) feeling was that you wished to have a long conversation with the British after the trade treaty was signed. However, if, having talked to the British Ambassador, who in turn would naturally be asked to get the British on the other side to make a statement in connection with denying the fact that there was any exchange clause in the agreement - I mean any specific mention of a figure in the agreement - why, we'd see what happened, and that, having seen what happened, if they wished us to take it up with the British through another channel, why, I said naturally I thought we would be glad to do so but that that was entirely up to you and that I was merely giving them as far as the trade treaty part of it any suggestions which I could give.

He went to see the British Ambassador last night. He went there right after I left.

Telephone conversation between
Mr. Bolton of Bank of England,
London and Mr. Knoks of Federal
Reserve Bank of New York.

November 14, 1938
10:30 A. M.

Bolton: We are having a rousing time here as usual. We have decided to let the rate fall a little bit. Can't stand up very much longer. One of the reasons is the Jewish program in Germany. There are a great number of people on the Continent and in England who believe that the Government policy towards Germany will fail. There are a great number of persons who believe the coming by-elections will lead to a Government loss. The war fears are beginning to return to Europe. Foreign money is still leaving London and there is a development of large speculative accounts too. Having lost a very large part of our resources we have decided to try and reserve them a little. Can't afford to lose 240 to 250 million every day. Must conserve our resources. We feel that we can't at any rate keep the market as quiet and as orderly as we have in the past. We have shipped about \$150,000,000 gold to you and the fact that sterling is apparently on the down-grade is all very disappointing. We shall do everything we can to prevent the rate depreciating. I wanted to tell you this first before we do anything. Shall hold the rate above 4.70 today. We shall put in support at different levels. We shall send you a full and complete cable tonight.

Knoks: Shall we operate against your order?

Bolton: Yes, please.

RE FOREIGN EXCHANGE DEVELOPMENTS

November 15, 1938.
9:15 a.m.

Present: Mr. White
Mr. Lochhead
Mr. Taylor

H.M.Jr: Now, I told Taylor - he called me up - I told him I'd dictate this for my diary - said that he'd be here. I can't wait for him.

(Following material has also been transcribed separately in memorandum form, including that dictated by Mr. Taylor on pages 3 and 4)

Yesterday at lunch I gave the President a copy of the talk between Bolton and Knoke that took place at 10:30. I said to the President, "I thought you ought to know this in view of the proximity of our signing the British trade treaty." I said, "My own feeling is that I'd like to wait until the British trade treaty is signed, because it means so much to Mr. Hull. But we're watching it from day to day and the drop which took place today and their attitude is very serious." I said, "I don't want you to feel that in any sense I'm putting you on notice, but I do want your advice as to how I can put the State Department on notice."

So he said, "Let me keep the memorandum." He said - then I explained to him that the treaty was worked out on the basis of around 4.93 and now it was 4.70.

He said, "Well, how low do you think it can go before it really hurts us; because so far our import-export business hasn't fallen off."

I said, "No, but that falls off slowly, because it (sterling rate drop) gains momentum very rapidly and it's very difficult to stop."

Do you agree with me, Harry?

White: Yes.

H.M.Jr: So he said, "Well, just how low can the pound go before it (trade) drops?"

I said, "Well, we've been doing a lot of work on it." I said, "Very confidentially, it might go to 4.60 or it might even go to four dollars and a half without even hurting; but I don't want to say that to anybody else. We don't know, but," I said, "we've done a lot of work on it."

So he said, "Well, now about the Canadian dollar?" So he said, "That isn't affected."

I said, "Not particularly, but," I said, "from a competition standpoint," I said, "for example, it might help the Swedes to have a low sterling. They might get a distinct trade advantage, where the English mightn't; or some other country in the sterling area."

I said, "Furthermore, the sterling area does approximately one-third of the world's business." I'm using Dorothy Thompson's figures.

White: That's roughly

H.M.Jr: I said approximately.

So the President said, "Very much between us.." - he said, "I'd like to sign it." He said, "I can't get a trade treaty with Canada unless I get one with England, and I very much want one with Canada." And he said, "If you will tell me that the Canadian dollar is all right," he said, "let's let this thing go and we'll sign the British trade treaty, but when we sign them and at the time of signing we'll put the British on notice."

Then, much to my surprise, Taylor phoned me at quarter to seven last night, and it seemed immediately after the four o'clock meeting the President sent for Mr. Sayre and asked him about this whole sterling business and put Sayre on notice, and told Sayre to put the British on notice; and we'll get the details from Taylor.

Taylor asked me whether I was at the bottom of this. I said, why, yes, but I hadn't asked the President to do anything. And he said, well, he told Sayre - he, Taylor, told Sayre that my attitude was that I wanted to wait before doing anything until the British

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trade treaty was signed, I didn't want to interfere.

(Taylor comes in)

H.M.Jr: (On phone) Hello. Miss Chauncey on the phone.

Tell Taylor just, Archie, very briefly what

(On phone) The letter I wrote Mr. Hull, a letter forwarding a memorandum from Oliphant.

White: The British delegation have made another last minute request to change some of the terms of the agreement of a minor - rather minor importance. But that they have asked us about; I won't raise the question, because it's too minor, but it's interesting to know.

H.M.Jr: Do you (Taylor) want to tell the boy now? You got what I did...

Taylor: Yes.

H.M.Jr: ... with the President. And do you want to tell him of your conversation?

Taylor: Yes.

Mr. Sayre called me over about quarter of five last night and said that he had something that he'd appreciate if I came over for, but it was so important that he didn't want to tell me about it on the telephone. I went over to his office, and he and Hawkins and Pasvolsky were there. Mr. Sayre said that the President had called him over, called his attention to the sterling rates, and said that he was very seriously disturbed about it, and asked Sayre what he would do if the rates, for example, went to 4.55 on the day that the trade treaty was signed.

Mr. Sayre was apparently asking for my advice as to what to do. I described to him what had happened in the market today; that the pressure had come largely from the conversion of sterling into francs, repatriation; told him the amount of business that had been done, but also said that there were a great many rumors going on, such as that there was a figure

of 4.50 contained in the trade agreement; that we had had a great many inquiries over the past few days and quite a few of them today about the same rumor, and that until those rumors were stopped, which could probably only take place actually at the time that the trade treaty was published, we didn't know very much what to do about it.

And he asked me what could be done about it, and I said, "Naturally, the British can hold the thing unless it gets completely out of hand. If it gets completely out of hand, why, there isn't money enough in the stabilization fund to do it, on account of the large amount of foreign balances that they have there." I said, however, that if they really want to try, why, they probably can; that the other thing that could be done is that we do it and they said "All right," or a combination of those two.

He then wanted to know about seeing the British Ambassador and I said, well, I felt that that would be certainly agreeable to us as it came up in connection with the trade treaty, and the President had spoken to him in connection with the trade treaty; but that we would be rather reluctant to do it at this time unless they asked us to, because your feeling was that you wished to have a long conversation with the British after the trade treaty was signed. However, if, having talked to the British Ambassador, who in turn would naturally be asked to get the British on the other side to make a statement in connection with denying the fact that there was any exchange clause in the agreement - I mean any specific mention of a figure in the agreement - why, we'd see what happened, and that, having seen what happened, if they wished us to take it up with the British through another channel, why, I said naturally I thought we would be glad to do so, but that that was entirely up to you and that I was merely giving them, as far as the trade treaty part of it, any suggestions which I could give.

H.M.Jr: Well, did you gather he would or would not see the British Ambassador?

Taylor: Oh, he went to see him last night. He went there right after I

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H.M.Jr: Well, would you ask him to let me have a copy of the memorandum which he undoubtedly made of his conversation with the British Ambassador? I'd like - because the State Department does that; I'd like to have that.

Taylor: Yes.

H.M.Jr: You see? What he did and what he said. I'd like a copy of that memorandum.

Taylor: He went right over there after I left.

H.M.Jr: (Quoting from attached clipping) "Officials Expect Anglo Trade Pact To Bolster Pound." This is the Wall Street Journal. "No Devaluation Provision in U. S. Treaty. Announcement Due Thursday. - As the British pound sank yesterday under the heaviest selling wave since the September war scare, it was stated on the highest authority in Washington that the forthcoming Anglo-American trade agreement would contain no provision for devaluation of sterling. Rumors of such action have agitated foreign exchange markets for some time past."

Now where does that come from?

Taylor: They put out a leak there yesterday evening.

H.M.Jr: But that's not for me; that's State Department.

Taylor: State Department leak.

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

Then - "French Decrees..... - Reaction of the foreign exchange market and the Bourse to the new decree laws promulgated over the week-end was very favorable. - ... French Treasury bills were in strong demand."

Now, one other thing before this other group comes in. In this envelope to me - it's significant how it was addressed, so keep it - at one o'clock, Mr. Hamilton, of the Far East Division of the State Department, delivered to me a two-page memorandum (this deals with another subject - transcribed separately).

DEPARTMENT OF STATE

11

ASSISTANT SECRETARY

Dear Wayne,
Here's the
memo. you asked
for.

F. B. S.

(See also my sent by Suiy Hull
to H.M.S. m. 8. 29)

DEPARTMENT OF STATE

Memorandum of Conversation

DATE:

November 14, 1938.

SUBJECT:

Signing of the British trade agreement
and decline of pound-dollar rate.

PARTICIPANTS:

Sir Ronald Lindsay, British Ambassador;
Mr. Sayre.

COPIES TO:

I called on the British Ambassador very informally at the British Embassy at 5:30 this afternoon. I told the Ambassador that I wanted to speak with him unofficially and informally, and then proceeded to tell him of my conversation with the President this afternoon in which the President expressed his anxiety concerning the decline of the pound-dollar rate. The rate fell today to \$4.70 and the President had said to me: "What will we do if the pound should drop to \$4.55 on Thursday morning?" After telling the Ambassador of the President's anxiety, I suggested that he might want to cable at once to London to see if steps could not be taken to sustain the pound, particularly during the coming few days. The Ambassador said

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said that he would gladly do so at once.

I also spoke to the Ambassador about the rumor which is circulating to the effect that the trade agreement contains a provision stabilizing the rate of the pound at \$4.50. In order to prevent the depressing effect of such a rumor, I said to the Ambassador that with his permission we would give out a statement this evening denying that the trade agreement contains any such provision. I suggested that he might also think it advisable to have such a statement given out at once in London. The Ambassador at once agreed.

I also gave to the Ambassador a copy of the statement which Secretary Hull expects to read at the time of the signing of the trade agreement.

I told the Ambassador that we plan to have the trade agreement signed at the White House on Thursday afternoon and that the President had requested that the hour be set at four o'clock.

A-8 FBS:ABW

Officials Expect Anglo Trade Pact To Bolster Pound

Sterling Dropped in Markets Yesterday—No Devaluation Provision in U. S. Treaty Announcement Due Thursday

As the British pound sank yesterday under the heaviest selling wave since the September war scare, it was stated on the highest authority in Washington that the forthcoming Anglo-American trade agreement would contain no provision for devaluation of sterling. Rumors of such action have agitated foreign exchange markets for some time past and contributed substantially to the weakness in the pound.

Two other major factors contributed to yesterday's break in sterling which closed in the New York market at \$4.71 1-16, off 1 13-16 on the day: (1) fear that the anti-Semitic outbreak in Germany would render impossible any policy of Anglo-German cooperation; (2) heavy selling of sterling and purchase of francs by French interests as a result of favorable interpretation of the Daladier Cabinet's new economic decrees.

From THE WALL STREET JOURNAL Washington Bureau
WASHINGTON — High Administration officials hope that announcement of an Anglo-American trade agreement—expected by Thursday of this week—will have a stabilizing effect upon the pound sterling, which has been slipping badly in terms of dollars.

It was stated on excellent authority here last night that the text of the pact will contain no specific mention of monetary matters other than the usual "escape" clause whereby concessions may be cancelled in the event of abnormally wide exchange fluctuations. This statement effectually disposes of recurrent rumors that the trade pact would provide for further devaluation of the pound.

At the same time, highly placed officials emphasized that they believed the U. S.-British agreement will be a strengthening factor in the existing tri-partite monetary accord between the United States, Great Britain and France.

Watching Exchange Situation

Officials here are giving constant attention to the foreign exchange situation, and it is indicated that in the event the publication of the trade agreement fails to lift pressure on the pound, some other ideas might be brought into play to relieve the situation.

So far as can be ascertained here, no official word of any change in the relationship in the dollar and pound in foreign exchange is contemplated by London. Persistent rumors of a devaluation of the pound in \$4.50 are not taken seriously by Washington.

The Washington opinion is based upon two important considerations:

1. It is stated here Great Britain stands to lose more than she will gain by a devaluation, because of the need to buy abroad for her armament program.

2. Probably more important, a devaluation by Great Britain would cause countries whose currencies are now tied to the pound to withdraw balances from London in favor of some other currency, implying probably that the dollar might be the alternative.

Secretary of the Treasury Morgenthau at his regular bi-weekly press conference yesterday.

Please turn to page 6, column 3

Anglo Trade Pact

(Continued from First Page)

stated that no word had been received by him from Great Britain of any change in the pound. He further stated that the French revaluation of gold holdings was a domestic matter and would not interfere with the operation of the tri-partite agreement.

Heaviest Selling Since War Scare Hits Pound

Sterling declined yesterday under the heaviest selling wave to sweep over the foreign exchange market since the European war scare in September.

Heaviest gold losses by British authorities since that period were indicated as large official buying orders for sterling were thrown into the markets both here and abroad to stem the fall of the British pound.

Four factors were held responsible for the sterling break:

1. Fast growing belief that the latest anti-Semitic excesses in Germany make continuance of the "appeasement" policy of Prime Minister Chamberlain almost impossible.

2. Persistent reports, largely from the Continent, which were scouted in London and categorically denied in Washington, that the terms of the Anglo-American trade treaty will contain a minimum level of around \$4.50 beyond which the pound will not be allowed to fall—if not some sort of stabilization at that level.

French Revaluation Factor

3. Considerable selling of sterling and buying of francs by French interests during the morning, following announcement of the decree laws.

Early morning cables from London and Paris were confusing as rates were received showing as high as \$4.74 in London and as low as \$4.72 in Paris. The market opened here at \$4.73, which later proved to be the high for the day, sold down to \$4.70 8-16 and closed at \$4.71 1-16 for a net loss of 1 13-16 cents.

So heavy was the selling pressure that the American stabilization fund was forced to intervene in the morning. The fund was forced to lower its bid several times so great was the volume. This is unusual inasmuch as ordinary technique is for British authorities to control the market so long as London is open with American authorities coming in if needed in the afternoon here.

Unofficial estimates indicated that the American stabilization fund bought at least \$2,000,000, an unusually large amount for this market. The British control, it is believed, absorbed considerably more which indicates large official gold losses.

In addition, official reports showed that \$6,700,000 gold was engaged in England yesterday for shipment to New York on private account, the largest taking for any one day since the war crisis abated. Engagement of \$700,000 from Holland also was announced.

The local market placed particular emphasis upon the political repercussions arising from the Jewish persecutions in Germany. The obstacle which it offers to Chamberlain's appeasement program means rearmament in England must be accelerated still further and in view of the current heavy deficit in British government accounts and state of Britain's balance of international payments, this means still heavier pressure upon the pound sterling in world markets.

Cabled advices from the London correspondent of The Wall Street Journal showed that financial London concurs in this view and it was noted here that the heaviest selling came from London itself.

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WALL
STREET
JOURNAL

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NOV. 15
1938

French Decrees Viewed Favorably; Capital Returns

Sterling Sold Throughout Day
—Rentes Active and Higher
On Bourse

Labor's Reaction Is Awaited

By CHARLES R. HAGROVE

PARIS—Reaction of the foreign exchange market and the Bourse to the new decree laws promulgated over the week-end was very favorable. The market sold sterling throughout the day and the French Exchange Control is estimated to have acquired £3,000,000 to £5,000,000. Premiums on forward sterling sank to around 50 and 250 centimes for one and three months.

Early sales of dollars in London were also attributed to repatriation of French balances via London and it was noted that when these ceased, the dollar gained immediately on sterling under selling of sterling from English, American and other accounts.

The decree laws abolish virtually all remnants of the rigid and compulsory 40-hour week and repeal government control of wholesale and industrial prices, retaining retail price control, however. Extraordinary armament expenditure will be financed by loans. Additional direct and indirect taxes are provided. Drastic reduction in swollen government and railway personnel is planned.

Treasury Bills Strong

French Treasury bills were in strong demand Monday. Expectation prevails that French capital will continue to return and to produce an appreciable cheapening of short and then long term money rates. The rate on one year Treasury bonds was reduced to 3½% from 4% during the morning and it is likely that the discount rate of the Bank of France and the Treasury bill rate will be lowered soon.

The main activity on the Bourse was in Rentes where rises of 1 to 5½ francs were registered. The 1920 redeemable fours were up 4.50 francs owing to the dissipation of fears of suspension of annual drawings and the 1925 exchange guaranteed 4's were up 5.40 francs owing to their restoration into the category of bearer securities.

French equities were firm, especially Bank of France shares, while internationals were weak.

The government announced there will be no further decree laws. Pensions for aged workers and other measures involving new expenditures will be submitted in the ordinary legislative process.

Labor's Reaction Awaited

Labor's reaction to the decree laws is awaited here with interest but the Labor Federation, which is holding its annual congress, has not yet determined upon its attitude. It is certain to protest the fiscal burden which has been laid upon the workers, including especially the special 2% income tax levy on wages without basic deductions or abatements.

Hitherto, annual wages up to 10,000 francs had been exempt while the tax on the second ten thousand had been only 1% and actually, owing to family and other deductions, the vast majority of workers escaped entirely.

The workers are also hit hard by an average 15% increase in coffee, sugar, wine, tobacco and gasoline taxes and subway and omnibus fares.

Nevertheless opposition to the fiscal and social reforms is not expected to be serious if Reynaud's plan brings capital home and stimulates business which registered a distinct revival in certain branches, including textiles, during October.

French Budget Estimates

Estimate for the 1939 national and local budgets in France prior to the Reynaud plan show total expenditures of 137,000,000,000 francs.

This is made up as follows: The state's ordinary budget accounts for 64,500,000,000 francs and extraordinary expenditures 29,500,000,000 francs of which 25,000,000,000 are for armament. In addition are 7,500,000,000 francs for the sinking fund, 24,000,000,000 francs for local governments, 5,500,000,000 francs for public works while the railroad deficit will call for 6,000,000,000 francs more.

Ordinary budget revenues of the state are estimated at 56,000,000,000 francs, while sinking fund will bring in 7,500,000,000 and local revenues are estimated at 22,000,000,000 francs, or a total revenue, state and local, of 85,500,000,000 francs.

The deficit, therefore, amounts to 51,500,000,000 to which must be added sundry charges bringing the total somewhere between 54,000,000,000 and 55,000,000,000 francs.

Yield of New Taxes

The new taxes imposed by Finance Minister Reynaud are expected to yield 10,000,000,000 francs additional revenue and progressive economies will lop off about 5,000,000,000 francs from expenditures mainly through public works suspension and eventual debt retirement. The normal increase in revenue due to recovery is expected to bring in another 5,000,000,000 to 6,000,000,000 francs of revenue, leaving 34,000,000,000 francs including the 25,000,000,000 armament expenditure to be covered by loans.

Of the ordinary budget expenditure totaling 64,500,000,000 francs, debt service amounts to 15,100,000,000 francs and pensions 13,500,000,000 francs, or together 28% of total expenditures. Civil and military personnel will cost 16,770,000,000 francs, subsidies 7,640,000,000 francs and military and civil supplies 3,000,000,000 francs.

The Finance Minister points out that debt service, pensions and wages amount to 80% and military expenditure 22% of expenditures.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 15, 1938

TO Secretary Morgenthau
FROM Mr. Taylor

The French Financial Attache called at noon today to say good-bye, as this time he is really sailing. He explained that his sailing before had been delayed as Marchandeu had felt that his presence was desirable here in case Marchandeu were able to announce decrees embodying his policy before November 15th. He then stated that the Reynaud program represented the last chance for a free economy and that if this attempt failed, exchange control and other forms of control were inevitable.

He then discussed the position of the pound at some length, the various rumors which were in circulation and possible methods which could be evolved to guard against or discourage the type of capital movement which has marked the past few years. He indicated that inasmuch as the franc was very closely tied to the pound that weakness or instability in the pound could not fail to affect french economy; that we were not affected to the same extent, but that in the field of our agricultural exports the value of the pound was extremely important to us.

In return, I explained to him the fact that the exchange clauses in the proposed British agreement were similar to those contained in the French agreement, that all these clauses had been evolved prior to the Tri-Partite Agreement and that our feeling was that the Tri-Partite Agreement offered a much more satisfactory and flexible mechanism for discussing currency relationships than the trade agreement, particularly as capital movements had played such an important part in the currency fluctuations of recent years.

W.C.T.

16-A

GROUP MEETING

November 15, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Gibbons
Mr. Duffield
Mr. White
Mr. Lochhead
Mr. McReynolds
Miss Chauncey

H.M.Jr: Does anybody know - White, listen to this, please - why I shouldn't ask Mr. Hull when I may expect a letter in answer to my letter of October 31, which is: "Recent information coming to the Treasury Department from responsible quarters, indicating that practices in connection with exports from Germany to the United States"

Is there any reason why I shouldn't ask him?

Oliphant: I think we should ask for an answer.

H.M.Jr: Just a question - "When may I expect an answer?"
Huh, Wayne?

Taylor: (Nods "Yes.")

H.M.Jr: (To Mr. Kieley:) Would you call up Mr. Hull's office and say, "When may I expect an answer to that letter?" And then give that letter back to Miss Chauncey, please.

Taylor: In the conversation I had with him, I emphasized a great desire to have an answer on it. That was last Wednesday.

H.M.Jr: Well, the thirty-first was - well, it's sixteen days.

Taylor: Last Wednesday was the day I went to this meeting.

H.M.Jr: This doesn't in any way embarrass you?

Taylor: Not a bit.

White: There was a sub-committee appointed to examine that.

Taylor: That's all right. That is, they are going to give a first answer, which

H.M.Jr: But I am entitled to an answer, unless Wayne said to me, "I am carrying the ball for you," or something like that.

Taylor: I particularly emphasized that you did want an answer, and they sat in at - in March when they were studying certain other aspects of it, that was agreeable to you too.

H.M.Jr: They put the pressure on me all the time, and when I said I wanted it by one o'clock yesterday, at five minutes past one, I got Mr. Hull's answer on these things.

White: It is my understanding that Secretary Wallace favors the step.

H.M.Jr: He favors it?

White: Favors your contemplated step, inasmuch as he is definitely affected by the cotton phase; I mean the definite situation.

H.M.Jr: Wayne, are you doing anything at ten thirty this morning?

Taylor: No.

H.M.Jr: Well, you go with me to Wallace; I think Hull's going to be there, on this Agriculture - it's a combination of State, Agriculture, etc. Have a piece of pencil in your pocket, and paper, so you can write up what happens for me when we come back.

One other thing here - Bond Market Gossip, New York Journal (of Commerce) comments, "U. S. Housing Issue. With a twenty-five million dollar issue of United States Housing Authority bonds expected in the next few weeks" Mr. Oliphant, you were going to see their lawyer.

Oliphant: He was over to see me Saturday; he had nothing new to offer. He didn't - we couldn't get any bid - Ed (Foley) saw him with me - we couldn't get him to face the fact for the bonds to sell - talking about local bonds now - to sell at any such rates. The public would have to be misled, and it was left like that. He is coming back to see me today.

H.M.Jr: Well, you

Oliphant: We're still discussing the letter you propose to send the President.

H.M.Jr: All right. I've waited again two and a half weeks, and at tomorrow morning's meeting, I'll send a letter to the President. I mean, if you will bring in a letter.

Oliphant: I'll bring it in tomorrow.

H.M.Jr: And before you bring it in, let Taylor see it, and perhaps let it work around.

Oliphant: I'll have it around, and have it initialed.

H.M.Jr: Twenty-four hours from now I want a letter to send to the President.

Oliphant: I'll have it around; have it initialed, and in by nine thirty in the morning.

H.M.Jr: Will you tell him to tell Mr. Straus I am going to send a letter tomorrow morning?

Oliphant: Yes.

H.M.Jr: Or should I tell Straus?

Oliphant: I think you'd better tell Straus, since he

Chauncey: (Low to H.M.Jr:) Mr. Straus telephoned you yesterday to say he had just gotten back in town, and in the meantime Mr. Keyserling was discussing it with Mr. Oliphant.

H.M.Jr: Will you call up Mr. Straus' secretary and tell him at nine thirty tomorrow morning - I am meeting with my staff at that time and we are going to

decide on a letter, and if he wants to see me between now and nine thirty tomorrow morning I am available. I am available if he wants to see me. Between now and tomorrow morning it will - she blows.

Oliphant: I have here a memorandum of our conversation with Herring, and if you want it for your files

H.M.Jr: (Nods "No.") Yes. Yes, please. Just a second.
(Reads memorandum.)

Gene, does it do anything except just put me on notice? This memorandum.

Duffield: No. I was going to bring it up in the bank meeting.

H.M.Jr: Do I do anything about it?

Duffield: I shouldn't think so.

H.M.Jr: (To Miss Chauncey:) Better send it to the house so I'll read it.

Duffield: I was going to bring it up in the bank meeting.

H.M.Jr: While we're on the banking thing, what about Cy? Is he waiting, or are we waiting.

Duffield: There is to be a meeting of the banking group on Wednesday. Mr. Hanes called it before he left. At that time we will try to get an answer to the Director's letter, and as much else as we can do. We've got quite a number of things to do.

H.M.Jr: (To Miss Chauncey:) Will you call up Mr. Kannee and tell him (low)

Duffield: Mr. Hanes will be absent from that banking meeting for a while.

H.M.Jr: If we go at two? Isn't he back tomorrow morning?

Duffield: Yes.

H.M.Jr: Can't we meet some other time?

Duffield: Yes.

H.M.Jr: And, Mac, I think we ought to tell that National Resources Fiscal Committee to come back at ten fifteen next Monday.

McReynolds: Yes.

H.M.Jr: And the President took that memorandum, and liked it, and I think he will give it out this afternoon, on the National Fiscal Committee, and he gave me a fifteen minute rehearsal on what he would say - tried it out on me.

White: In addition?

Gaston: Was he going to use the text exactly or was he going to talk off-hand?

H.M.Jr: I think he's going to have it formal.

White: And supplemented with his own remarks?

H.M.Jr: Yes. He is very much interested.

Gaston: Did you change it much? Was it an entirely new draft?

H.M.Jr: Yeah. (To Miss Chauncey, low) Give one to Gaston.

It's half a page - but he likes it. He thinks it's all right.

Just to keep you people informed, you know Friday I was a bad boy at Cabinet, because I kept asking Wallace what was the two-price plan, and the President was very much annoyed at me, but I was doing it to protect him, because Wallace had it all fixed. Wallace was going to see these mattress people and give them hell because they wouldn't cooperate, and the President was going on the air. The President got quite annoyed because I kept saying, "What is the plan?" Wallace couldn't say because he had no plan. This is, naturally, nine-thirty stuff. Then he sends for Wallace Saturday and goes through what I did. He's very much annoyed with him. He asks me Monday, "What has Wallace got in mind?"

I said, "Mr. President, I was trying to demonstrate to you at Cabinet Friday. I know you didn't like it. Wallace didn't know himself." He said, "You'd better go over there this morning and help him out." So I've got to go over there. I said to the President that I never knew very much about corn and hogs; I never could understand it; I know wheat and cotton. And he said, "You've got to do something," so I said, "Well, if I am going to do anything, the first thing I am going to do is insist that the plan we had last summer, where the surplus products were given to the three million people on relief, be reestablished. Because the minute my back was turned, that plan was cancelled, and if I followed the technique of the other people, I would rush in and tell Kintner and Alsop the minute they turned their backs. The minute I turned my back Harry went to Wallace and said they couldn't do it because that is admitting everything you have done is wrong, and, naturally, that is right. On the basis of what Hopkins said

Oliphant: That was after it was fully developed, wasn't it?

H.M.Jr: (To Mr. Haas:) You heard it; wasn't you there?

Haas: (Nods "No.")

H.M.Jr: Well, Miss Lonigan was there; she heard Hopkins tell this.

Haas: I think the notes are complete on that meeting.

H.M.Jr: If we feed the undernourished the surplus food stuffs, that was admitting the plan was a flop, and we'd better not do it.

Haas: They had a conversation afterward.

Oliphant: The truth was - it was admitting it, and we had better do it.

H.M.Jr: I told the President yesterday that any plans would have to stop with taking care of the people; I ^{start} said we have still got three million families and haven't got enough.

Gibbons: So did the E. R. B.

H.M.Jr: What?

Gibbons: So did the E. R. B., - said it in New York yesterday.

H.M.Jr: You can underwrite that, can't you, Wayne? That they should be taken care of first? If we've got surplus food let's take care of them first.

Taylor: God yes!

McReynolds: And give it to them; don't make a two-price plan out of it.

H.M.Jr: We gave away a million mattresses last year to those people.

Taylor: On that subject, I refer you to some remarks that I made about little pigs, back in 1933.

H.M.Jr: Well, I go back to the fall of '32, when Bill Myers and I had a program. I still think it would have worked.

Oliphant: Well, I have

H.M.Jr: This is - when I got to talking yesterday about this other thing, all this barter trade stuff - don't ever breathe any of this - he said - talking to the President- "What do you think I'd better do?" I said, "You'd better send for George Peek, Mr. President."

Taylor: I think he's coming back to town this week. (Laughter)

H.M.Jr: I said, "You'd better send for George Peek."

Oliphant: That's that note of the conversation, and then here is a full file on yesterday, if you want it.

H.M.Jr: Very much.

Oliphant: And then, here are a couple memoranda we worked out in conference.

H.M.Jr: Fine. I think - don't you think we ought to send Johnson a copy of this?

Oliphant: I said I'd like not to until I go over it with these technicians because I didn't have much time to go over policies.

H.M.Jr: All right.

While we're on this Army stuff, I suppose it's unnecessary to say this, but if by chance anybody in the nine-thirty group should happen to own any airplane stock, I'd appreciate it if they would divest themselves of it. I don't suppose anybody does, but inasmuch as I am up to the thing to here (indicates lower lip) with the President, it would be embarrassing to me if anybody who worked closely with me had any. As I say, it is most likely unnecessary, but it is just to protect myself, and I just pass it out. I am not looking at anybody; I am just

Haas: The market's good for anything.

Taylor: I've got three shares of it I've had since 1937, I haven't changed; will I have to change it?

H.M.Jr: Yeah.

McReynolds: I made my wife sell ten shares of airplane stock she had the other day.

H.M.Jr: Did you? Good.

Oliphant: I wish you'd looked at me.

That's all I have.

H.M.Jr: You made your wife sell ten shares?

McReynolds: Yes. I didn't - I don't know that it amounted to anything, but I just thought the situation might

Oliphant: Sounds like control to me.

H.M.Jr: What?

Oliphant: Sounds like control to me.

H.M.Jr: How?

Oliphant: She had control of ten shares.

H.M.Jr: Well, I just thought I'd mention it.

Oliphant: That's all I have.

Gaston: I haven't anything.

H.M.Jr: What time is the President's press conference?

Gaston: Four o'clock.

H.M.Jr: (Nods to Haas.)

Haas: These are the

H.M.Jr: Excuse me a minute. I saw Kintner at this dinner last night, and I said I would work with him. He asked me. And if they want to come up to the house at four o'clock Saturday - and then if you'd confirm it, and send a little note so I'd know of it.

Gaston: Four o'clock, Saturday. Yes.

H.M.Jr: I'll be there.

Haas: These are the men that are coming down for this meeting at ten o'clock.

H.M.Jr: George, I don't know whether I want to see that group or not.

Haas: All right.

H.M.Jr: You care whether I see them or not?

Haas: No. I think it would be nice if you drop in, but it

H.M.Jr: Well, let's see how the day goes by, huh? See how long Mr. Wallace keeps me.

Haas: There are two who couldn't come. Colonel Ayers is down at the bankers meeting at Houston, and Mr. Edie's daughter is ill.

H.M.Jr: Incidentally, I thought your report on business this week is particularly good, and I am sending the President a copy of it.

Haas: Thank you.

H.M.Jr: I am surprised to see how the new orders have jumped.

Haas: Yes, they have jumped considerably.

H.M.Jr: After I get the story from Curry - I am going to have him over sometime this week - I wonder if anything that he's got is in conflict with what we are doing, or whether it is supplemented, or is his stuff too far ahead?

Haas: No conflict at all; it is of a little different nature - a little different approach.

H.M.Jr: But does it supplement?

Haas: I think it supplements the underlying philosophy of the thing. I think "supplement" would be the best word. Some of the curves he's got are probably some we've got, and some of the other ones he's got we haven't attempted to estimate.

H.M.Jr: What I am getting at, was there anything he's got that could be incorporated into my weekly business forecast?

Haas: At certain times, yes.

H.M.Jr: Will you take a look at it?

Haas: Yes.

H.M.Jr: And in return, if he wants to look at what we've got let him do it.

Haas: You asked the other

McReynolds: I was just going to remark that probably your current information wouldn't be reflected in his predicted curves, would they?

Haas: No, not those that he was running away along, but the underneath - if there is an underlying funda-

mental development which he is talking about, which is more in the longer term trend of the present situation.

McReynolds: Well, there couldn't possibly be any conflict.

H.M.Jr: No, but this is here; why not get together with him? "This is what I am doing for Mr. Morgenthau; if you've got any suggestion - anything you've got that could feed in through my weekly report, I am sure he'd be tickled to death to have it."

Haas: I have been using some stuff that Turbo is preparing for him.

H.M.Jr: Fine.

Haas: There is a question - you asked for the other day - you may not need it now; you asked if I'd look up the notes - how these men estimated business, etc. Here they are. The average for this six months, which ends December 31, Lichtenstein, 80½; Hayford, 81; Naess, 81½; Ayres, 81; Roberts, 82½. That would run the ones that said 80 - about 80 - it would make December about 85. See? The group - the average for the group is 81, which would run somewhere, 85, 86, - somewhere for December.

H.M.Jr: Well, they'd be off about fifteen points, wouldn't they?

Haas: They'd be off quite a little.

H.M.Jr: Well - I mean, the Federal Reserve Index will certainly cross a hundred in December.

White: It wouldn't be off that much in the average. They'd be off a substantial amount, because you are dealing with perspective changes, and therefore, an error of ten per cent in the total is an enormous error.

H.M.Jr: They will be off ten per cent easily, because ten per cent of ninety would be nine points.

Haas: They are much too conservative, but, I mean, as business forecasting goes, they could have been

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worse, going in the other direction. I am not putting any case up for them, but working in this field for a long time, I don't think it is - what I was disappointed in is that all of them - they were too uniform in their guesses; there wasn't more variations was the disappointment.

H.M.Jr: Anything else, George?

Haas: They will be interested in knowing how the receipts are running with the estimates. Have you any objection to my showing them that, on those bubble charts.

Oliphant: The stuff on those charts are already published material.

H.M.Jr: Well, you know; if you think it's all right, it's all right with me.

Haas: Show them the number one - I mean, the number one, the one that has the totals.

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

Haas: That's all.

H.M.Jr: Harry?

White: (Nods "Nothing.")

Gibbons: We had the conference on the Czechoslovak marking yesterday - about thirteen different individuals representing a number of associations and manufacturers - importers rather, and we let them talk themselves out, and told them that just - that the marking was in accordance with the law.

H.M.Jr: I read the Times. The Times had a good story on it. I gather that you stood pat?

Gibbons: Yes; we simply told them

(Mr. Oliphant picks up Times.)

H.M.Jr: It's toward the back. Did they go away moderately happy?

Gibbons: Yes, the meeting was very agreeable. One of them said, "Well, of course, we thought we'd have sixty days, and I told our people to hum it up and turn out a hundred per cent." About a hundred twenty, he said. He was importing gloves, but he just simply thought we were going to give them thirty or ninety, or sixty days, you know, and that he'd bring all this stuff in. Some of them are going to take an awful licking, of course. It isn't our fault.

H.M.Jr: It's all right? I can forget it?

Gibbons: Yes.

H.M.Jr: Thank you. Wayne?

Taylor: (Nods "No.")

H.M.Jr: Leave about ten thirty?

Taylor: (Nods "Yes.")

H.M.Jr: Archie?

Lochhead: Sterling has been improving a little bit since the morning figure of 4.64; it's up to 4.69 3/4 on the bid side just now, and

H.M.Jr: For Pete's sake stay here, Archie, if it goes up while you're away from your desk.

Lochhead: The interesting point is that the French who have been keeping their rates against sterling at 178.90, are shifting their rates down from 178.90 to 178.31, which, in my opinion, is a much better technique than before. They are making the fellows pay up who are trying to get back in.

H.M.Jr: All right.

Gibbons: Incidentally, I think the Lauer investigation is going to involve this Central American envoy in New York.

H.M.Jr: Is it?

Gibbons: It's beginning to look as though it will.

Duffield: I don't have anything. I plan to be away from the building most of the day, unless you want me here. I want to do some scouting around.

H.M.Jr: Good. The newspaper men were going to ask me yesterday - that they criticized me in this A. B. A. I didn't see it.

Duffield: I've read the American Banker's stories; I didn't see it either.

H.M.Jr: I thought my answer was good.

Duffield: I did too.

H.M.Jr: I didn't see the story. I told them the Secretary of the Treasury could never take too much interest in the depositors in banks. I just couldn't take too much interest in protecting their interests.

Incidentally, I see this fellow Smith sounded off - the cashier of something.

Duffield: Yes. He's the Chairman of the National Bank Section of the A. B. A. this year.

H.M.Jr: I see he gave Mr. Oliphant quite a boost.

Oliphant: Where is that?

H.M.Jr: Today. He gave you a boost.

Oliphant: New York Times?

Duffield: That's all.

H.M.Jr: He's the cashier of the Bank of America, in case you don't know.

(Nods to Mr. McReynolds.)

McReynolds: (Nods "No.")

H.M.Jr: All right.

Haas: I forgot to report on one thing. I had a long talk with Lubin yesterday.

H.M.Jr: Yes ?

Haas: I am going to try to get out a memorandum we can jointly sign.

H.M.Jr: Is he interested?

Haas: Yes. I am going to have an interesting chart.

H.M.Jr: Is there such a chart in existence?

Haas: I had one when I took over, that we worked up, and then he made some suggestions, and so on. I was afraid of the figures, but he doesn't seem to be disturbed. He says there may be some errors, but they illustrate the points.

H.M.Jr: On that, they tell me there is a very good statistical section over in Social Security.

Haas: That's right.

H.M.Jr: They are running the figures on all people who get Government checks.

Haas: We are using the figures.

H.M.Jr: What I'd asked George to do was to work out something for me to show the relation of private employment to the number of people on the Government unemployment rolls. See? I mean, I got nothing that - I mean, I want to see if there is no correlation - as private employment goes up, do our rolls - number of people getting checks - go down? Is there any relation? I asked him to work out something.

Haas: There is no relation.

H.M.Jr: What?

Haas: There is no relation.

White: Well, have you noticed the monthly bulletins Social Security is putting out?

H.M.Jr: In the papers, yes.

White: I mean their monthly bulletin. It is a, very nice bulletin.

H.M.Jr: I only see press excerpts.

Haas: I'll send you in a copy of the bulletin.

H.M.Jr: Will you?

Haas: Yes.

H.M.Jr: All right, everybody.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 15, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knoke

I called Bolton at 9:50 this morning. Things were still very disappointing, he said. The dollar market had opened at 4.70 1/2; he had sold \$2,000,000 at that figure and another \$2,000,000 at 4.70 and had given £1,000,000 worth of gold at fixing. As the pressure against sterling continued, they had let the rate drop down to 4.69 and sold another \$1,000,000 there which had seemed to help matters. Since then the rate had picked up a little to about 4.70. His total losses for gold and dollars so far had been about \$11,000,000 compared with total losses yesterday of £11,000,000.

It was quite apparent from what he heard on the Continent that it was primarily the Jewish question which today was depressing the sterling rate. Some people were convinced that the British policy of appeasement with Germany had broken down and that as a result thereof a disturbing and anxious political situation was likely to prevail which, of course, would continue to cause the transfer of capital to the United States. If it weren't for these latest developments, Bolton seemed to think that they might have been able to hold sterling between 4.75 and 4.80 but now the expense of holding it there was too much for them to bear. He asked whether I had any indications as to whether Washington was seriously disturbed over this continued weakness of the sterling rate. I replied that I simply didn't know, not having been to Washington in many weeks, but that in my opinion our exporters would very definitely be disturbed and would almost inevitably press for heaven knew what kind of legislative measures

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 15, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knote

2

if sterling continued to drop. Bolton said that they fully realized all this, but the fund's reserves were getting low and close to the danger level and if they had to use the gold of the Bank of England the markets would become still more disturbed. He told me very confidentially that they were discussing certain restrictions now but that naturally they didn't want to introduce any measures which would upset the freedom of their markets. The question had been under discussion for many days and they would probably adopt one or two restrictive measures very shortly which they hoped would have no bad effect. They were by now definitely convinced that the reason for the weakness of sterling was of a political nature and that economic reasons at the moment were negligible. They were fully aware, he continued, that if sterling depreciated very much further it would upset the whole present economic structure and whatever they might decide upon now would be done only after the most deliberate consideration. However, as far as they could see now, there was no real hope of sterling becoming stronger until there was a real improvement in the political situation. It was getting more and more difficult for Chamberlain to carry out his present policy with Germany and, worse yet, there was a possibility of a political split in England in case the opposition should continue to be victorious at the polls at the coming by-elections. He was very anxious to discuss the present situation with me, he said,

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FROM L. W. Knoke

BANK OF ENGLAND.

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and keep us as fully posted as he could but had so much to do just now that he wasn't entirely free to call me all the time. I should, therefore, not hesitate to call him either at the bank or at home whenever I wanted further information.

As far as the franc was concerned, Bolton thought it was still firm and that Cariguel was still gaining though less than yesterday.

LWK:KW

RECEIVED
NOV 16 1938
FEDERAL RESERVE BANK
OF NEW YORK

19-A

RE PROPOSED CHINESE TUNG OIL LOAN

November 15, 1938.
9:40 a.m.

Present: Mr. Taylor
Mr. White
Mr. Lochhead

H.M.Jr: In this envelope to me - it's significant how it was addressed, so keep it - at one o'clock, Mr. Hamilton, of the Far East Division of the State Department, delivered to me a two-page memorandum of Mr. Hull's comments on my proposed loan against tung oil.

There was also, backing up Mr. Hull's memorandum, a long letter from Dr. Hornbeck.

The President read it. He was very much disturbed. Mr. Hull would not go along. Was very emphatic. And the President said, "Let me keep it, and I'll discuss it with Mr. Hull."

But in Mr. Hull's memorandum there was nothing new that he didn't say to us at the time we called on him. But I've got nothing here now - I mean I've got nothing to go by. So the matter now rests with Mr. Hull.

19-B
Wigent

From the Secretary of State
to the Secretary of the Treasury
and the President.

19-B

REB

PLAIN

London

Dated November 15, 1938

Rec'd 3:25 p. m.

Secretary of State,
Washington.

1317, November 15, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Available statistics for October including the overseas trade returns published today are being widely scrutinized for signs of trade revival but it is still difficult to disentangle the crisis effects from more fundamental trends and seasonal fluctuations. A slight drop in unemployment between September 14 and October 17 was less than the usual seasonal movement though it included small improvements regarded as encouraging in the coal, cotton, wool, iron and steel trades. Railway traffic continues to decline and the shipyards continue to launch tonnage which is not replaced by new orders. The export returns recorded a seasonal increase which was less than usual with figures for exports of ships and machinery still at high levels reflecting the length of time between orders and deliveries rather than a maintenance of business at last year's high levels. Imports seasonally increased but

REB

2-/1317, From London, Nov. 15, 7p.m.

but by less than usual especially in the case of raw materials. The more favorable terms of trade combined with the high level of engineering exports produced a reduction in the total adverse merchandise balance for the ten months which was £329 million as compared with £341 million for the corresponding period of 1937, an improvement undoubtedly more than offset by reductions in shipping and investment income.

The second successive increase in steel output brought the October figures to 854 thousand tons or about 75 per cent of the figure for October 1937 as compared with the low of August of 658 thousand tons or about 66 per cent of August 1937. This upturn in steel output must be regarded as due to restocking, armament activity having gradually influenced the inventory position. This movement is doubtless typical (though more marked) of certain other industries, especially those affected by armament demand. In the absence of a genuine upturn in commodity prices, the influence of restocking on industrial activity generally must be regarded as temporary. While wholesale prices have practically recovered to August levels any stimulus of rising prices on the business situation

REB

3-1317, From London, Nov. 15, 7p.m.

situation is absent while the cost of living remains high with no tendency for wage rates to decline.

The improvement in unemployment, export and steel figures is indicative of no more than a check in the basic downward trend, due in substantial measure to armament activity, without which general business would certainly be at much lower levels.

The policy of interfering as little as possible with industry in pursuing the armament program, together with the Prime Minister's optimistic statements regarding trade at the end of his Guildhall speech on November 9 gave rise to some improvement in stock exchange sentiment resulting especially in higher prices for gilt edged securities. This improvement in sentiment is now however practically wiped out by reactions to the events in Germany over the week-end.

KENNEDY

HPD

REB

PLAIN

London

Dated November 15, 1938

Rec'd 3:35 p. m.

Secretary of State,
Washington.

1318, November 15, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

(1). The dollar opened at 4.70 $\frac{3}{4}$ strongly bid particularly from Holland and Sweden and although the British authorities gave dollars freely at that rate the buying pressure did not immediately cease and about 10:30 A. M. they went out of the market. The rate moved to 4.69 and they came in again just as the Paris Bourse was closing and held the rate. When the Bourse reopened the French authorities changed their buying rate from 178 $\frac{3}{4}$ to 178 and this created some offering of dollars. Furthermore the strengthening of the pound in New York last night and the Trade Agreement announcement had made its mark and the rate gradually moved to close at 4.70 $\frac{1}{4}$. The heavy buying of dollars in the morning seems to have been mainly (a) speculative testing of the intentions of the British authorities after their precipitous retreat of yesterday and (b) the result of the overcast political horizon.

REB

2-#1318, From London, Nov. 15, 7p.m.

horizon. Sterling has become to an extraordinary degree a political currency which is made to register exchange traders estimates of the significance of political developments in terms of the United Kingdom's future prospects.

(2). The French fund acquired less sterling today than yesterday and even though it stimulated the movement into francs by lowering the buying rate from 178 $3/4$ - $1/2$ - $1/4$. Among city banking firms interested in France one aspect of Reynaud's measures is being particularly discussed, namely, whether the gold profit used to extinguish the Bank of France's advances still remains legally a facility which the French Treasury can draw on at some future date should the need arise. Incidentally it was expected here that Reynaud would use this gold profit largely as a means to meet future needs for the extraordinary budget and it is believed that he was prevented from so doing merely by the fact that Fournier put his foot down and got away with it. The conclusion is naturally drawn that Reynaud is in effect gambling to an important extent on the possibility that through French capital repatriation he will be able to obtain enough short term money to finance the extraordinary budget requirements for some time to come.

UPD

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 15, 1938, 6 p.m.

NO.: 1925

FROM COCHRAN.

This morning at half-past eleven I had a talk with the Bank of France. The French control had gained only 5,000 pounds by that hour. This evening at half-past five when I visited the Bank of France the control had taken in for the day the amount of 1,100,000 pounds, but in late trading it had been obliged to give up 100,000 pounds, leaving 1,000,000 for the net gain for the day. The Ministry of Finance had instructed that they were to improve the franc, lest it would be made to look too basically feeble by close adherence to a weak pound. It was believed that the merits of such tactics were quite questionable. Most of the trading yesterday and today my friend told me was professional, and it is too early to say what will be the effects in the monetary field of the program of Reynaud.

The rich people are vexed as it is because of higher taxes, and the poor people because the cost of living has increased. Blum's criticisms of the Government's plan have fanned the smoldering unhappiness of the poor people.

There is greater strength in the forward franc. Only slight gains in French rentes. Weaker French shares. The Government's program has therefore not had any

- 2 -

any enthusiastic and spontaneous reaction. The serious people nevertheless believe that it is the best thing that can be advanced in the circumstances, and that it will have to be accepted by the country, or there will be worse coming.

The representative of the Bank of Italy doubts the efficacy of the new plan. He fears a political crisis which would bring a Blum Government in power again, which in turn would result in riots and control of exchange.

Inside gossip of differences of opinion between two groups in the British Cabinet are the cause of part of the continental distrust of sterling; it is understood that 13,000,000 pounds were lost by the British control yesterday.

Today I was informed by Rueff that as yet no decision had been taken to set the date for convoking Parliament. In the press it is mentioned that this may take place soon after December 1.

END MESSAGE.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 15, 1938, 7 p.m.

NO.: 1926

Comment on the recovery program of Reynaud in the press today is virtually the first based upon the actual texts of the decree laws and is definitely tinged with pessimism, even in the papers favoring the Right and Center. There is active hostility to the program on the part of the mouthpieces of the Socialist and Communist parties on the grounds that only the interests of capital are favored and the welfare of labor is completely ignored.

In the Right and Center press the pessimism is based largely upon the instability of the political and psychological factors in French life today, rather than upon alleged shortcomings of the Government's plan. These papers in fact by and large make reference to the upswing on the stock exchange yesterday as proof that the necessary ingredients of an effective remedy are contained in the decree laws. However, these sections of the press also observe that there is resolute opposition to the program on the part of at least 30 of the Radical Socialist deputies, and that a new Parliamentary majority must be found or a way of continuing without such a majority must be found

by

- 2 -

by the Government.

In general the newspapers are agreed that the French people will bear with resigned approval the burden imposed by the program of Daladier and Reynaud, provided there can be any assurance that the tribute to be paid will actually bring about recovery in its broadest sense. The only exception to this view is contained in the Left press.

END MESSAGE.

WILSON.

RECEIVED

NOV 14 1941

EA:LWW

RE TAX-EXEMPT FEATURE ON LOCAL
HOUSING AUTHORITY BONDSNovember 15, 1938.
3:30 p.m.

Present: Mr. Taylor
Mr. Bell
Mr. Oliphant
Mr. Foley
Mr. Straus
Mr. Keyserling

H.M.Jr: I'm going to take this position with Straus, Ed.

I haven't read this stuff that you prepared for me; can't even lay my hands on it.

Foley: Yes.

H.M.Jr: I'm simply going to say this: "You say I have no legal authority to say 'Yes' or 'No.'" That's what he says, isn't it: that I have no legal authority?

Foley: Straus says that about you; oh, I think so.

I think he submitted it here because (a) he wanted to get some help from you in connection with submitting the plan to the Attorney General for his approval; and (b) he wanted to have something behind him in the event the thing slipped and there was some criticism, he wanted to be able to tell the President that you had approved it first.

H.M.Jr: Well, therefore, ...

Foley: He didn't have to come here, of course.

H.M.Jr: Therefore, there is no use my arguing about it with him.

Foley: That's right. What I would do if I were in your place: ask him to submit the bond form, the contract and prospectus after he's worked it out with the syndicate, and then you'd like to have Taylor and Bell and your experts go over it, perhaps talk it over with your experts in the Federal Reserve Bank to see whether or not it would have any effect on your borrowing.

H.M.Jr: No, that isn't the angle I'm going to take. This is

what I wanted the advice on. I'm going to say, "Nathan, you say I have no authority. O.K. But you have submitted this to me; therefore, I'm going to send the letter which we wrote originally to the President, with my recommendation to him that - that this is the way the Treasury feels about it. If you decide to go ahead with it, the Treasury will have nothing to do with it; we completely wash our hands of it. We don't want to be connected with a failure; we can't afford to be. We can't recommend it to the public."

Foley: Well, that's pretty rough, but it's

Kieley: Mr. Straus wants to bring his legal counsel in - Mr. Keyserling.

H.M.Jr: Sure, but I'm not quite ready.

(Oliphant comes in)

H.M.Jr: I'm going to say to Mr. Straus - this is where mine differs with Ed's - ...

(Taylor comes in)

H.M.Jr: This is what I propose to say to Straus: "You have written me that I have no legal authority over this thing. Granted. But I have my responsibility to the President of the United States. Therefore, unless there's some particular words that you'd like us to change - we've been waiting here for two and a half weeks - I'm going to send that letter to the President. If there is something which is unfair, which isn't true "

(Bell comes in)

H.M.Jr: We'll do it again. What I'm saying to Straus is: "You say I have no legal authority over your thing. O.K., granted. But I have a responsibility to the President of the United States, so I'm sending this letter to him."

Oliphant: Well now, did you (Foley) tell the Secretary how the discussion had developed?

Foley: Well, I just started to tell him.

Oliphant: Let me say this. Keyserling was over again this morning and he in effect is saying this: that when we say that these bonds will not sell on such favorable terms, at such low rates, without the people having the feeling that they are equivalent to Government-guaranteed - he says, "We take issue on that question of fact, because we've got people in our syndicate who say that they can market them at three percent or less, because of the way we have safeguarded these various contingencies to which the promises are subject."

Isn't that where the discussion stands?

Foley: That's right.

Bell: What does he mean by promises - a subsidy?

Oliphant: No, you see, the promise to pay the subsidy is conditioned ...

Bell: ... on an appropriation.

Oliphant: We said, "We've gone through and say that each one of those many conditions ..." - and he says, "These financiers" - he didn't name them to me - "with whom we are in conversation say they can market these bonds at three percent or less."

H.M.Jr: Well, what I'm going to say to him is: "I, the Treasury, all of us, unless they have changed, feel that this shouldn't be done, and I want to let the President know, and the President can decide. Now, if there is any word or phrase in that letter which you don't think is fair, all right; that's what I want. I don't want to argue with you about your god-damned bond. But if there is some statement that isn't fair, all right. But, outside of that, I'm going to send the letter and the President can do what he wants. I'm not going to argue with you whether I have the authority or not."

Foley: Well, the only - may I say ...

H.M.Jr: That's what you're here for, damn it, not for your handsome face.

Taylor: That's extra.

H.M.Jr: You can save that for night work.

Oliphant: If he was here on that basis, he'd have to pay to get in.

Bell: Have to pay a cover charge.

Foley: Unfair advantage.

H.M.Jr: Dan says you'd have to pay a cover charge.

Oliphant: Wear a mask.

Foley: I think the plan is going to break down under its own weight. Unless you want to take on with him the ill will that may be engendered because you head it off, perhaps you could accomplish the same purpose by accepting the contract from him, accepting the bond form, accepting the prospectus, and then talking it over with the experts in the Federal Reserve in New York and here.

H.M.Jr: Ed, we don't do business that way. Cards on the table, straight from the shoulder. Either you say to me as Secretary of the Treasury, "I can recommend that bond to you and to my friends..." - can you?

Foley: No, sir, not on what I've seen so far.

H.M.Jr: All right, then, I put it right straight across the table and I don't pull my punches.

Foley: O.K.

Bell: Does the Secretary have to approve the bond that's sold?

Foley: Doesn't have to approve anything.

H.M.Jr: I'm saying to you, I know that the President doesn't want this thing, so I'm not going to say what I said to you, that I won't have anything to do with it; I'm just going to write this thing to the President. But I'm telling you if the United States Treasury - if you won't recommend this to your friends, I won't have anything to do with the god-damn thing. I don't

have to play politics on the bond.

Foley: Well, I was just thinking of your relationship to Straus, that's all, Mr. Secretary. I mean he's a friend of yours and so on.

H.M.Jr: Sure, that's why I treat him rough.

Oligant: He's your friend.

H.M.Jr: Never say they got special treatment around here. That's just exactly the point.

(Straus and Keyserling come in)

Hello, Nathan.

Straus: Hello, Mr. Secretary. You know Mr. Keyserling.

H.M.Jr: I know him very well. Sit down.

Well, we've both been out of town, so we've kind of missed out on this and I was trying to - I hadn't done any - I'm trying to pick up the threads from these gentlemen. That's why I kept you waiting a minute.

What I'd like to know is - I mean I think it's about two and a half weeks since we said we'd send this letter - whether your organization finds any objection to any sentence or paragraph in the letter as being unfair or untrue.

Straus: Mr. Keyserling, you've had - you don't mind his answering, because he's been in on this legal thing - you had some discussion on that; I'd like to have you point out the way in which you thought the statements weren't at least clear.

Keyserling: Well, the point I'd like to present about the letter is not primarily that the letter is unfair or untrue, but rather that if the letter should go over to the President and he should sign it, I don't think that a conclusion will have been reached that will be particularly helpful either to the Treasury or to us, because as the letter is now phrased, if the President approved the recommendations of the Treasury the real problem before the United States

Housing Authority would remain unsolved; that is, the problem of working out some method satisfactory both to the Treasury and to the United States Housing Authority for gradually bringing about a wider distribution of these securities. And the only suggestion I would like to make, directed to the letter, would be that, the United States Housing Authority not being in any hurry to go ahead - that there might be some advantages in the Treasury and the United States Housing Authority going ahead, working on the problem, and trying to find something that they are in complete agreement on.

H.M.Jr:

Well, Mr. Straus has informed me, and my people agree, as far as our having the legal right to say "Yes" or "No," we don't have it. But I have my responsibilities as fiscal officer and my relationship with the President. Now, all I want to do is to fulfill that relationship.

I am quite confident - I mean I - since this has happened, I haven't discussed this with the President, so the fact that he's had your letter - I mean I haven't been in any way advised; I am quite confident that once the tax features are explained to him, leaving out everything else - just the tax feature - in view of the action that he took in connection with the proposal of Mr. Lambert, that in order for him to be consistent he'd have to say "No" to you people.

Now, if you - I'm more than willing to let you continue the discussion with the people in the Treasury just as long as you want and as long as they've got wind left to discuss it with you. But all I want to reserve for myself is that if you say you're going to go ahead, then I have a responsibility - not legal, but a moral responsibility - to bring this to the President's attention, and I want to fulfill it, that's all.

Keyserling: Well, I didn't mean to indicate anything

H.M.Jr: I mean is that plain?

Straus: Very.

H.M.Jr: All I want to ask Mr. Straus is for his word that he

won't make any offering without giving me first a chance to bring this matter to the President's attention.

Straus: Mr. Secretary, I have already assured you of that, and I can assure you again as solemnly as I know how, that nothing is going to be done until and unless you know all about it; and if you are not able at present to recommend your approval of the plan, I want to say again I will not go ahead with it.

What I'd like to work out is - not personally work out - I'd like to get these legal gentlemen to agree upon something which is not only in conformity with the statute but which will be satisfactory to them as your legal - as your financial experts, and to you, so that something may be taken to the President for his approval and not for his disapproval; and that pending that we let it ride.

H.M.Jr: Well, the people here - I asked them - I think I'm correct, for everybody - "Are you unanimous?" I think that we disapprove of the offering of the bond through local authorities as it is set up now. Is that right, Wayne?

Taylor: Certainly as it is set up now.

H.M.Jr: With the present set-up.

Herman?

Oliphant: That's right.

H.M.Jr: Dan?

Bell: Well, I haven't been in on it, Mr. Secretary.

H.M.Jr: Well, it's nothing different than what it was.

Bell: I am opposed to the issuance of the bond under the present set-up.

H.M.Jr: There you are.

Now, Keyserling, Foley hasn't got anything to do, and he's at your disposal.

Keyserling: Well, I'm at his disposal, as ever.

H.M.Jr: Well, so I mean I'm - we want to be constructive if we can. But the way the matter stands, you've got everybody in the Treasury that has anything to say about it, and we're unanimous. We feel that in view of the President's position - never mind the other stuff, which is another thing - but just from his standpoint, we just go on that idea that once it is explained..... Now, what happened in the case of Mr. Lambert? When we came there and we explained the thing to the President, he said, "No" - I mean in view of his position on tax-exempts, that's all.

Now there's another whole thing, and besides that I think if you can successfully sell us, you'll have to also sell our fiscal agents in New York. I don't think that this is breaking any confidence, but Mr. Randolph Burgess called up and he says, "As a friend of the Treasury, for heaven's sakes don't let's try to sell those bonds through the local authorities." Now there's a man of great responsibility and who for while I've been here managed - I mean he just called up purely voluntarily, he said, "Don't let them do that." He said, "It's a great mistake."

So we won't send any letter, I'll sit tight, until Mr. Straus says I've either got to do this or - fish or cut bait; as a fisherman he knows what that means.

Straus: And I think temporarily we'll simply proceed on the understanding that the Treasury does not approve anything beyond the sale of the bonds locally, I suppose, as we have been doing. We've got to sell 10 percent of the bonds. We know that.

H.M.Jr: Yes, there's no argument about those - Dan?

Bell: No argument.

Straus: But you don't want for the time being to go beyond that.

Foley: Well, not on the basis proposed, with this nationwide syndicate, Mr. Straus. That's the thing that bothers us: the creation of a syndicate that will market these

obligations on a high-pressure basis and perhaps create in the minds of the public an impression that the obligations are either guaranteed by the United States or are the equivalent of Government-guaranteed obligations. That's what bothers us.

Straus: Mr. Secretary, I don't like to go on to an answer; you don't want an argument. But in the first place, I dislike the expression "high-pressure salesmanship" and secondly I don't want to leave it go unchallenged that there will be anything which will misrepresent. I have endeavored, if I may say this, since I have taken over this job, to do two things with regard to the financing; in the first place, to do what was said to be impossible, sell 10 percent of the bonds locally; and in the second place, having done the impossible in that respect, to do the thing which seemed to me next most important, and that is to establish a broad market for that portion of the bonds which are sold locally, that's not taken up by us, not taken up by the Treasury. Now, the second part of that task is as yet unfulfilled. To my mind, it's got to be done, because looking ahead from the broad fiscal aspects of the country as a whole, I can't think of anything more harmful than to have a lot of these little unrelated issues kicking around unsupported, selling at a discount, which they will be all over the country - from \$200,000 in one city to \$2,000,000 in another. I believe the establishment of a broad market, widely supported, on a uniform basis, is absolutely essential. I am only saying that inasmuch as this particular plan has been disapproved by the Treasury, I'm not going ahead without the Treasury.

H.W.Jr: Who would support them?

Straus: Who would support them?

H.W.Jr: Yes.

Straus: This issue of bonds contemplated would be a large issue which would have a general market and would obviously have the general marketability of any security where there is a large issue outstanding. Who supports United States Steel bonds, who supports the bonds of New York City?

Oliphant: There's Cities Service too.

Straus: Well, where you have a large nationwide market, you'll find buyers; where you have a small isolated issue, there are many times when you will not find buyers and you will have to have racketeering. It is just to avoid those things, Mr. Foley, that I believe it is essential we establish this broad market. And I believe it is essential, further, that we extend the local participation beyond the minimum set forth in the statute of 10 percent, as widely as possible. I don't recede a bit from that position.

Foley: Well, I'm for getting local capital into the program. I think that is essential, too, for the success of the financing as your act is set up. But I do think that when you transform the credit behind these obligations from a local basis to a national basis, which you are doing when you set up this nationwide syndicate that's interested only in the national aspect, the Federal pledge behind these obligations, I think we're running into danger, and I think that we have to be very, very careful in so far as the scrutiny goes that we give it, before we give it our approval. That's my point.

Straus: I a hundred percent endorse that. I think we have to be very, very careful, and I know that you must give it your closest scrutiny before you give it your endorsement.

H.M.Jr: Well now, look, I'm more than willing to go along on your suggestion that we continue the discussion with the understanding that if the basis is changed and you feel that you people have got to go ahead anyway, I'll simply be put on notice - "I'm sorry" - which you say you won't do without the Treasury's endorsement. So see what you can do.

But Foley's available, isn't he? Huh? Big broad-minded fellow.

Oliphant: Broad-shouldered.

H.M.Jr: What?

Oliphant: Broad-shouldered.

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Straus: This thing is so essentially sound that once it is understood there can't be any objection; but it's going to take time and nothing is going to be done in the meanwhile, Mr. Secretary.

H.M.Jr: All right.

Straus: Thank you, sir.

28-L

Tuesday
November 15, 1938
3:58 p.m.

HMJr: Hello.

Operator: Mr. Sayre

HMJr: Hello.

F. B.
Sayre: Oh, how is Mr. Secretary?

HMJr: How are you?

S: All right. Fine.

HMJr: Ah - Wayne Taylor gave me a copy of the memorandum of the conversations you had with the British Ambassador.

S: Oh yes. I sent it over.

HMJr: And I wanted to thank you for it.

S: Well, I - I'm - I'm only too happy for you to have it.

HMJr: Well, do you mind if I just let - you know how I felt about a sentence in there?

S: Yes.

HMJr: The sentence that sort of bothered me was - it said - "See if steps could not be taken to sustain - sus - sustain the pound, particularly during the coming few days".

S: Yes.

HMJr: Well, of course, from your standpoint I can see that but what we're interested in is what's going to happen to the pound after you sign it.

S: Yes.

HMJr: And that sort of bothered me because ah - ah - well, it - and I think from the long run standpoint it's just as important for you that the pound -

S: Yes.

HMJr: - be maintained afterwards and I would get the drift that you were - well, to take care of the pound the next couple of days and everything would be all right.

S: Yes, well I - I think maybe I phrased that badly, Mr. Secretary. I ah - ah - I talked to him of course about the President's concern -

HMJr: Yes.

S: - particularly during those - these next few days - that was the whole subject of our conversation.

HMJr: Yes.

S: And I did not say - or - and I think I didn't give the idea that of course we're not concerned as to what happens after the expiration of this week.

HMJr: Yes.

S: I think probably I phrased that a little badly in that memorandum.

HMJr: But you did give them the impression that we are worried what happens afterwards as well?

S: I - I think - well, I didn't discuss that as a matter of fact.

HMJr: Didn't discuss it?

S: No.

HMJr: Oh.

S: We were discussing only the President's anxiety concerning these next few days.

HMJr: I see.

S: That's all we were discussing. Now, ah - we just didn't refer to the other thing.

HMJr: I see.

S: So I think, probably my phrasing in that memorandum was a little unfortunate in giving a contrary idea.

HMJr: Well, the Treasury - we're not particularly worried what happens from day to day, what we are worried about is that if this thing is done on Thursday and then the pound begins to fall rapidly, what are we going to do about it?

S: Quite. And that's - that -

HMJr: And I wanted to get over to you, while there was still time how I felt.

S: Yes.

HMJr: And particularly it's my responsibility.

S: I - I share your feelings wholly.

HMJr: And the other point was that unless something happens much worse than it has, we don't propose to do anything and ask any questions until the Treaty is signed.

S: Yes.

HMJr: But as soon as it's signed, we are going to ask some questions, and Herbert Feis knows all about that.

S: Yes.

HMJr: So, but I want to make my position very clear to you that the minute the trading treaty is signed I expect to send for Bewley and put up a series of questions.

S: Uh-huh.

HMJr: As to the future of the pound.

S: Yes. And Feis knows about that?

HMJr: Feis sat in at the meeting while the questions were being -

S: Yes.

HMJr: - put up.

S: Yes.

HMJr: He knows all about it. And for your own information, I had present at that meeting Dr. Jacob Viner, Professor Williams of Harvard, Professor Hanson -

S: Uh-huh.

HMJr: And Dr. Goldenweiser.

S: Yes.

HMJr: Dr. Feis and my own people, and we worked on that two different times.

S: Yes.

HMJr: And they assisted us in preparing the questions.

S: Yes.

HMJr: So there's been three weeks work go into it.

S: Yes.

HMJr: So it's no fly by night scheme.

S: Right. All right, Mr. Secretary, I - I don't think there's a word, I said to the Ambassador that would -

HMJr: No. It's quite clear that you were talking about the next couple days.

S: Yes.

HMJr: And it's also quite clear what I'm worrying about is the day after.

S: All right. About a week, sir.

HMJr: Pardon me.

S: I say, and the week after - the weeks after.

HMJr: Weeks after?

S: Yes.

HMJr: But I don't want to be put in the position that through

the drop in the pound, that I've got to write you fellows letters.

S: Yes. Well I - I been - I think....

HMJr: But it's so important that I wanted by word of mouth to tell you so that you knew exactly where I stood.

S: Yes. First rate. All right, and thank you very much Mr. Secretary, I appreciate you clling me up.

HMJr: Thank you.

S: All right.



DEPARTMENT OF STATE
WASHINGTON

November 15, 1938.

My dear Mr. Secretary:

I am enclosing a copy of a memorandum of conversation between Sir Ronald Lindsay, the British Ambassador, and Assistant Secretary of State Sayre, held on the afternoon of November 14.

On the basis of Mr. Feis's reports of connected discussions on the subject that have taken place over in the Treasury, I understand that this action runs completely in accord with the Treasury interest and in fact merely repeats an initiative of the same kind made in accord with an understanding with the Treasury.

Sincerely yours,

Enclosure:

Memorandum.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

*See also copy sent to
Taylor by Sayre on 11/12*

Department of State

EA

BUREAU
DIVISION

ENCLOSURE

TO

Letter drafted -----

ADDRESSED TO

TREASURY

Department of State

EA

BUREAU }
DIVISION }

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

.....

TREASURY

COPY

Department of State
Memorandum of Conversation

November 14, 1938.

Signing of the British trade agreement
and decline of pound-dollar rate

Participants: Sir Ronald Lindsay, British Ambassador;
Mr. Sayre.

I called on the British Ambassador very informally at the British Embassy at 5:30 this afternoon. I told the Ambassador that I wanted to speak with him unofficially and informally, and then proceeded to tell him of my conversation with the President this afternoon in which the President expressed his anxiety concerning the decline of the pound-dollar rate. The rate fell today to \$4.70 and the President had said to me: "What will we do if the pound should drop to \$4.55 on Thursday morning?" After telling the Ambassador of the President's anxiety, I suggested that he might want to cable at once to London to see if steps could not be taken to sustain the pound, particularly during the coming few days. The Ambassador said that he would gladly do so at once.

I also spoke to the Ambassador about the rumor which is circulating to the effect that the trade agreement contains a provision stabilizing the rate of the pound at \$4.50. In order to prevent the depressing effect of such a rumor, I said to the Ambassador that with his permission

- 2 -

we would give out a statement this evening denying that the trade agreement contains any such provision. I suggested that he might also think it advisable to have such a statement given out at once in London. The Ambassador at once agreed.

DISPATCHED

NOV 22 11 42 AM '42

SECRETARY OF STATE
WASHINGTON

31A

Yunnanfu, Yunnan,

15th November, 1938.

The Honorable

Secretary Henry Morgenthau, Jr.,

Department of Treasury,

Washington, D.C.

Dear Mr. Secretary,

I enclose reports typed from notes sent me by Dr. Buck
from Lanchow.

Respectfully,

Enid Saunders

Enid Saunders
Secretary to Dr. Buck

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Sian, November 5th, 1938

To Secretary Morgenthau

From J. Lossing Buck

INTERVIEW WITH A SECRETARY TO A HIGH OFFICIAL

"There is a congestion of military supplies at Paochi, the railhead, 72 miles west of Sian, awaiting transportation inland.

"Gasoline is nearly 6.00 yuan a gallon in Sian, and is being used very sparingly, even by officials. The province has only 40,000 gallons. First preference is given the military and commercial planes. Second rank officials are allowed only 25 gallons per month. Gasoline supplies have been moved to Ping-liang, Kansu.

"We are short of coal - the price has already trebled. We are giving special attention to the transportation problem, and we are now organizing transport by horse and ox cart. At present something like 3000 carts are employed by the government transport bureau.

"The alcohol factory at Sian has been moved to Szechwan. The two flour mills and the one cotton mill are still operating.

"Sian has been emptied of all military supplies.

"Five thousand refugees at Paochi are awaiting transportation to Szechwan."

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Sian, November 6th, 1938

To Secretary Morgenthau
From J. Lossing Buck

INTERVIEW WITH THE MANAGER OF A LARGE BANK IN SIAN

"The Chinese Soviet Government appeals to large numbers of people because of its clean government and the selflessness of its leaders, and because it is weeding out the parasitic elements in society, such as the rotten gentry. Thousands of students are going to this area in spite of attempts to check the movement in that direction.

"The Governor of Shensi is opposed to the Chinese Soviets and accordingly takes a non-cooperative attitude, except as is necessary to prosecute the war. He does not like people to visit that area." (His secretary, when I mentioned going there, discouraged the idea by saying I would find nothing different there. J.L.B.)

"There is little talk about closer relations with Russia.

"I am attending a meeting at the Central Bank tomorrow, to discuss with gold merchants the problem of collecting more gold for the Government. The market rate is higher than the purchasing rate of the Government, and we shall probably have to pay a higher price."

His wife, in discussing the general situation with me, states:
"We feel desperate, and we would rather go on fighting and even die than accept the yoke Japan would impose upon us."

Lanchow, November 8th, 1938

To Secretary Morgenthau

From J. Lossing Buck

INTERVIEW WITH GOVERNOR CHU HSIAO-LIANG OF KANSU,
MILITARY COMMANDER FOR THE PROVINCES OF NINGHSIA, KANSU AND TSINGHAI

"Small scale industry and handicrafts are the chief points of the provincial program of this province, in view of the fact that we cannot import machinery. Woollen goods from local wool are already being made on a small scale, and the industry will be extended.

"The paper industry will be developed for local consumption by the utilization of a local wild grass, from which paper of medium quality can be manufactured.

"The relations with Russia remain the same." (He was very reticent about discussing anything Russian. J.L.B.)

"The only new road has been the one to Sinkiang, but the other roads are being improved: the one to Sian, and the one to Szechwan via Tienshui and Paochi.

"The currency situation is satisfactory, there is no shortage of notes. There is still considerable silver in the province, and we are still collecting it." (The assistant chief of the Foreign Trade Commission, however, states that there is a shortage in the country districts of both one yuan notes and of subsidiary notes. J.L.B.)

31-F

4

(One of the lower officials in the Governor's office, who called on me, states that Kansu is recruiting 10,000 men per month - over 300,000 are now in training at Mein yang, Szechwan. J.L.B.)

31-G

Lanchow, November 8th, 1938

To Secretary Morgenthau

From J. Lossing Buck

INTERVIEW WITH THE MANAGER OF THE CENTRAL BANK, LANCHOW

Currency, Silver and Gold

"Kansu, like other northwestern provinces, has a preference for silver, and silver dollars are still in circulation in interior parts of the province. Government notes, however, are also accepted in most parts. Silver and gold are still hoarded, and since the beginning of the war hoarding has increased. Gold has advanced in price with the depreciation of the yuan in terms of foreign exchange. There is no shipment of gold between Chengtu and Lanchow now, as occurred a few months ago, as the price is nearly the same in both places.

"There are few Russians in the capital of Sinkiang, nothing like the number engaged in the Russian air training force in Lanchow. The Chinese political relations with Sinkiang are now good. There is no special Russian political influence or economic control in Sinkiang." (This is contrary to other opinions and intimations from other sources. J.L.B.)

"The Russian foreign representative in Lanchow is here to look after the interests of the Russians in the air force.

"There is some talk here about the necessity of a closer alliance with Russia, but if that were possible it would have come about earlier.

"Everyone is afraid of the Eighth Route Red Army. Former Governor Yen Hsi-shan of Shansi, who is now in west Shansi with his troops, is disliked because of his cooperative attitude toward the Reds. Civilians in his territory are antagonistic to the Reds, even to the point of wanting to fight them. The political government of the Reds is not acceptable to the Chinese." (The Manager is a native of Shansi, and is therefore in a position to know something of the reaction of Shansi people to the Reds. He is also a close personal friend of Minister Kung. J.L.B.)

Lanchow, November 8th, 1938

To Secretary Morgenthau

From J. Lossing Buck

KANSU WOOL EXPORTS TO RUSSIA

The following information is from officials of the Foreign Trade Commission in Lanchow:-

The Commission has purchased 35,000 piculs of wool to fulfill contracts with Russia. The problem is now one of transportation. Camel caravan is the method adopted, and 3,500 camels with wool have already been dispatched. The Commission is certain of being able to obtain 2,500 more camels, making 6,000 in all. Twelve thousand men are needed, and the Commission has been assured by camel brokers that this large number can be procured, since the Commission is paying enough to make it profitable for the caravans. The seven camel broker firms have now been united into one to handle the Commission's business. In the past the military have gained control of these caravans, and the owners have been hesitant to accept the Commission's business for fear of trouble with the military officials.

Kansu wool was purchased at 36 yuan per picul, and Tsinghai wool at 43 yuan. The Russians paid only 36 yuan at first, plus transportation, but now are paying 43 yuan per picul. The cost of transportation from Lanchow to Sinsinghsia (on the western boundary of Kansu) and Sinkiang, a distance of 711 miles, is 22.50 yuan. China pays the Russian import tax of 1.65 yuan per picul.

Gasoline will be brought back, as the Government has borrowed 15,000 gallons of gas from the Sinkiang government. The Russians also want the caravans transporting the wool to bring Russian commodities into China on their return trip. Negotiations are now taking place. The price of the commodities is the major issue. These negotiations are not connected with the first Russian contract for war supplies.

There are three Russian government representatives in Lanchow: consular, commercial, and aviation.

It is a question how much help a Russian railway would be if built to Lanchow. Kansu has only wool to export. This is a bulky product for its value, and the actual production is not large. Perhaps the Japanese would come from Paotow in Suiyuan and take it. The Central Government has no troops in Ninghsia province. There are only poorly trained Mohammedan troops there, and the Japanese could dispose of them easily.

RECEIVED
 DEC 6 1938
 THE TREASURY DEPARTMENT
 Office of the Secretary
 FOREIGN AFFAIRS TO THE SECRETARY

RECORDED & INDEXED
 NOV 15 1938
 U.S. COMMERCE DISTRICT

31-K

November 15, 1938.
4:17 p.m.

HMJr: Hello.

Operator: Mr. Burlew

HMJr: Hello.

B: Hello, this is Burlew.

HMJr: How are you?

B: All right, Mr. Secretary. I hope you are.

HMJr: I'm fine. Burlew I want you to do for me, a special special.

B: All right, sir.

HMJr: I'd like you to send a telegram or cable to Secretary Ickes.

B: Yes.

HMJr: And tell him that I find myself very much embarrassed having this artist for ten days and I would consider it a favor if Mr. Ickes would leave it to you or me.

B: Yes.

HMJr: To go ahead with it and that this man has been here for ten days, so -

B: You know we didn't realize that, I didn't know until this minute he was still here.

HMJr: Well, he's been sitting here, so to speak, on my doorstep.

B: That's a terrible situation.

HMJr: And if you would - you could put it in the telegram.

B: Well, I'm going to talk to him tomorrow morning at eight o'clock, on the phone.

HMJr: Well, if you'll tell Mr. Ickes that I'd consider it a vote of confidence.

B: Yes.

HMJr: If he'd let you and me go ahead with it.

B: All right. Now the other thing to straighten out. Of course I guess I could do with Bruce, and that is, in the Procurement Division, that is the space the darned things are in. You see, there was - the Procurement Division laid out that space for the Secretary's - the portraits of the Secretaries of the Interior, you know.

HMJr: Yes.

B: And then we decided we weren't going to hang them there, and Rowan said the Secretary and I gave approval to put these murals in that space.

HMJr: Yes.

B: Then after that, there was no other place to hang the pictures and we got them up there.

HMJr: Well, why don't you - is that where this fellow wants to paint?

B: Yes.

HMJr: Well, look. Why don't you say this to Mr. Ickes? If he'd leave it to you and me.

B: Yes.

HMJr: With power to act, see?

B: Yes.

HMJr: How would that be?

B: Yes. That's what I'll ask him.

HMJr: See. And then I - I -

B: I think we can get along that way. Of course he is taking such an intense interest himself, in these things, -

HMJr: I know.

B: And that's the trouble, it came up, you see I didn't know that this man was down here even and expect

us to look at them. We - put those up on Friday - Thursday or Friday.

HMJr: Yes.

B: And he put them up and then the Secretary was getting ready to go away and he just simply couldn't get down, even to the second floor.

HMJr: I understand. Well, the point is that this fellow has been here for ten days, he's literally on my doorstep.

B: Well that's terrible, we'll have to do something.

HMJr: And I would like to say yes or no, and I'd like to say yes.

B: Yes. I told Mac this morning that I'd get Rowan over here and we'd try and get ahead on this question of space, but Rowan away.

HMJr: And you spoke to Ned Bruce.

B: No, I didn't call him back, because it was a question of getting him down here and I didn't like to ask him to come down here.

HMJr: Well I'll tell you the way we'll leave it. After you've talked to Mr. Ickes, will you call me?

B: Yes, sir. I will.

HMJr: And, then if it's a question of deciding, we'll take the time - the whole Treasury Department will come over and pay you a call.

B: Well, now, I expect - he arrives at Miami at seven o'clock and he's got an hour there before the aeroplane leaves for Cuba, and I'm sending a wire down to have him call me on another matter, and I'll take this up with him.

HMJr: Thank you. You understand the spirit in which -

B: Oh, I'm sure -

HMJr: If Mr. Ickes, the thing I'm wondering about, will he leave it to you and me.

B: Yes. I understand.

HMJr: With power to act.

B: Yes.

HMJr: And then I'll tell Ned Bruce to sit tight until I hear from you. I'll hear from you -

B: You'll hear from me promptly tomorrow morning, by the time you get to your office.

HMJr: Fine.

B: All right, sir.

HMJr: Thank you so much.

B: Goodbye.

HMJr: Goodbye.

FEDERAL RESERVE BANK
of New York

31-0

OFFICE CORRESPONDENCE

To: Confidential Files
From: L. V. Knobe

Date: Nov. 15, 1938.
Subject: Telephone Conversation
with Ek. of Eng.

I called Bolton at 9:50 this morning. Things were still very disappointing, he said. The dollar market had opened at 4.70-1/2; he had sold \$2,000,000 at that figure and another \$2,000,000 at 4.70 and had given \$1,000,000 worth of gold at fixing. As the pressure against sterling continued, they had let the rate drop down to 4.69 and sold another \$1,000,000 there which had seemed to help matters. Since then the rate had picked up a little to about 4.70. His total losses for gold and dollars so far had been about \$11,000,000 compared with total losses yesterday of \$11,000,000.

It was quite apparent from what he heard on the Continent that it was primarily the Jewish question which today was depressing the sterling rate. Some people were convinced that the British policy of appeasement with Germany had broken down and that as a result thereof a disturbing and anxious political situation was likely to prevail which, of course, would continue to cause the transfer of capital to the United States. If it weren't for these latest developments, Bolton seemed to think that they might have been able to hold sterling between 4.75 and 4.80 but now the expense of holding it there was too much for them to bear. He asked whether I had any indications as to whether Washington was seriously disturbed over this continued weakness of the sterling rate. I replied that I simply didn't know, not having been to Washington in many weeks, but that in my opinion our exporters would very definitely be disturbed and would almost inevitably press for heaven know what kind of legislative measures if sterling continued to drop. Bolton said that they fully realized all this, but the fund's reserves were getting low and close to the danger level and if they had to use the gold of the Bank of England

the markets would become still more disturbed. He told me very confidentially that they were discussing certain restrictions now but that naturally they didn't want to introduce any measures which would upset the freedom of their markets. The question had been under discussion for many days and they would probably adopt one or two restrictive measures very shortly which they hoped would have no bad effect. They were by now definitely convinced that the reason for the weakness of sterling was of a political nature and that economic reasons at the moment were negligible. They were fully aware, he continued, that if sterling depreciated very much further it would upset the whole present economic structure and whatever they might decide upon now would be done only after the most deliberate consideration. However, as far as they could see now, there was no real hope of sterling becoming stronger until there was a real improvement in the political situation. It was getting more and more difficult for Chamberlain to carry out his present policy with Germany and, worse yet, there was a possibility of a political split in England in case the opposition should continue to be victorious at the polls at the coming by-elections. He was very anxious to discuss the present situation with me, he said, and keep us as fully posted as he could but had so much to do just now that he wasn't entirely free to call on all the time. I should, therefore, not hesitate to call him either at the bank or at home whenever I wanted further information.

As far as the franc was concerned, Bolton thought it was still firm and that Carlgren was still gaining though less than yesterday.

LRF:KY

November 16, 1938

I called up the President this morning at a quarter of ten to congratulate him. I said, "Mr. President, I want to take this opportunity to congratulate you on your two statements that you made last night, (1) on the recall of Ambassador Wilson and (2) on national defense. He said, "I think the one on Wilson was good," and I said, "I certainly do." He said, "Cordell Hull was good also," and I said, "He certainly was." (He then was kind enough to say "I used your suggestion on national defense and it seemed to go over big." It certainly was nice of him to say it.)

He then said, "But I have got to get over somehow those figures of how many planes the Germans, the British and the French have on the first of October in order to get our appropriation through Congress." I said, "Yes, Mr. President, but isn't there some other way of doing it than having you give out the figures?" He said, "Yes, I have an idea." He said, "I will try to get the opposition to give it out." I said, "That will be swell if you let it come from the other side, but don't you give it out because," I said, "if you give out the figures you will simply be justifying Chamberlain's position." He said, "Repeat that," and I repeated it.

I said, "I have got the first concrete suggestion to make for the Jewish refugees." He said, "Well, for Heaven's sake, what is it?" I said, "Constantin Maguire has sent me a letter suggesting that we make a settlement with Great Britain and France on their war debts for British Guinea and French Guinea, and then somehow or other raise enough money to buy off Holland for Dutch Guinea."

He said, "It's no good." He said, "It would take the Jews from 25 to 50 years to overcome the fever and," he said, "it's just no good." He said, "What's the matter with the idea I have been talking to you about for a long time and," he said, "that's the Cameroons." He said, "The Cameroons was a former German colony and now belongs to France and" he said "the same suggestion that you have of giving these countries a credit on their debt to us would apply there and" he said "I know from explorations that have been made in the Cameroons that they have some very wonderful high land, table land, wonderful

-2-

grass and very thinly populated and" he said "all of that country has been explored and it's ready."

Then he said, "Adjacent to the Cameroons, the Portugese have a territory and" he said "that could be included." But he said all the Cameroons have been explored and he said it's a good climate.

The thing to do is for us to get some geograpner that Mr. Bowman can recommend and look over all of the colonies belonging to France and England wherever they are and see which of those could take a population and I want to say here that in discussing this with Mrs. Morgenthau I think it is most important that whatever is done is opened up to all refugees irrespective of religion; that it should not be just for the Jews.

* * * *

I called up Cordell Hull to congratulate him on his statement also and he said, "Well, there was very good cooperation between the State Department and the White House." Hull's statement was stronger than the President's.

* * * *

The thing to do is to get a list of the colonies which they took away from Germany and see which are the good ones. Before the Germans get them back let us give them back and forgive part of the National debt. I am thinking in terms of \$500,000,000. The President and I figured it out. In the first place, the most difficult thing is to get the land. Assuming that we have that, we are talking in terms of \$500,000,000 raised privately.

If we are going to pick something new, pick something that is so good and so rich in natural resources -- one of the richest countries in the world which is unexplored is Turkey. They have everything. They have copper, oil, coal, timber. They have coal right on the surface and all they do is a fellow goes out with pick and shovel and buries it, but they never let them mine it. That's the sort of thing I mean.

I think I could go to the Vice President and he would say "What the hell. You want to knock off \$25,000,000? Go ahead." The temper of the people today we can make this

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a political refuge for all creeds. I think the public is ready. My motto is "Nothing ventured, nothing gained."

The point is the President has this. Nobody is helping him. I am going at least to do the spade work. The thing to do is have it ready before Congress comes.

ROOSEVELT CONDEMNS NAZI OUTBREAK; COULD SCARCELY BELIEVE IT, HE SAYS; LONDON STUDIES JEWISH COLONIZATION

New York Times

STATEMENT SHARP

Language Is as Strong as
a President Ever Used
to a Friendly Nation

NOV 16 1938

OPINION 'DEEPLY SHOCKED'

President Stresses the Word
'Technically' in Terming
Wilson's Return No Recall

By HERTHAM D. HULEN

Special in The New York Times.

WASHINGTON, Nov. 15.—President Roosevelt voiced the condemnation of the American people and their government of Germany's attacks on the Jews today in one of the most vigorous statements that it was possible to make in the test of the events of the past few days.

In a statement that he read at a press conference Mr. Roosevelt denounced the attacks in language as sharp as had ever been employed by a President against the course pursued by a foreign government with which the United States had friendly diplomatic relations.

"I myself could scarcely believe that such things could occur in a twentieth-century civilization," he declared.

It was difficult to conceive of a more forceful expression of this country's displeasure short of severing diplomatic relations. It followed by less than twenty-four hours the summoning from Berlin of Hugh B. Wilson, the United States Ambassador, for the technical purpose of report and consultation here, but for the actual purpose of a dramatically framed method of protest, calculated to be more emphatic than any diplomatic note could be.

The denunciation of Germany was uttered only after thorough consideration. The more than 200 correspondents who crowded the President's office knew it was to be made, for they had had advance notice that he would speak his mind on the subject.

As they entered his office, they found Mr. Roosevelt in high good humor. He leaned back in his chair, puffed at a cigaret from a long holder and exchanged bantering remarks with the front row of correspondents until all had entered. Then he disposed of a few incidental questions that were hastily asked in the realization that otherwise they would be lost in a discussion of more serious problems.

Eager to Get to Main Business
But the President was eager to get to the main business and in a moment he picked up a sheet of paper and announced that had just finished dictating a statement he had to make on Germany.

He then read it to the correspondents, quoting each sentence rapidly, but pausing once to gaze inward the ceiling, blow a ring of smoke and transpose a sentence from its order as he had originally dictated what he had to say.

Departing from custom that governs the return of an Ambassador, Mr. Roosevelt did not appear to be worried. Instead, after concluding his discussion of the German situation, he turned in response to questions to national defense and made it known that he was considering adequate measures in collaboration with the twenty other American republics and Canada for defense of this continent—North, Central and South America—against any threat of at-

erns the White House press conferences, he announced as a preliminary that the statement was for direct quotation in the press.

When he concluded there was a rush of questions from the correspondents. The first was a request for an elaboration. The President declined, saying the statement spoke for itself.

Asked whether a note of protest had been sent to Germany, he replied that none had been sent yet. He did not indicate whether one would be dispatched.

Ambassador Wilson, he said, was sailing from Havre Thursday on the steamship Manhattan. The Ambassador, he explained, was turning by his orders to report and consult. Technically under diplomatic procedure, he added, it was not a recall, but in so saying he gave sharp emphasis to the "technicality."

The Manhattan is due in New York Nov. 24, the day before Secretary of State Cordell Hull is to sail for the Pan-American Conference at Lima, Peru, and so presumably Ambassador Wilson will have an opportunity to confer with Mr. Hull. That he will remain in this country indefinitely was clearly indicated by the Secretary of State earlier in the day when he said he did not have anything in mind as to the duration of his stay.

Refugee Plan Not Confirmed
Concerning London reports that the United States had broached a plan to Great Britain for locating 500,000 Jews from Germany in specific places, President Roosevelt was indefinite at his press conference. The State Department said that it knew nothing about it.

In the first place, the President would make no comment on reports of activity in this connection by Joseph P. Kennedy, the United States Ambassador in London.

While not referring directly to the United States had submitted a refugee plan to Mr. Roosevelt said that he knew nothing of what had been happening in London the past twenty-four hours. He did know, he added, that the Intergovernmental Committee on Refugees, which has its headquarters in London, was bending its efforts toward enlarging its scope of its work in view of the increasing seriousness of the German situation.

Asked whether he had considered where the refugees might go, the President replied that he had given a great deal of thought to it, but that the time was not ripe for an announcement.

When a correspondent inquired whether he would recommend to Congress modification of the immigration laws in order to permit a larger number of refugees to enter this country, Mr. Roosevelt replied in the negative.

This, however, did not remove the possibility of some adjustment of quotas under existing law. Already the German quota has been increased by the inclusion of Austria and it may be enlarged still more by making allowances for immigrants from the Sudeten areas that have recently been taken over from Czechoslovakia by Germany. It is expected that an announcement on this subject may be made soon.

Hull Declines to Comment
Secretary Hull was even less illuminating on this point at his press conference.

Asked about reports from London that the ambassies of the United States, Great Britain and France recently planned to seek a relaxation of financial restrictions on Jews leaving Germany, Mr. Hull referred questioners to the Intergovernmental Committee on Refugees in London. It was better to have all information on that subject come from that source, he explained.

Asked concerning another London report that Prime Minister Neville Chamberlain was contemplating an approach to President Roosevelt for Anglo-American cooperation outside the Intergovernmental Committee

to facilitate the emigration of Jews from Germany, Mr. Hull said that he had no information on that question himself and had seen nothing from Ambassador Kennedy.

The National Council for Prevention of War in a statement today urged not only that the United States appropriate funds and modify the immigration laws to facilitate the emigration of Jews from Germany but also that as a further step the problem of refugees aid be taken up at the Pan American Conference in Lima.

Betch Trade Accords Opposed

A delegation representing religious and other organizations in Eastern cities called at the State Department today and urged the United States not to enter into trade agreements with Germany. Its members were informed that no contemplation was being given to the negotiation of a reciprocal trade agreement with Germany.

Voicing their indignation "at the atrocities against the helpless Jews and the leaders and members of other faiths in Germany," the delegation also said that if the United States decided to impose economic sanctions against Germany it would support such a step.

Members of the delegation included William F. Cochran of Baltimore, vice president of the Church League for Industrial Democracy; the Rev. Joseph Novak, Presbyterian clergyman of Baltimore; the Rev. Clarence Breakney, president of the New Jersey Baptist Ministers Council; Dr. Benjamin F. Crawford of the First Methodist Church of Carnegie, Pa.; Harry C. Lamberton of Washington, D. C., representing the American League for Peace and Democracy, and the Rev. William Howard Melish of Cincinnati.

Announcement was made today that high Catholic dignitaries, including members of the hierarchy and leaders among Catholic laymen, would join in a joint protest against Nazi persecution of German Jews in a program broadcast tomorrow from 9 to 9:30 P. M. over the National Broadcasting Company blue network.

Condemnation of the persecution will be heard from coast to coast on the program, which will originate in Washington and end at San Francisco, with pickups at New York and other points. Among the speakers will be Archbishop Mitty of San Francisco and Alfred E. Smith.

Text of President's Statement
New York Herald

Reprinted from the Herald Tribune Bureau
WASHINGTON, Nov. 15.—The text of the statement on Germany's treatment of the Jews which President Roosevelt read today at his press conference follows:

The news of the last few days from Germany has deeply shocked public opinion in the United States. Such news from any part of the world would inevitably produce a similar profound reaction among American people in every part of the nation.

I myself could scarcely believe that such things could occur in a twentieth-century civilization.

With a view to gaining a first-hand picture of the situation in Germany I asked the Secretary of State to order our Ambassador in Berlin to return at once for report and consultation.

ROOSEVELT CHARTS NEW COURSE AIMED AT GERMAN POLICIES

**Journal of Commerce
Vigorously Condemns Drive
Against Jews, Accounts
for Recall of Wilson
NOV 16 1938
WANTS LATIN AMERICA
CANADA IN DEFENSE PLAN**

**Joint Protection of Americas
Is Objective—Possible Boy-
cott of Reich Products Seen**

By CLARENCE E. LINT

WASHINGTON, Nov. 15. — President Roosevelt today joined in public condemnation of Germany's treatment of its Jewish population and took personal responsibility for the calling home of American Ambassador Wilson that he might get a true picture of conditions in that country.

At the same time, the President made public for the first time a plan of continental defense involving both Latin-America and Canada with the United States, while at the State Department preparations were being made for the signing of the British and the Canadian trade agreements more closely linking those areas with this country than ever before.

President Roosevelt anticipated the questions of newspaper correspondents at his semi-weekly conference this afternoon by reading the following prepared statement with much vehemence:

Denounces Jewish Attacks

"The news of the past few days from Germany has deeply shocked public opinion in the United States. Such news from any part of the world would inevitably produce similar profound reaction among American people in every part of the nation.

"I myself could scarcely believe that such things would occur in twentieth century civilization.

"With a view to gaining a true

hand picture of the situation in Germany, the President indicated, he many I asked the Secretary State in order our Ambassador Berlin to return at once for report and consultation."

Just as American Ambassador Wilson is being called home to discuss the matter with the President, so it is expected that the German Ambassador will be "invited" home from Washington similarly to acquaint his government with the adverse public reaction in the United States.

While the President gave no hint of any contemplated action on the part of the Washington Government to show its displeasure in anything more marked than the straining of diplomatic relations, nevertheless it was believed that his utterance would give further impetus to a termination on the part of American consumers to refrain from purchasing goods bearing the "made in Germany" label.

The President, it was revealed, has been giving considerable thought to the situation in Germany, not only in respect of the Jewish problem but with regard to economic policies of the Reich. On November 10, the President area intended for entry into the United States be marked "made in Germany" and take full rates of duty. Yesterday, a delegation of importers were told it would not be possible to suspend this order that goods contracted for by Americans prior to its issuance might be allowed to come in with the marking "made in Czechoslovakia" and be accorded the more favorable rate of duty provided under the trade agreement with that country.

Little Can Be Done

There does not appear much the Administration can do in retaliation against Germany, since we already impose upon its exports to United States full rates of duty while competing nations are accorded very favorable rates. However, it is considered here that publication of the opinion in the richest nation in the world and one that offers a very desirable market for foreign merchandise, will do more than any law on the subject could accomplish.

Surprised by Denunciation

At the outset of his press conference the President warned he would make plenty of copy for them, but in the manner in which he plunged into his denunciation of Germany caused a great deal of surprise. When he freely stated his plans for continental defense, that surprise lessened measurably.

Asked what led him to expand the program of national defense in such a manner, the President told inquiring reporters to read the newspapers over the past five years. Thus he avoided giving further mention to Germany, but distinctly left the impression that the new Pan-American coalition was directly aimed at the Reich.

The plan is not to be one-sided by any means, he intimated, and he was very certain in his statement that he had every reason to believe that all of the Central and South American countries and Canada would do their share in the fulfillment of the objective for collective defense of this hemisphere. This

the President indicated, has entirely new concept of our national defense for, with the advent of the airplane, we have lost much of our isolation from Old World political machinations an must consider our own defense from the Canadian line in Terra Del Fuego, to use his own expression.

Refers to Airplane

Since the airplane is such a factor both offense and defense, it was but natural that he should give particular attention to air services of the United States. The subject of yesterday's national defense conference at the White House, The President would not go into details, such as the estimated 30,000 miles of coastline from Arctic Circle to Cape Horn that would be built to protect the Arctic Circle, where or how many airports would be constructed, or whether of not \$200,000,000 would be spent in the effort, as has been rumored.

The President explained that because world events of the past few years and scientific advancement in the waging of wars, the whole orientation of this country in relation to the continent on which we live has been changed. There is today a continental solidarity among the twenty-one Pan American republics and Canada which is more definite, more unanimous than ever before in the last 120 years—since the Latin American republics were struggling for their independence.

Therefore, on this continent, he said, we are substantially unanimous in the belief that as a continental doctrine, we must be prepared to carry out the outlines of continental solidarity which was established at Buenos Aires. He insisted that it is very important to get the conception that this is a continental solidarity which we fit as one of the republics.

Check Made Necessary

The United States therefore had had to check up and see what is necessary in order to maintain this continental solidarity against any possible threat from any other continent, the President explained. Yesterday's conference, in which Assistant Secretary of War Johnson and his aides, including the Chief of the Army Air Corps, Secretary of Treasury Morgenthau, Solicitor General Jackson and Relief Administrator Hopkins participated, was continued almost entirely to the problem of aircraft.

It was determined to approach Congress on the subject of legislation to place the defenses of the United States and the Continent against any possible crisis from outside on a safer basis.

This may mean establishment in other countries of airports to which we would have access under treaty arrangements and for construction and maintenance of which we may contribute financially, while also providing engineering and other technical assistance.

It may mean, also, diversion of relief funds and employment to the furtherance of national defense plans.

May Ask Huge Sums

The President is under compulsion to go to Congress early next year with proposals for appropriation of huge sums for unemployment relief and it is said to be the belief of some here that this will be justified on the linking of relief with national defense.

Roosevelt Says Germany Shocks America; Powers Discuss Havens for Refugee Jews

Berlin Sees Catholics as Next Nazi Target

NOV 16 1938

New York Herald Tribune

Has Statement for Press

Talk of New Home for Jews

President, in Statement in Press, Says He 'Can Scarcely Believe That Such Things Can Occur'

Wilson Is Starting Home Tomorrow

Neither Roosevelt Nor Hull Will Say He'll Go Back; Immigration Quotas Not To Be Increased

By Albert L. Warner

WASHINGTON, Nov. 15.—Publicly and with deliberate preparation President Roosevelt rebuked today the German Nazi government's persecution of Jews, declaring that public opinion in the United States was "shocked." He could scarcely believe that such things could occur in a twentieth-century civilization, he said.

A "profound reaction" had stirred the American people, he added. Therefore to get a first-hand picture of the situation, he had asked the American Ambassador in Berlin to return at once.

The President slowly read the statement at his regular press conference and allowed it to be quoted. It was, in effect, a direct verbal rebuke by the head of the American government aimed at the German government which has initiated persecution of Jews and suppression of Catholic activities. As such, the statement had no complete and exact precedent in recent times.

The President was ready to make public his views when the newspaper men arrived at the White House at 4 p. m. There were one or two questions about local government activities in the District of Columbia, but the President disposed of them quickly, suggesting that the conference get down to more serious things. He said that he had before him several matters about which he expected questions. Therefore, he would shoot first, he said.

Mr. Roosevelt picked up a typewritten sheet of paper and read his statement slowly enough to be taken down in longhand. He read it in vigorous tones, then picked up his cigarette holder in which a lighted cigarette was fitted and leaned back for further questions.

But Mr. Roosevelt was not disposed to elaborate on this subject. He said the statement spoke for itself. His understanding was that Hugh R. Wilson, the American Ambassador at Berlin, would be returning Thursday in the United States liner Manhattan.

Asked if Mr. Wilson's return constituted a recall, the President declared that it did not, technically speaking. It was a summons to come home, he added. A newspaper man inquired if Mr. Wilson would remain indefinitely in this country—a possible sign of official displeasure here over the policies of the German government. The President replied that he had nothing further to say beyond what Cordell Hull, Secretary of State, had told his press conference a little earlier.

Secretary Hull also had avoided a direct answer, which in itself was considered significant. Mr. Hull did not accept an opening to give assurance that Mr. Wilson would be returning to Berlin. He simply said he had nothing in mind on this subject, and added that he would not undertake to speculate about the future.

There were strong indications in Washington today that international consideration was being given to a new home for a mass emigration of Jews from Germany. The possibility of a home in Central or South America or in one of the British colonies is under discussion here. What Mr. Roosevelt went on to say at his press conference confirmed this general idea, although he refused to be specific.

The President said he had not heard in the last twenty-four hours from Ambassador Joseph P. Kennedy in London, but he did know, he said, that the Intergovernmental Committee on Refugees, on which the United States is represented, was at work to extend help increasingly.

Asked about possible sites for a big Jewish settlement, the President declined to name specific places, declaring the time was not ripe.

Mr. Roosevelt said definitely that relaxation of American immigration laws to allow an influx here of German Jews was not contemplated.

In other quarters it was pointed out that a considerable number of German-Jewish refugees could be accommodated in this country under the existing quota law, which allows 27,370 persons to come here annually from Germany, including Austria. It is the contention of officials here that other countries throughout the world should render similar assistance. This government, however, does not wish to change its general immigration policy, especially in a time of large unemployment in this country, to take single handed responsibility for the German Jews.

Complaints against Germany poli-
cies continued to rain in on the
State Department. The National
Council for Prevention of War voiced
its "horror" at the "brutality" of
the persecutions and urged special
American aid. It proposed modifica-
tion of the immigration laws and
appropriation of public money to
give relief to the Jews. It also urged
that the problem of refugees aid be
taken up at the Lima conference
of the American republics.

Churchmen Protest

A delegation of churchmen and
educational leaders from various
Eastern cities left a statement with
the State Department protesting
"atrocities against the helpless Jews
and the leaders and members of
other faiths in Germany." An official
American protest was urged.

The German Embassy here ex-
pressed surprise at developments
and awaited word from Berlin. The
possibility was suggested that Hans
Heinrich Dieckhoff, German Am-
bassador, would be asked by his
government to return to Berlin, but
no such word was received today.
On the contrary, the Embassy said
Mr. Dieckhoff would continue at his
post and that no change in
his plans was contemplated.

Among the precedents for present
White House policy is a letter which
John Hay, Secretary of State, wrote
on July 17, 1902, protesting Ruman-
ian persecution of Jews. He called
it "repugnant to the moral sense of
liberal modern peoples" and an at-
tack on "the inherent right of man
as a breadwinner in the ways of
agriculture and trade." He said
Rumania was reducing the Jews to
a "state of wretched misery." How-
ever, Mr. Hay said that while Jewish
refugees would be welcomed here
when coming equipped to make
their living, such immigration would
not be acceptable or beneficial if
the refugees came as outcasts and
paupers thrown upon the generosity
of the country.

In 1911, a treaty with Russia was
abrogated because of the treatment
of Jews there.

McReynolds Protests

WASHINGTON, Nov. 15 (AP)—
Representative Sam D. McReynolds,
Democrat, of Tennessee, chairman
of the House Foreign Affairs Com-
mittee, said today in a statement:
"Those of us who are exerting

every effort toward bringing about
conditions which will permit lasting
peace to be established throughout
the world can only hope that the ex-
pression of indignation on the part
of civilized men universally will
bring to a prompt halt a retrogression
we had hoped had died in the
dark ages."

No War Cases, Says Norris

SPRINGFIELD, Mo., Nov. 15 (AP)—
Senator George W. Norris, Inde-
pendent Republican, of Nebraska,
said today the prosecution of Jews
in Germany was "outrageous, inhu-
man, indefensible and incomprehen-
sible," but the United States could
not tell the Germans "that they
can't do it." The Senator passed
last night here en route to Wash-
ington.

"A nation has the right to put
Jews out, or to put the Irish out, or
the Americans out," he said. "And
until they try to do something to
us, there is no reason for us to go
to war about it."

Ashurst Suggests Revak

PHOENIX, Ariz., Nov. 13 (AP)—
Severance of diplomatic relations
between the United States and
Germany because of Nazi anti-Jew-
ish outrages was suggested here to-
day by Senator Henry F. Ashurst,
Democrat, of Arizona.

Describing Chancellor Adolf Hit-
ler as a "madman," the veteran
Arizona Senator said, "As far as
the Administration is concerned, it
should sever diplomatic relations
with Germany."

ROOSEVELT DENOUNCES NAZIS

PRESIDENT SHOCKED BY ATTACK ON JEWS

GIVES DEFENSE DOCTRINE FOR ALL OF NEW WORLD

Points To Need Of Continental Solidarity Among
United States, Canada And Twenty-One
Latin-American Republics

American Envoy To Berlin Not Expected To Return
To Post Soon — Wilson's Absence May Be
Regarded As Semi-Quarantine Against Reich

President's Statement

(Washington Bureau of The Sun)

Washington, Nov. 15.—President Roosevelt's statement on the persecution of Jews in Germany follows:

The news of the last few days from Germany has deeply shocked public opinion in the United States. Such news from any part of the world would inevitably produce a similar profound reaction among American people in every part of the nation.

I myself could scarcely believe that such things could occur in a twentieth century civilization.

With a view to gaining a first-hand picture of the situation in Germany, I asked the Secretary of State to order our Ambassador in Berlin to return at once for report and consultation.

By J. PHILIP MORGAN.

Washington, Nov. 15.—In one breath today President Roosevelt scathingly condemned Germany's maltreatment of her Jewish population.

In the next he outlined an American doctrine of national defense which he expanded to cover the entire Western Hemisphere.

The coincidence of these two utterances — equally sensational — has a significance that was well understood in every quarter of Washington tonight.

Shocked By Events In Germany

Mr. Roosevelt made it plain that he was profoundly shocked as are the American people generally by what is happening in Germany.

And he made it equally plain that he is preparing to meet force with force if Germany or any other power turns resentful or covetous eyes toward the western continents.

His two utterances were reserved for today's press conference. One followed quickly upon the heels of the other.

Explains National Defense Program

First he read aloud his brief but caustic statement in explanation of his summons home of Ambassador Hugh B. Wilson from Berlin.

Then, when he had discussed somewhat grumly the background of that incident, he launched into an exposition of his national defense program as dealt with at yesterday's White House conference with his military, legal and financial advisers.

He did not discuss directly the plan of Ambassador Joseph P. Kennedy, reported from London, for a mass movement of Jewish refugees to this and other western countries.

But he did say in that connection that he would not recommend a lowering of the immigration bars for the benefit of such refugees. He said he would adhere to the quota system, now in effect.

Looks To London Group

For the time being, Mr. Roosevelt said, this country looks to the International Refugee Commission sitting in London for some amelioration of the acute plight of German Jews seeking asylum elsewhere.

He added that as yet no protests had come from Americans who may have suffered injury, imprisonment or property loss during the recent upheaval against German Jews.

May Mean Temporary Break

Ambassador Wilson will not return soon to his post. He may remain here indefinitely. The President said as much. Also he said the envoy had not been "recalled" in a technical sense, but had merely been ordered home for consultation.

This may, however, mean a temporary severance of diplomatic contact with the German Government. There were suggestions tonight that it may even imply a "quarantine" or an effort to quarantine Germany.

Next Week Cordell Hull, Secretary of State, leaves as head of the American delegation to the Pan-American conference at Lima, Peru. It is easy to believe that he will set out the Latin-American officials whom he will meet there whether they will join the United States in such a move.

Seeks Solidarity In Defense

But it is far too soon to assert that the quarantine idea, first mentioned by the President in connection with Japan's conquest of China, is definitely in the President's mind again.

What positively is in his mind, he said candidly today, is a "solidarity" between all the nations of the Western Hemisphere on the side of common defense.

He came to this at a moment when correspondents were impatient to leave the press conference room to flash his statement scolding Germany.

These news writer paused, however, when Mr. Roosevelt said that he would now take up the national defense status.

Outlines Conclusions

All the correspondents expected there he would merely refer to some of the well-known phases of that problem but were startled as he proceeded to outline the conclusions he and his associates had reached.

He talked in general terms for a few minutes, as when he mentioned the fact that world events and the scientific advancement in the processes of making war had changed the position of this country in relation to other continents.

From that observation he passed to the need of continental solidarity of the United States, Canada and the twenty-one Western republics, in considering defense policies.

Says U. S. Fits in Program

He thought we should carry on the continental solidarity worked out at the Buenos Aires Pan-American conference. It is, he said, a solidarity into which the United States fits.

Then the President asked himself the question: What is necessary to maintain that solidarity?

Right there Mr. Roosevelt explained that by "continental" union, he meant a union of forces in the whole Western Hemisphere.

He said it was necessary for all Western interests to be prepared to resist any possible attack from any other continent.

It seemed to most of the writers that he was thinking of the penetration of the American continents of Nazism, but he said nothing directly on that point.

Safety For All Is Aim

He said safety for all was the aim of the United States, which seemed to mean that he had in mind a definite military extension of the Monroe Doctrine.

It was to discuss all this, he said, that he called in his advisers yesterday. He had called in many of them several times before, but there was no intimation then that he was thinking in terms of inter-continental safety in working out his defense plans.

He said that this country was prepared to take steps with such resources as are now available to the end he had in view and would call upon Congress early in the year for other resources.

Confident Of Cooperation

He said he had no thought there were any defections on the part of other Western governments. He seemed assured that all of them would cooperate in the defense "doctrine" of the United States.

Again and again he referred to this not as a policy but as a doctrine, a word which all Western countries, of course, know by heart.

Right there, he was asked if the Philippines came within the purview of his doctrine.

His answer was brief but pointed.

He said that the American flag still flies over the Philippines.

Relations With Reich Agitate

Two highly important facts were made impressive by this press conference.

The first is that American relations with Germany are more acute at this moment than at any time since the Armistice was signed.

In earlier international controversies involving Germany, the United States was severely aloof. That was true of the invasion of the Ruhr, the occupation of the Rhineland.

They seemed to be distinctly European problems. Even when Europe

was approaching the Munich agreement, this country, although deeply concerned and uneasy, took the position that it was not involved.

Cannot ignore Jewish issue. Just now, however, the Government, at least, feels that it is so closely tied into the Jewish problem that it cannot isolate itself.

The other fact is that the President feels that rearmament must be carried out on a vast scale and that it should include protection of the interests of all Western countries.

In that connection Mr. Roosevelt was asked today if he had in mind a fleet that would adequately safeguard simultaneously both coasts.

He paused for a moment before he replied; then said, no.

Double Purpose In Move

It is well understood that there was a double purpose in the two utterances of the White House today.

One was to warn Germany and give notice to other powers of American feeling and American determination to safeguard herself and her neighbors.

The other was to let Congress have some idea this far in advance that it will be called upon to back up the new "doctrine" by heavy expenditures.

The only specific information the President gave today regarding the national defense program was his statement that more aircraft was the one urgent need of the moment.

Group Asks Economic Action

A delegation of churchmen and educators from nearby States presented a petition calling for economic action against Germany to James Clement Dunn, political adviser in the State Department.

Chairman McReynolds (Dem., Tenn.) of the House Foreign Affairs Committee said in a statement:

"Those of us who are exerting every effort toward bringing about conditions which will permit lasting peace to be established throughout the world can only hope that the expression of indignation on the part of civilized man universally will bring to a prompt halt a retrogression we had hoped had died in the Dark Ages."

A nation-wide broadcast by Catholic clergy and laymen was arranged for tomorrow night, 8 to 9:30 o'clock. Speakers will include former Governor Alfred E. Smith in New York and Archbishop John J. Mitty in San Francisco.

WILSON TO DEPART FROM REICH TODAY

New York Times
**U. S. Envoy Bids Ribbentrop
 Farewell—Germans Insist
 His Trip Is 'Normal'**
NOV 16 1938
By OTTO D. TOLESCHUS
 Wireless to THE NEW YORK TIMES

BERLIN, Nov. 15.—As a result of Secretary of State Cordell Hull's published instructions to Hugh R. Wilson, the United States Ambassador, to go to Washington for report and consultation on the "clouded" relations between the United States and Germany, Mr. Wilson announced today a change in his original vacation plans and will now leave Berlin tomorrow and sail on the liner Manhattan from Havre Thursday.

Today the Ambassador called on Foreign Minister Joachim von Ribbentrop to say farewell and inform him officially of the order for cancellation, while at the same time the Foreign Office received the customary note that Princes Gilbert would be Chargé d'Affaires.

The conversation between Herr von Ribbentrop and Mr. Wilson lasted for about twenty minutes and it is assumed that they went over the points that have bedeviled German-American relations, including the anti-Jewish drive, which has not only wrecked American-owned property and imposed disabilities on Americans regarded as contrary to the German-American treaty of friendship and consular relations, but by increasing the stream of Jewish emigrés and refugees will also create a serious international problem.

Trip Held "Perfectly Normal"

On the other hand, it was emphasized in both embassy and German official quarters that the Ambassador's farewell call on Herr von Ribbentrop preceding his lengthy absence was entirely customary and there was nothing unusual about it. Foreign Office spokesmen especially characterized Mr. Wilson's trip to headquarters as "perfectly normal and without any sensational import."

The German press further underlines this view by denouncing the "bribe attack of the international well-poisoners to draw the strongest conclusions from the Ambassador's homeward trip."

The press declares that Mr. Wilson is merely beginning a little earlier a trip that he had planned since Summer but had postponed because of the recent European crisis, and the advance of his date of departure is explained by Mr. Hull's desire to consult him before leaving Nov. 23 for the Pan American Conference in Lima, Peru.

Despite this, there is some very interesting speculation both in German and American quarters as to whether Mr. Wilson will come back at all, and if so, how soon.

Regarding yesterday's British protest against the newspaper Angriff's article linking Winston Churchill, Anthony Eden, Alfred Duff Cooper and Clement R. Attlee with the murder of Ernst vom Rath, German Embassy Secretary in Paris, the official German News Bureau today issued a communique saying that this protest had been settled by an interview that Dr. Joseph Goebbels, the Minister of Propaganda, gave to a British correspondent, disapproving of such publication and promising a correction. But the British authorities are by no means ready to accept such a casual settlement, and the protest is being pressed further.

Hitler to Speak Tomorrow

Germany's final and most authoritative answer to the foreign outcries against her treatment of the Jews, however, may come on Thursday, when Chancellor Adolf Hitler is expected to speak at Herr vom Rath's State funeral in Düsseldorf as he did at the State funeral of Wilhelm Gustloff, murdered Nazi leader in Switzerland.

Herr Hitler conferred yesterday with District Leaders Adolf Wagner in Munich and Joseph Streicher in Nuremberg, and was on his way to Berlin tonight.

Meanwhile, the measures for the complete elimination of the Jews from German political, economic and cultural life proceed with increasing vigor.

Although Dr. Goebbels has denied that Germany plans to create ghettos, Jewish tenants are now being notified by their landlords that inasmuch as many "Aryan" families still lack homes, Jewish tenants will have to vacate their homes as soon as possible for a place to live.

German courts hold that landlords have a duty to evict Jewish tenants who do not belong to the German racial community, which duty supercedes all lease contracts. This applies to cooperative apartment houses in which the tenant owns his apartment.

The question of where evicted Jews are now going to live is still unclarified. Some suggest that they will be sent to the dark backyard sections of tenements. Some say they will be quartered in Jewish-owned dwellings.

But this would leave them within the "German housing community," and the final arrangement is expected to be that the housing au-

thorities, in whom they must now turn, will assign them to special sections of the city—which, whether or not it were called a ghetto, would still be one in effect.

Many Businesses to Be Closed

It was likewise revealed today that only about one-third of the roughly 100,000 Jewish business enterprises in Great Germany would be "Aryanized" and the rest would be liquidated in order to contract the somewhat inflated retail and handicraft trades. This, on the one hand, will release workers for "more urgent national tasks," and on the other will reduce the consumption of goods of which Germany is short.

Whether "Aryanization" or liquidation will involve the Jewish owner in greater loss is of less importance than the fact that hundreds of thousands will lose their livelihood or support and thus incidentally evict themselves from the better kind of homes that they may have had heretofore.

At the same time, while Jews will be strictly segregated from Germans, in every other respect and many shops and restaurants now flaunt the sign "Jews not welcome," the newspaper Lokal-Anzeiger asserts tonight that Jews will be forbidden to run special shops for Jews and will have to trade with "the German merchant."

Meanwhile the National Socialist press continues to play up the alleged vast riches of the Jews in Germany and the official German News Bureau today states that in Berlin, as revealed by the property registration decree, 35,802 Jews possessed 5,000 marks or more.

In addition, it discloses, 125 Jews had more than 1,000,000 marks, 57 more than 2,000,000, 17 more than 3,000,000, 7 more than 4,000,000, 3 more than 5,000,000 and 1 each more than six, seven, eight, ten and twelve million.

These wealthy Jews presumably will be required to pay most of the 1,000,000,000-mark fine levied for the murder of Herr von Rath and the damages from the recent violence from a special tax or levy that Germany plans to create ghettos on their fortunes.

But it is known that many of the notified by their landlords that inasmuch as many "Aryan" families still lack homes, Jewish tenants will have to vacate their homes as soon as possible for a place to live. In so far as they represent actual physical assets or securities, they are firmly under control, and the banks refuse credit on them.

Jews to Get "Annuity Bonds"

Besides that, however, Economics Minister Walther Funk, in a speech before German industrialists announced tonight that all Jewish property would be "transferred to German hands," that is to say, expropriated, in return for indemnification in "annuity bonds" which presumably mean government securities.

Herr Funk stated that the total registered Jewish property, that is property above 5,000 marks, amounted to 1,000,000,000 marks and that 2,000,000,000 of it had already been "Aryanized." Presu-

shly the proceeds of this "Aryanized the Death Head Elite Guard unit later Wallher Funk struck a warning note in a speech tonight, as if for similar indemnification. "Where Jews are lodged, concludes Goering, that "the Jews cannot be

In any case, the Jews fully realize "Whoever wishes to know shall wholly eradicated from the life of the liquidation and levy entails know that—if you like with 'minister the State, but they can be made such impoverishment for them that extermination"—we will make use of to live and work in the economic the continuation of cultural and the hostages Jewry has furnished interest."

other organizations is out of these according to the Jewish protest. The staff of the United States question, and after the burning office; an eye for an eye, a tooth for Consulate was almost at the end of the synagogue even the continuous tooth. "There exists only one right here sought comfort and safety near the American flag. The lines of Jews the fact that many rabbis are under our self-defense. And we alone shall determine when and how it is to be

applied." "Incidentally, not only synagogues applied." "I am through," one consular vice or other help have often extended far out into the street before the consulate. Consulates of other nations have been besieged likewise.

Destruction Angers Goering

BERLIN, Nov. 15 (AP).—Field Marshal Hermann Goering was reported to have official said in despair as he emerged for lunch with several anti-Semitic violence, on the mothers plaintively held their economic Four-Year Plan he dis-

reals. The Marshal, whose dozen go-said. "That was the final straw, it

Prussia and supreme dictatorship got me." Adding to the despair of some Jewish parents was their difficulty in finding their sons. Under new decrees, Jewish educational homes have been dissolved and boys in them have been taken away.

At the experimental farm for Jewish boys at Neudorf, near Berlin, where training in farming and gardening was offered, the entire student body of fifty was seized and sent to frontier fortifications, reliable sources said.

Men of high standing in the German community—scientists, bankers, business men—reported that they were being importuned for assistance by Jewish friends, but that they were unable to help.

One new restrictive measure for Jews came in the form of an order to banks to permit Jews to withdraw not more than 100 marks a day.

It became known that one wealthy Berlin Jew, the owner of a department store, had been assessed 1,000,000 marks by the Jewish community organization as his part of the levy for last week's damages.

Writings in The New York Times. MUNICH, Nov. 15.—The bodies of three Jews arrested in the general round-up last week were returned to their relatives today for burial. The fate of the others is unknown, but reports indicate that the majority are in the concentration camp at Dachau.

The only Jewish bank in Munich, that of H. Aufhauser, which was placed under a Nazi commissioner last Thursday, has now been "Aryanized" and will reopen next Thursday under the name of Heller & Co. Herr Heller is a partner in the Hamburg bank of Thompson & Co. and is well known in London and New York banking circles.

Martin Aufhauser, senior partner in the Munich firm, has been released from Dachau—the first Jew recently arrested here who has been allowed to return home.

In connection with Marshal Goering's stand, Economics Min-

Free Flays Britain

The German press continues to-day to flay both the United States and Britain for the waves of indig- over foreign exchange and raw ma- measures, although for the moment it is concentrating especially on Britain. The front pages of the newspapers and the Diplomat-Korrespondenz, organ of the Foreign Office, are being monopolized with the German counteroffensive.

The Lokal-Anzeiger, for instance, describes in special articles on British measures in Palestine and colonial history generally under the headline "Britain's Bloody Road to Power," tapping it off with a front-page picture of Indian soldiers tied to the mouths of cannon for execution in 1857. And the Stuttgart Kurier reminds Britain that she drove out the Jews—in 1290.

But the harshest words are reserved for those Germans who disapprove and turn away from the anti-Jewish measures in disgust. The Schwarze Korps, organ of the secret police, devotes the whole of its front page to them, and though it denounces them as "miserable swarms on whom a muzzle will now be put," it admits that they are present "in every butcher shop, at every newspaper stand and in every cafe."

The only proper way of treating them, says this police organ, is to hold "a well-built fist under their nose."

The organ, which also represents

allies include the Premiership of Prussia and supreme dictatorship of Germany, was reported to have given orders to cease property destruction like that of last Thursday when Jewish stores and synagogues throughout Germany were damaged and burned.

He was said also to have rebated those responsible for damage amounting to millions of dollars, but the smashing of a laundry and grocery near Tempelhof Airport last night indicated his orders. Marshal Goering has been admonishing the nation to save every scrap of paper, every sheet of tin- every meat bone, tooth paste tube and potato peeling. He now finds last week's destruction was the worst setback his Four-Year Plan for self-sufficiency has received since its inception.

Wilson Sees Colleagues

Ambassador Hugh R. Wilson conferred with several diplomatic colleagues today prior to his departure for the United States tomorrow, and it was understood that one possible solution of the Jewish problem under consideration was that some former German colony now under mandate to another power be opened for a mass Jewish emigration.

Official Nazi spokesmen, informed of a reported plan to move most of Germany's 600,000 remaining Jews to new lands, commented:

"Fine, let them get on with it. The more the better."

In connection with Marshal Goering's stand, Economics Min-

Draft of a telegram sent to Mrs. Roosevelt by the
Secretary from his home, the evening of Wednesday, Nov. 16th, 1938

Mrs Franklin D. Roosevelt
20 East 11th St.
N. Y. City

For me ^{Michael}
I learned ^{that I had not known} a lot by
reading ~~that~~ ^{Kitner}
and also his article
in this weeks
Saturday evening
post ^{SH} Suggest
you also invest a
nickel Best Regards
H. M. Jr.

November 16, 1938

To: The Secretary

From: Mr. Hanes

I attach hereto telegram from James Gould which is self-explanatory. The glove merchants maintain that they are the only ones in the United States affected adversely by this rule due to the fact that these gloves were purchased last June-July by the deposit of irrevocable letters of credit making cancellation of the orders impossible. I feel that if after investigation we find that they are the only people affected that we should explore the possibility of getting Herman Oliphant to find some way of granting relief to these people who are suffering a great loss through no fault of their own.

JWH:ce

orig to Secy - pouch-
11/16/38



File 48

THE FIRST BOSTON CORPORATION

ALLAN M. POPE
PRESIDENT

ONE HUNDRED BROADWAY
NEW YORK

November 16, 1938.

My dear Mr. Secretary:-

We were very glad to have the pleasure of having Mr. Henry Murphy of your Division of Research and Statistics with us during the day recently. I think that he rather enjoyed himself in going over the charts which we were very glad to explain to him, and I trust that the time he spent with us may be of help both to himself and to your office.

If at any time in the near future or just prior to a new issue you would like to have some one in your office check these charts we should be very glad to make them available.

Very sincerely yours,

Allan M. Pope

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

TREASURY DEPARTMENT

49

INTER OFFICE COMMUNICATION

DATE

November 16, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

Five years and eight months in Washington and my first invitation from Corcoran. He asked me to lunch today to recite some ancient history. It was how that gold opinion got into the Herald Tribune five years ago.

The bare outline of Tom's recital was that Lew Douglas was heading the fight against you and the gold movement; that Acheson had asked one of Tom's boys, Watson, for a legal memorandum on the Reed-Oliphant proposal. Tom doubted Acheson ever saw this memorandum, but said Lew Douglas sent Elliott Thurston (who had long had such a free run of the whole Treasury that he was looked upon as the Treasury's unofficial Gaston) down to Tom's office to learn what the fight was all about. Tom said Thurston told him this and also falsely represented that the difference between you and Acheson had been patched up, and it was Thurston's job to work out a plan in terms of which Acheson could back up. Tom said he turned Thurston over to Watson, and that Thurston wheedled a copy of the memorandum out of Watson, and then covered up his tracks by having it published through Ernest Lindley, who also was on the Herald Tribune. Tom said that, to protect Watson, he had kept quiet ever since, thinking that the truth was so improbable that no one would believe it.

That is the outline of Tom's story, although there were a lot of other details, such as Brandeis' part in the gold fight.

Incidentally, Tom recited his and Ben's conversation after they left your house recently. What he said they said about you would sound extravagant if I repeated it.

All of which for whatever it may be worth.

HO

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 17, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

Jackson and I met Johnson in his office. Jackson opened by saying that the three of us should be sure we understood each other, and understood alike what the President desired.

He then referred to the earlier study being carried on by Morris of Justice, with the cooperation of Army, Navy, Agriculture and Peoples for the Treasury. That study considered what we would do, if a European war broke out, to prevent the dislocation of our economy. Jackson said he understood the present study was entirely distinct from this earlier one. Johnson said he agreed emphatically that the two studies should not be confused, and those working on the older one should not participate in this one. He said he understood the very purpose of the President's suggestion that he work with Jackson and me was to avoid the delays and opposition which would come if the problem was handled between the Judge Advocate's office and the routine technicians of the Army and Navy.

The conference ended with an agreement that Johnson would have prepared immediately a descriptive statement of just what he would like the law to be in order to get lots of good production quickly if he could have a completely free hand and could write his own ticket. This he is to give to us to work on in order to iron out difficulties with reference to competitive bidding, excessive prices and patent restrictions. There was agreement that the problem of securing acceptable designs or models was distinct from the problem of quantity production and should be so treated.

Jackson and I had lunch together over the problem and began to canvass some of the difficulties. He is to put his best man, Paul Freund, to work on the job with my man, Oscar Cox.

51

NOV 17 1938

Secretary Morgenthau:

For your information. *

HO

GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

C
O
P
Y

November 16, 1938

Memorandum to Solicitor General Jackson

Pursuant to your suggestion that I carry on, I had a conference today with Col. James H. Burns of the Army and Capt. Sydney M. Kraus, designated to represent the Navy, for the purpose of continuing a discussion of the general objectives of the proposed legislation.

Their thought, however, at the beginning of the conference, was that the committee of four designated by the President should turn the whole matter over to a subcommittee of technicians of the Army and Navy Departments, the committee of four later reviewing whatever the subcommittee might present. On further discussion, it was agreed that the work should begin with the formulation of a statement of the general objectives by the committee of four. They undertook to prepare a first draft of such a statement for consideration by the committee of four.

(Initialed) H O

Hon. Robert H. Jackson
Solicitor General
Department of Justice
Washington, D. C.

November 16, 1938

My dear Mr. Secretary:

I beg to acknowledge receipt of your letter of November 15th with inclosed ^{the copy of a describing} memorandum of a conversation between the British Ambassador and Assistant Secretary of State Sayre.

You say in this letter: "I understand that this action runs completely in accord with Treasury interest."

Late Tuesday afternoon, ^{November} ~~September~~ 15th, I called Mr. Sayre, having a copy of his memorandum before me which he had furnished Mr. Taylor. ^{at my request} I read to him the following sentence from his memorandum:

"After telling the Ambassador of the President's anxiety, I suggested that he might want to cable at once to London to see if steps could not be taken to sustain the pound, particularly during the coming few days."

I explained to Mr. Sayre that our interest in ^{level of the 7} ~~the~~ Pound was no ~~more or no less as far as the next~~ ^{confined to the} few days ~~were concerned~~, ^{that - also} but we were vitally interested in what might happen to the Pound after the Trade Treaty ~~had~~ between the United States and Great Britain was signed.

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-2-

Explained to him
also that discussing with

We have postponed ~~talking to~~ the British Treasury ~~in regard to~~ our grave concern in connection with the continued fall of the Pound ^(until after the Trade Treaty has been signed) as we did not in any way wish to introduce an element which might be controversial. However, if after the signing of the Treaty the Pound should continue to fall ^(possibly), I ~~will~~ ^{shall} wish to ~~talk to~~ ^{discuss this question with} a representative of the British Treasury at the earliest ^{possible} moment.

Sincerely yours,

The Honorable
 The Secretary of State.

draft
as dictated
by Idm

55

November 16, 1938

My dear Mr. Secretary:

I beg to acknowledge receipt of your letter of November 15th with inclosed memorandum of a conversation between the British Ambassador and Assistant Secretary of State Sayre.

You say in this letter: "I understand that this action runs completely in accord with Treasury interest."

Late Tuesday afternoon, September 15th, I called Mr. Sayre, having a copy of his memorandum before me which he had furnished Mr. Taylor. I read to him the following sentence from his memorandum:

"After telling the Ambassador of the President's anxiety, I suggested that he might want to cable at once to London to see if steps could not be taken to sustain the pound, particularly during the coming few days."

I explained to Mr. Sayre that our interest in the Pound was no more or no less as far as the next few days were concerned, but we were vitally interested in what ^{would} should happen to the Pound after the Trade Treaty ~~and~~ between the United States and Great Britain was signed.

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We have postponed talking to the British Treasury in regard to our grave concern in connection with the continued fall of the Pound until after the Trade Treaty had been signed as we did not in any way wish to introduce an element which might be controversial. However, if after the signing of the Treaty the Pound should continue to fall rapidly, I will wish to talk to a representative of the British Treasury at the earliest moment.

Sincerely yours,

The Honorable
The Secretary of State.

TREASURY DEPARTMENT

AA 57

INTER OFFICE COMMUNICATION

DATE November 16, 1938

To Secretary Morgenthau
FROM A. Lochhead

Knoks, of the Federal Reserve Bank, informed me that he had today telephoned to Bolton at the Bank of England and referred to their telephone conversation of November 15. Knoks told Bolton that he personally thought that if the British were thinking of putting in some forms of restrictions, in connection with exchange, that it would be a good idea for the British Treasury to get in touch direct with the American Treasury. Bolton intimated that his reference regarding possible restrictions was something that had only been discussed in the Bank of England and had not gone as far as the British Treasury yet.

Knoks also gave Bolton as his personal opinion that if after the signing of the trade treaty the pound sterling declined sharply that it would look very bad on this side, and thought that the Bank of England should keep this very much in mind. Bolton did not give any intimation as to his reaction to this comment.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 16, 1938, 11 a.m.

NO.: 1929

CONFIDENTIAL.

During the past two days I have had talks with a number of well-informed people about the situation created by the decree laws issued by Reynaud. The following is my information in the matter:

In the main, conservative banking and business people are sympathetic, despite the fear that taxes will be higher, and they hope the plan will work. There is of course enthusiasm on the part of stock market operators. There is skepticism, disappointment or open opposition in practically all other sections of the population. There is a feeling on the part of the working classes, organized labor, the small Bourgeoisie, that they have been sacrificed to the interests controlling the money. There is a widespread feeling - though it is perhaps unfair - that the plan does not have imagination and that it is mediocre. It was said by one critic that the plan was the work of the old group of experts at the Ministry of Finance who have not learned anything the past decade, and that Cheron or Laval when Minister of Finance used to hand out the same sort of thing; he said that since that time there had been a change in the world.

There is a particular unfavorable reaction in

political

- 3 -

political circles; the Socialists have been driven into the opposition with the Communists, and leaders of the Socialist party tell me that they are greatly disappointed in the program. It was not their wish to come out in opposition to Reynaud, who in the past has favored an enlarged government with the Socialists taking part, and who has advocated a foreign policy which they like much better than that of Bonnet. It has been found necessary, however, that they oppose the heavy increases in indirect taxation, and the sarcastic reference by Reynaud to the "week of two Sundays" has angered them. It is apparent that several Radical Socialist deputies are in opposition to the decrees; many deputies of the Center and Right who have no confidence in Reynaud and who dislike the higher direct taxes express open dissatisfaction. There are some factors which, if the political situation would allow enough time for them to develop, would seem to favor the success of the plan. In as much as the franc is undervalued in world markets, the plan rests on a satisfactory monetary basis. Moreover, improvement of business in other countries, notably the United States, ought to be of some assistance. There are, however, as against these, a number of definitely unfavorable factors which one can well

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well illustrate by a comparison of the situation at the present time with the one in existence under Poincare in 1926. The devastated regions had been rebuilt at that time and France was equipped with a modern industrial plant. Today it is doubtful whether the physical equipment is sufficient to produce the necessary increased output, as since that time French industry, relying on exaggerated protection of high quotas and tariffs, has steadily deteriorated. Moreover, the existing political situation compares very unfavorably with that in existence in 1926.

WILSON

CSB

EA:MEG

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE November 16, 1938.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

I called Mr. Bolton at 11:30 this morning and explained that I wanted to talk to him entirely off the record and leave these two thoughts with him: firstly, he had mentioned to me very confidentially yesterday that they were discussing certain restrictions and that one or two restrictive measures would probably be adopted shortly. Might I not point out to him how very helpful it would be if he would get his Treasury to drop a hint of these measures to Mr. Butterworth in London or else to send Mr. Bewly to see our Treasury people in Washington in that connection before it was put through rather than after it was an accomplished fact. This it seemed to me was simply in line with the spirit of the Tripartite understanding which seemed to call for just that kind of discussion. Secondly, would he please try to visualize what the effect would be on our people if the British would let the sterling rate break the moment the trade treaty was signed tomorrow. ~~xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx~~ In my opinion that would be a most undesirable development and the effect of that on our people, to say the least, most unfortunate. I strongly emphasized that both these thoughts were my personal thoughts, that I was speaking to him off the record and that I simply wanted him to let these two thoughts go through his mind.

Mr. Bolton replied that as far as the first thought was concerned, he might have misled me yesterday by not making it sufficiently clear that these were thoughts which hadn't gone outside of his room and had not as yet been approved by the Treasury people.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 16, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.L. W. Knocks

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At any rate what they had in mind were not legal powers that they might seek. Nevertheless, he continued, he appreciated what I had said on both scores, would give it most careful thought and keep me posted as to further developments. Just how the announcement of the signature of the treaty would be received by the markets he had no idea. A week ago it would most probably have helped sterling considerably. In the light of the latest developments, however, it was quite possible that the effect of it would be lost.

He had done nothing more today in the market in addition to the sale of \$6,000,000 which he had mentioned in his cable this morning. The situation was practically unchanged: they were still called upon to supply gold to the market and there wasn't the slightest hope of getting anything back from the market. As far as the franc situation was concerned, there was no deterioration in that picture and everybody seemed to prefer to wait until the Chamberlain-Halifax meeting with Daladier, scheduled for a week from today, had taken place.

LWK:KW

FEDERAL RESERVE BANK
OF NEW YORK

FREE CORRESPONDENCE

DATE November 18, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE.L. W. Knoke

I called Mr. Carigual at 12:20 today. They were doing pretty well under the circumstances, he said, and were so far satisfied but the present political situation didn't appear to be good. On Monday they had had a very good day, yesterday a good one, and today he had bought a small amount in excess of his sales. He agreed with me that Reynaud's program as published so far seemed to be a good one and that above everything else Reynaud was probably the best Minister of Finance France had had in a number of years. It remained, however, to be seen whether he would get parliamentary support for his plans when the Chamber met on December 8. Meanwhile we would have to bide our time.

Sterling, he thought, was rather weak again today. "As you know they are doing their very best to hold it."

LWK:KW

November 16, 1938.
11:30 a.m.

HMJr:
Professor
Merriam:

Hello.
Good morning, Mr. Secretary.

HMJr:

Hello Professor Merriam, how are you?

M:

I was just writing you a note. I waited until I got back to Chicago to look up that matter you were talking to me over the phone about.

HMJr:

Yes. Yes.

M:

The man that I had in mind, particularly, comes up now pertaining to the milk producers.

HMJr:

Yes.

M:

George I. Hakes so he's out of it.

HMJr:

Why?

M:

Well he's got to be the defense and offense too.

HMJr:

Oh! Oh!

M:

He's attorney against the Government and this indictment on the milk producers trust.

HMJr:

Oh, oh, on the big thing?

M:

Yes.

HMJr:

Oh, I thought you were thinking in terms of Chicago. I - you mean the thing that broke out in the paper today?

M:

Yes.

HMJr:

I get you.

M:

Yes.

HMJr:

All right. Who else have you got?

M:

Well now, the best men, there's no use giving them to you, they're tied up, I don't think you'd want to use them, like Frank Bush, former corporation counsel, good Democrat, Floyd Thompson, formerly on the Illinois Supreme Court, Democrat, but they're both, while they're cold to the Government,

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and they're - Administration, and they are tied up with all kinds of special interests.

HMJr: Does it have to be a resident of Chicago?

M: Well, if it's going to be a jury trial it would almost have to be.

HMJr: I see.

M: Now here's a suggestion.

HMJr: Yes.

M: Of a man named Bowden.

HMJr: Wait a minute. B -

M: Bow - Bow

HMJr: Yes.

M: -den. Bowden.

HMJr: Yes, I got it.

M: George. First name is George.

HMJr: Yes.

M: His middle name is K.

HMJr: K.

M: Yes.

HMJr: K like in "kitty"?

M: K as in "kitty".

HMJr: Yes.

M: He's a prominent member of the Lawyers' Guild.

HMJr: Yes.

M: He is likely to be their next President, I've heard.

HMJr: Yes.

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M: And he has been - he is an honor man in the Law School, about forty years old.

HMJr: Yes.

M: Has made quite a little money and perhaps would like to - might be a man you could use.

HMJr: Uhuh.

M: He has been, however, a sort of a braintruster in a quiet way for Igoe.

HMJr: Well, that's just what I wouldn't want then.

M: Well, but if he's all right.

HMJr: No.

M: He might give you a brushorer.

HMJr: No. Anybody that's with Igoe I don't want.

M: Well, he's the only -

HMJr: No. No.

M: He's just on his staff you know.

HMJr: Well, of course with the change that took place yesterday, things may be easier for us now.

M: Yes. Of course, I thought - I always thought fairly well of Igoe in certain lines of cases.

HMJr: No.

M: Except where he touched certain matters.

HMJr: No.

M: But you have your own -

HMJr: No. No. Well, do a little more thinking, will you?

M: Yes, I'm going down town now to talk to some one or two people. Hello.

HMJr: I want incipient Dewey.

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M: Yes. I'm not so sure but this fellow Bowden might be your man.

HMJr: Not if he's a friend of Igoe.

M: Well. I'll - I am going down town

HMJr: There's no hurry. There's no hurry. When you come back to Washington will be time enough.

M: Oh there's no hurry. Oh, I thought you - matter of days.

HMJr: No, no, no. We've got plenty of time.

M: Oh well then, I'll take my time, then.

HMJr: No, we've got plenty of time.

M: All right.

HMJr: Thank you so much.

M: Thank you.

November 16, 1938.
1:02 p.m.

HMJr: Hello.

Operator: Secretary Hull calling.

HMJr: Thank you.

Secy.
Hull's Op: Yes.

HMJr: Hello.

Secy.
Hull's Op: Hello, Mr. Secretary. Yes, sir.

Cordell
Hull: Hello, Henry?

HMJr: Hello Cordell.

H: What sort of humor are you in?

HMJr: I?

H: Yes.

HMJr: When you call me, always a good humor.

H: Well, I used to, when I held court, I imposed very severe fines and sometimes I was criticized for being too severe.

HMJr: Yes. What are you going to do now?

H: I -

HMJr: Commit me to life imprisonment?

H: Back about a year ago, there was a British ship known as the Tayback.

HMJr: Yes.

H: Which had an opium case.

HMJr: Yes.

H: And the Department of Justice and the British - the British interests entered into an adjustment at \$25,000.

HMJr: Yes.

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H: Now, there's some - still some kind of misunderstanding or something.

HMJr: Yes.

H: The Treasury accepted - they received and cashed a check, I suppose it must have been through some kind of inadvertence. Anyhow, the British Ambassador is awfully worried because it's - he's fixing to leave - he feels that this is a meritorious proposition, but he's awfully anxious to get this closed out.

HMJr: What are we doing, hold - asking them to pay twice?

H: You people are holding up for the original amount of the fine instead of the adjusted amount. That was entered into between the Department of Justice and - for some - in some way the Treasury received the check for \$25,000.

HMJr: And we cashed it?

H: Yes. Now, that's - the point about that is it's a little hard to - the British Ambassador to explain to his Government or for us to explain to him.

HMJr: Yes.

H: little, little bit of tendency toward hard feelings, and I don't know what you can do consistently, but if you could see your way clear to clear that up while we're signing the British Trade Agreement and the Canadian Trade Agreement tomorrow, it would - I think it would be worth considering.

HMJr: I'll do the best I can.

H: All right, Henry. Thank you.

HMJr: I'll call you back.

November 16, 1958.
1:08 p.m.

HMJr: Hello.
Dr. Bowman: Yes.

HMJr: Dr. Bowman?
B: Yes.

HMJr: Henry Morgenthau, Jr.
B: Yes Mr. Morgenthau.

HMJr: I hope I haven't disturbed you at lunch?
B: No, I came home a little early expecting your call.

HMJr: Oh! Dr. Bowman, in talking with the President this morning, he was talking about the former German colony known as the ~~Kamerun~~.
B: Yes. *Cameroun*

HMJr: In connection with the possible land for political refugees from Europe.
B: Yes.

HMJr: Now, I've got your book that you've written and I wanted to come to you -
B: I can not quite hear you.

HMJr: I want to get somebody to help me in going into the economic geography of these - this particular colony and any other colony that might be used for that purpose.
B: Yes.

HMJr: And who can I get to help me?
B: Well, is it Africa primarily?
HMJr: Well, it's any place that offers a possibility for these refugees to go and settle and make a decent livelihood.

B: Yes. I think you know of the exchange of letters between President Roosevelt and myself.

HMJr: No, I don't.

B: Well, he asked me about the claims of the Orinoco.

HMJr: No, he didn't, no.

B: I sent him a two thousand word letter summarizing about twenty or twenty five books and articles, and the report is unfavorable there.

HMJr: Well -

B: But he returned with the request, of course and no need to say to you that it's confidential. He didn't so label it but he said it was a personal inquiry because he was just looking around the map at the present time.

HMJr: Well, the point was, I -

B: He wanted to know whether Columbia and Western Venezuela had any possibilities outside the grass lands of Venezuela.

HMJr: Yes.

B: I'm sending him within the next few days a large map about fourteen by ten upon which I will have indicated all the land in Northern South America that has capacity for settlement, and summary statements pasted on the map which indicate what the advantages and disadvantages may be.

HMJr: This is in South America?

B: That's in Northern South America.

HMJr: Well, you see, but -

B: Now in direct answer to the question that you have asked about Africa, there is a man at the University of California, whose name is Karl Delzer.

HMJr: Karl.

B: Delzer.

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HMJr: Delzer, yes.

B: Karl.

HMJr: Yes.

B: And he can be addressed simply, "Department of Geography, University of California, Berkeley, California."

HMJr: Of Berkeley, California?

B: Yes. Now, he helped me in that book of mine entitled "Limits of Land Settlement".

HMJr: Yes, which I have.

B: Now, he wrote the section on in Asia.

HMJr: I see.

B: And he's a German.

HMJr: Yes.

B: He's not a Jew.

HMJr: Yes.

B: But he decided to come to this country not liking the prospects.

HMJr: Not liking the -

B: His family is still living in Germany, and it is - if he were connected with it in any way, I'm quite sure that he'd have to be reassured in advance that his part in it would be entirely unknown.

HMJr: Oh!

B: For the protection of his family. You see?

HMJr: Isn't there anybody else that could -

B: I was going to suggest that if you wanted to have the advantage of his -of his knowledge, and of course his command of languages, and his quick facility in getting at everything, he's a well trained man that I've tried out/~~know~~ intimately.

HMJr: Yes.

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- B: And if you wanted that, you could - you could deal with him through me.
- HMJr: I see.
- B: And I would be your buffer. I would be his buffer in other words.
- HMJr: Well, I'm doing it first for the President and second on account of my own personal interest, see? Hello.
- B: Yes.
- HMJr: And as I say, the President - I was talking to him this morning, I raised the question about the French, English and Dutch Guineas, and - Hello.
- B: Yes.
- HMJr: And - because a man by the name of, oh I forget the man's name, but, what is his name, was written - who wrote a lot about the you see?
- B: Yes.
- HMJr: Wrote this letter tying us up with the - with our war debt.
- B: Oh, yes.
- HMJr: And the possibility of settling some of the war debt and taking colonies.
- B: Yes.
- HMJr: See?
- B: Yes.
- HMJr: So that's why I'm in on it.
- B: Oh, yes.
- HMJr: Now, when I mentioned these other countries the President oh, no, from a standpoint of future, you can't do anything with those countries because there's too much fever and so forth and so on.
- B: Yes.

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HMJr: But I don't know whether that's right or not. He seemed to be quite positive about it.

B: Yes.

HMJr: Then he said, "Why don't you look at the Kameruns, and - because both England and France own those."

B: Yes.

HMJr: In other words, what I was trying to explore for him was some colony that belonged to a country who owed us some money.

B: That's right.

HMJr: You see?

B: In other words forgive them for part of the obligation if they'll take part of this job.

HMJr: Exactly.

B: Yes. That's a good idea.

HMJr: Now, it was new to me, and Mr. Bell here in the Treasury, is very much interested in that. I wondered if it couldn't, we couldn't explore at first from that standpoint, no matter where England or France or any of the Allies had a colony.

B: Yes.

HMJr: Let's see if they're any good.

B: Oh, that's grand. That's a good idea.

HMJr: Is that new to you?

B: Yes.

HMJr: Well that was new to me.

B: Yes.

HMJr: Compton D. McQuire is the man.

B: Yes.

HMJr: You know he wrote the first book on the war debt, about the idea that we never would collect them or should collect them.

B: That's right. I've met him sometime, I think he came up to talk on foreign relations when I was in New York.

HMJr: Well, he gave the first talk that was ever given on the foreign relations.

B: I see.

HMJr: And this is his idea. Now if you'd be willing to explore it from that angle and then if we could get together somewhere I'd be glad to come over, or if you happen to be coming here, we could meet here.

B: Yes. Well, that's fine.

HMJr: But I'd like to do it fairly promptly.

B: Yes. Well, now -

HMJr: While the subject is in the minds of the people, before it cools -

B: Suppose I wire for this man Delzer to come on, and see whether - see whether he'd be willing to come and do some work here.

HMJr: Well, that would be wonderful.

B: How would I - how would I cover his expenses?

HMJr: I can let you know this afternoon. I'll ask the President.

B: All right.

HMJr: I'll ask the President and I'll call you back. I'm going over there at two. That's why I was so anxious to speak to you.

B: Yes.

HMJr: And I'll - I'll find out from the President how we can do that.

B: Yes. That'll be fine. Now -

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HMJr: But I thought if we could examine all of those colonies first.

B: Yes. All right. I could put him right on to that and his command of languages is such that he can do a splendid job in very short order if we had him here.

HMJr: Is he one of those refugee professors?

B: No.

HMJr: He's not.

B: He's a young fellow. He took his training in - in the University of California - a fellow who is of German origin.

HMJr: Yes.

B: And Delzer married an American girl and has taken out his papers and is an American citizen.

HMJr: Oh!

B: But all this has happened just within the past few years.

HMJr: Oh, yes.

B: Now he's lying very low. He is never getting into anything, he's never doing anything that in any way will disturb his people.

HMJr: Uhhuh.

B: But I could ask him to come on, and do a piece of work for me, and we never need mention the word refugee.

HMJr: Yes. How is he on -

B: I can just call him along and say, "Look here, I want to know about Germany's foreign colonies."

HMJr: Yes.

B: Information on population capacity.

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HMJr: Yes.

B: See?

HMJr: I get you. Did you say he is anti-Nazi?

B: Oh, quite definitely.

HMJr: Quite definitely.

B: Oh, yes. There's no question about that, and he's not in any least degree a Jew.

HMJr: Uhuh.

B: He's just a thorough going liberal German of the 1848 vintage.

HMJr: Well, he - in other words he's a Karl Schultz.

BP: Yes. Yes. Exactly. He's a Karl Schultz.

HMJr: Well, I think he'd be ideal.

B: And he's not a man who - who is interested in anything politically, you see?

HMJr: Yes.

B: He's a student, but he did a magnificent job for me on that in Asia thing and is editing the other papers in that volume.

HMJr: Well.

B: He did the checking up and everything.

HMJr: Well, I'm keenly interested in this myself, and as soon as you have something I'd love to sit down with you, and I'm going to suggest this to the President he give you an evening.

B: Yes.

HMJr: Where the three of us could sit down.

B: That would be best. Now, when you work around to that question why don't you - why don't you touch the edge of that South American thing and then let him speak.

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HMJr: Do what?

B: Why don't you talk South America a little bit and get him to mention the fact that he's asked me these questions?

HMJr: Right.

B: And without telling him that you know, would you?

HMJr: Yes. I see.

B: I've kept it strictly confidential though he didn't ask that, you see?

HMJr: Well, it shows that the President and I are both - got good ideas to go to the same man.

B: (laughter) Well that's awfully nice of you Mr. Morgenthau.

HMJr: All right.

B: I'll do anything for you.

HMJr: Thank you.

B: For you personally and because of your old man. I like him.

HMJr: So do I.

B: Good. So, I'm getting that Northern South America stuff within a few days.

HMJr: All right.

B: And if you'll - if you'll give me the word.

HMJr: Fine.

B: I'll see what I can do with Delzer and if I can't get him, I'll get somebody else.

HMJr: I'll let you know tonight.

B: All right. Fine.

HMJr: Thank you.

B: Goodbye.

CONFERENCE WITH THE PRESIDENT ON NOVEMBER 16, 1938,
REGARDING TAX PROGRAM TO BE SUBMITTED TO THE NEXT CONGRESS

Those present besides the President were Secretary Morgenthau,
Under Secretary Hanes and Mr. Bell.

Mr. Hanes started the conversation by telling the President that in order to work out a definite program the Treasury would have to know how much revenue the President wanted to raise. He said that to get 2 billion dollars additional revenue it would be necessary to go deeply into the tax structure of the country. Some of the taxes might have an adverse effect on business conditions. He explained that the estimated revenue amounting to 5 billion dollars, was based on a national income of 60 billion dollars. He is inclined to believe that these estimates are conservative and that in all probability the national income will be in excess of that figure, in which case we should get more revenue than now estimated. He explained to the President also that there were other indices, such as the price level and the Federal Reserve Board index of production, which are factors in these estimates.

The President asked the question as to how much revenue would the Treasury get if the national income should go to 70 billion dollars. Mr. Hanes said that it was his opinion that it would amount to approximately 5 billion, 600 million dollars, exclusive of Social Security taxes, and that if you add the latter you should get around 6 billion, 700 million dollars.

The President then said that he thought that we might make two kinds of estimates: one for current revenue on the basis of 60 billion dollars national income, which on the basis of the present tax rates would amount

to 5 billion dollars. Assume then that we would have expenditures on ordinary account of 7 billion dollars and on account of relief of 1 billion 500 million dollars, which would result in a $3\frac{1}{2}$ billion dollar deficit. The President said then to make another estimate of revenue based on new taxes to be levied, say up to 2 billion dollars. This would reduce the deficit to $1\frac{1}{2}$ billion dollars. We could then state in our budget message that if the national income increases to 70 billion dollars, we should get additional revenue of approximately 1 billion 700 million dollars, which would give more than a balanced budget in 1941. These estimates of expenditures do not include any amount for debt retirement.

The President then asked me to give him rough figures of 1940 estimates of expenditures. I had no estimates with me so the figures in the first column below represent rough figures which I submitted from memory and the second column shows the figures that should have been given:

	<u>Rough Estimates</u> M	<u>Figures should have been</u> M
Regular Departments	\$ 780	\$ 795
National defense	1,000	1,155
Veterans' Administration	880	848
AAA (Inc. Farm Tenancy)	880	880
CCC	—	300
General Public Works	800	849
U. S. Maritime Commission	—	125
Interest	1,025	1,030
Social Security and Railroad Retirement	875	945
PWA (lag)	780	800
Emergency Public Works (lag)	—)	333
Miscellaneous	<u>300</u>	<u>300</u>
Total	\$ 6,400	\$ 7,438

-2-

The President then said to assume that the total regular expenditures as given above for 1940 should amount to as much as	\$ 6,700
add for WPA, which he thought was very low, another	1,000
and then add for national defense	<u>800</u>
making a total of	8,500
deducting from this figure the official revenue estimate of	\$ 5,000
and then add new taxes of	<u>2,000</u>
we get total revenue of	7,000
leaving a deficit of	<u>\$ 1,500</u>

Then we could say that if the national income should go to 70 billion dollars, instead of getting 5 billion dollars in revenue as the present estimates indicate, we would get 6 billion, 700 million dollars, which with the new revenue to be raised would make 8 billion, 700 million dollars revenue, leaving no deficit. This would give us a balanced budget and 800 million dollars for debt retirement.

Mr. Hanes then went over his statement of possible new sources of revenue with the President, showing that by increasing the rates set out on this statement and making other changes in the tax structure, as much as he could get in the form of new revenue for a full fiscal year's operation under a new revenue not embodying these suggestions would be 1 billion 800 million dollars based upon the current indices used by the Treasury in determining its revenue estimates.

The President then said assuming we have expenditures of 7 billions

and receipts of \$ and we wanted to raise 2 billion dollars of additional revenue to balance the budget, what class of people would pay under the proposal set out on this statement. Mr. Hanes replied that the middle-income groups would be hit the hardest; those receiving income between 8 thousand and 70 thousand would be hit very hard.

The Secretary told the President that he had an idea as to some of the additional taxes that might be levied. He said that he realized that the President had always been against a sales tax but many states in the Union have adopted it and he thought that the Federal Government might also resort to it for special reasons. He also explained that our so-called excise taxes which we have today are nothing more than sales taxes. He said that what he had in mind was a special form of tax stamp with the picture of a battleship and a bomber on the face of it, which would bring home to every American that he is helping to pay for the expenditures made necessary by World conditions, to put his country in a position where it can defend itself against the outside world. The President then asked him how about exemptions. The Secretary replied that, of course, in discussing sales taxes in the past he had always thought of exempting food stuffs, and clothing up to a certain point, but that in this case he was of the opinion that there should be no exemptions and that every one from the highest to the lowest should help pay this additional cost.

The President said that he would like to have Mr. Hanes work on this matter and see what he could do to make just one exception and that would be on food stuffs not in containers, that is, food stuffs in the raw state. This would certainly have the effect of increasing the consumption of fresh vegetables which would be a good thing for the American people.

The Secretary then said that he thought that as long as we were discussing the special kind of tax for a special purpose, why would it not be an excellent thing if we should have a specially designed stamp to show that the taxes paid are for the purpose of financing the additional national defense expenditures and other special taxes specifically levied to take care of relief. It was explained to the President that if we did not have any exemptions whatever that according to old estimates based on lower business levels a rate of 1/8 on manufacturers' net sales not subject to present excises would have produced annual revenues of approximately 200 million dollars and that a 4/8 rate would have produced a little less than 1 billion dollars a year.

The President said that he was thinking of national defense in terms of 1 billion 600 million dollars which would be spent over a period of two and possibly three years.

The President then asked Mr. Kames if he could get up for him a simple comparative table containing data on the 100 richest individuals in the United States for the calendar year 1928 or 1929, whichever is the higher, showing the tax rate for that year and the gross income less deductible losses. This would show what those individuals had as spendable income in that year. Then show how much of that spendable income they paid to the Federal Government. He would then like to have this same information for 1932 and for 1937 or the latest year for which the information is available. He would then like to show us to whether funds of these individuals have gone into tax-exempt securities or into other lines of investment. If they have gone into tax-exempt, he would like to see it in a recommendation

to Congress, immediately after its opening for the elimination of the issuance of tax-exempt securities. He would like to recommend that this elimination be secured by legislation and not by the long route of a constitutional amendment.

The President said that he would also like to have us work on a budget with the revenue based upon the national income of 60 billion dollars which would be no more than 2 billion dollars out of balance. And then he would like for us to work on raising revenue of say 1 billion dollars under additional taxes and then we could make the statement that if the national income increases to 70 billion dollars we would have a balanced budget for 1941. Getting the expenditures down to 7 billion dollars will be a difficult task for 1940.

swb

THE WHITE HOUSE
WASHINGTON

Dr. [unclear] 7.00
[unclear] 1.00
[unclear] 1.00
A. [unclear] 1.00
W. Reg. [unclear] 1.00
T. [unclear] 1.00
[unclear] 1.00
[unclear] 1.00
[unclear] 1.00
[unclear] 1.00

6.40

THE WHITE HOUSE
WASHINGTON

Feb 6
F. C. 1
June 8 2

8, 200
April 5
May 2

D. 7
1, 200

Budget 6, 000, 000
2

D. 2, 000, 000

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 16 1933

TO Secretary Morgenthau

FROM Herman Oliphant

The following is a comparative analysis of the handling of the so-called Louisiana income tax cases by this Department and the Department of Justice.

Certain disclosures volunteered by a resident of New Orleans in 1932 prompted investigation by the Bureau of Internal Revenue, which extended from July 18, 1932 practically to November, 1937, interrupted only between February and December, 1933 by the change in administration. Some 300 individuals and corporations were involved. On evidence obtained and referred to the Department of Justice, criminal indictments were returned in the United States District Court at New Orleans against 26 individuals and two corporations, comprising two conspiracy charges involving corporations and individuals and 19 evasion, perjury and false return charges against individuals. On the same evidence the Bureau issued deficiency notices, including fraud, negligence and delinquency penalties, against 21 individuals. These filed appeals with the Board of Tax Appeals under 34 docket numbers.

The criminal cases were tried first. One defendant, State Senator Joseph Fisher, was convicted, receiving an 18-month penitentiary sentence. One other case (A. L. Shushan), which was regarded as strong, was then tried and resulted in acquittal. Two corporations and 10 individuals pleaded guilty or nolo contendere and were sentenced to pay moderate fines. The remaining indictments against 13 individuals were thereupon dismissed on motion of the United States Attorney, without adequate consultation with Bureau representatives and without their approval. This Department was convinced, despite the acquittal of A. L. Shushan under very unusual circumstances, that the other cases merited trial, notably the conspiracy charge against Seymour Weiss, in which all four of his co-defendants had pleaded nolo contendere. One of the dismissed indictments was against the United States Attorney's brother-in-law.

Hearings in the civil proceedings against the indicted individuals and corporations began under obvious handicap in January, 1938, and continued for three weeks to final disposition of the whole list except the cases against A. L. Shushan and Seymour Weiss, in which essential witnesses were temporarily absent. No case was lost or dismissed.

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Nineteen docket numbers were disposed of by default or stipulations of deficiencies, including penalties, accounting for \$146,809.29 plus interest, an 83% recovery, all of which has been or will be paid. Fifteen docket numbers were vigorously tried, resulting in judgments aggregating \$69,719.22 plus interest, all of which has been or will be paid. No appeals have been filed. In addition, other civil proceedings against taxpayers in this group who had not been indicted were tried or settled with similar results. Two insolvency cases were compromised for more than could have been recovered. Except as to the untried cases against Shushan and Weiss, every civil deficiency asserted against this entire list of taxpayers has thus been satisfactorily accounted for. The Shushan and Weiss cases have not been set for trial but this office will insist on their being docketed and tried at the Spring hearings of the Board at New Orleans.



MJD

PLAIN

London

Dated November 16, 1930.

Rec'd. 3:47 p. m.

Secretary of State,
Washington.

1323, November 16, 6 p. m.

FOR TREASURY FROM BATTERSEA.

The volume of trading in the London foreign exchange market has been less than yesterday but the market is nervous and undecided. The dollar opened strongly bid and moved to 4.70 with almost no dealings at which point the British authorities gave dollars for a short time. As soon as they ceased the rate fell to 4.69½ at which point they gave freely again. Due to some prefixing sales of dollars the rate moved up to 4.69¾ and gradually but erratically moved up to close at 4.70 1/8. In the later afternoon there was no evidence of intervention on the part of the British authorities. The Continental demand for dollars slackened today.

The franc has also had a two-way market but on balance the French fund has lost a moderate amount of sterling. Second thoughts seem to be leading to the conclusion that Reynaud's measures will produce little beneficial result in
the

HJD -2- No. 1323, November 16, 6 p. m. from London
the near future.

Of the 251 bars sold at gold fixing at 148s. 1d.
almost 200 were supplied by the British fund.

KENNEDY

HPD

November 16, 1938.
4:03 p.m.

HMJr: Hello.

Robert
Treman: Hello.

HMJr: Morgenthau speaking.

T: This is Bob Treman.

HMJr: Yes.

T: Up in Ithaca.

HMJr: Yes.

T: I'm sorry to bother you, but I just left Vic Underwood, and we wanted to ask you a proposition.

HMJr: Yes.

T: We have our big Community Chest drive at Ithaca right now, and it means a great deal to the community, the University gives and so forth, and they raise a lot of money. Well, we've always been able to get a thousand dollars from each of the banks, state banks up until last year, and this year the First National Banks say that there's a ruling in your Department they cannot give to a Community Chest in Elmira and Syracuse and all the other places they do give and it may seem unimportant and silly to call you up about it, but Vic Underwood and Curry and the rest of them thought if we'd call you up that you could tell us offhand but nobody seems to know whether they can or whether they can't.

HMJr: I couldn't do it offhand, but if you'll send me a telegram I'll get you an answer in twenty four hours.

T: Well, that'll be fine, and it seems to me that one of the finest things I could do in the country would be to let the banks contribute if there's any way it could be done whether they - the State Banks all do, and for the build up of - in these times, for -

HMJr: Well, put it all into a telegram and go into plenty of detail and I'll get you a ruling.

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T: All right, that's fine. I'm awfully sorry to bother you, and it seems, with all you've got on your mind, an ^{un}important thing, but I thought you wouldn't mind it.

HMJr: No. Nothing -

T: bother you with it.

HMJr: No, nothing is unimportant.

T: And I'll send you a telegram this afternoon and if you could do what you can, I think the whole principle is, the President do it, would be, I don't mean now, but - would be a thing that would be a very advantageous thing for the whole country if they could be allowed to do it.

HMJr: Well, you send me a telegram and I'll get you a ruling.

T: I hope you'll come up and visit us again.

HMJr: All right.

T: That's fine.

HMJr: Thank you.

T: Goodbye.

RE STERLING RATE AND BRITISH TRADE
AGREEMENT

November 16, 1938.
4:30 p.m.

Present: Mr. Taylor
Mr. White
Mr. Lochhead
Mr. McReynolds
Mrs Klotz
Miss Chauncey

W.S.Jr: Here is this letter from Hull.

"I am enclosing a copy of a memorandum of conversation between Sir Ronald Lindsay, the British Ambassador, and Assistant Secretary of State Sayre, held on the afternoon of November 14.

"On the basis of Mr. Feis's reports of connected discussions on the subject that have taken place over in the Treasury, I understand that this action runs completely in accord with the Treasury interest and in fact merely repeats an initiative of the same kind made in accord with an understanding with the Treasury."

"... and in fact merely repeats an initiative of the same kind made in accord with an understanding with the Treasury."

well, when Taylor was in here last night I called up Mr. Sayre and told him that this does not run in accord with what I wish, for this reason. This is the conversation between Sayre and the British Ambassador. See, he's quoting the President - "What will we do if the pound should drop to 4.55 on Thursday morning?" End of quote.

"After telling the Ambassador of the President's anxiety, I suggested that he might want to cable at once to London to see if steps could not be taken to sustain the pound, particularly during the coming few days."

Now, what I told Mr. Sayre was that I was not particularly interested in what happened to the pound during the next few days, but I was vitally interested in what happened to the pound after the thing was signed. So therefore I'm going to try this, and I want this to go tonight.

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(Dictating to Miss Chauncey)

My dear Mr. Secretary:

I beg to acknowledge receipt of your letter of November 15, with enclosed memorandum of a conversation between the British Ambassador and Assistant Secretary of State Sayre.

You say in this letter:

"I understand that this action runs completely in accord with Treasury interest."

Late Tuesday afternoon, September 15, I called Mr. Sayre, having a copy of his memorandum before me which he had furnished Mr. Taylor. I read to him the following sentence from his memorandum:

"After telling the Ambassador of the President's anxiety, I suggested that he might want to cable at once to London to see if steps could not be taken to sustain the pound, particularly during the coming few days."

I explained to Mr. Sayre that our interest in the pound was no more or no less as far as the next few days were concerned, but we were vitally interested in what might happen to the pound after the trade treaty between the United States and Great Britain was signed.

We have postponed talking to the British Treasury in regard to our grave concern in connection with the continued fall of the pound until after the trade treaty has been signed, as we did not in any way wish to introduce an element which might be controversial. However, if after the signing of the treaty the pound should continue to fall rapidly, I will wish to talk to a representative of the British Treasury at the earliest moment.

Lochhead: In this connection, I thought you might want

H.M.Jr: What I want her to do is type it; these three men (Taylor, White, Lochhead) can take a look at it; they can send it with a messenger to the house, and

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I want this - so you can wait for me to sign it - I want this delivered to Mr. Hull here tonight at his apartment.

White: Can we make some small suggestions?

H.S.Jr: Yes, but not very much, not very much. A word or two, but I don't want much. See, Harry?

White: Well, there were certain - then let me speak of them now. The emphasis there apparently is that you don't wish any substantial decline after the trade agreement is signed, and I take it your thought is, irrespective of the trade agreement, that your interest is in maintenance of the rate. I wouldn't relate it so closely to the trade agreement. You merely postponed taking action to do nothing to jeopardize the confirmation of the trade agreement, but subsequently you will take such action as you feel is called for should sterling continue to decline.

H.S.Jr: That's what I said. What I want to get over to him is that I'm concerned now because it's falling now, but I didn't want to do anything to introduce the controversial thing, but if the fall continues I'll have to do something.

White: That's right.

H.S.Jr: And I wanted to write it and I wanted him to get it tonight, see, because that letter does not represent....

White: I thought you were going to talk to the British representative in any case.

H.S.Jr: Yes, but this - this is a letter in which Mr. Hull puts me on the spot, and I want him to get this tonight; I mean he definitely puts me on the spot.

White: When you could say you're going to speak to the British Treasury soon after

H.S.Jr: "If."

White: Only "if." I see.

H.S.Jr: I mean I'm not - let's say she stays around 4.70 and should stay that way for a month. What's the use of

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talking to them?

Taylor: Well, I think you probably want to talk to them anyhow, and you - and there are certain things that are - it's appropriate to

H.M.Jr: Well, if you people want to say that, the point - no, let me get this: don't change it too much and don't argue with me. The point that I want to get over to Hull and I want to put him on notice is this: that if the thing continues to fall after the signing, I want to talk, and I want to get that over now. Just do it my way, will you? I don't want to say, "I want to talk anyway." The point I want to make: I'm putting him on notice that if there is a sharp fall then I've got to talk. It doesn't serve my purpose to say, "As soon as the trade treaty is signed, I'm going to talk." I want it - he's put me on notice; I want to put him on notice.

If you don't mind, do it my way, unless you violently disagree with me.

White: Just some language changes.

H.M.Jr: I don't want to say, "I'm going to talk to them no matter what happens." Mr. Hull has put me on notice; I want to put him on notice that if there is a continued sinking of the pound after the trade treaty is signed, then I'm going to talk; I've kept quiet in order to help him get his trade treaty through. That's the philosophy I want to get over. If you want to change a few words, all right, but please don't change the philosophy, please don't say I'm going to talk in any event.

White: That's clear.

H.M.Jr: Is that clear?

White: Quite. I don't agree, but it's quite clear.

Taylor: You told Sayre that you were going to talk in any case.

H.M.Jr: Well - did I?

Taylor: Uh-huh.

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H.M.Jr: I thought I said only if the pound sinks.

Taylor: You told him that you had a whole list of questions that were prepared for discussion.

H.M.Jr: All right; anyway ...

White: You can always change your mind later; it doesn't commit you.

H.M.Jr: Mr. Hull for some reason has done something which I think is tricky, and I'm going to - this is my opportunity to put him on notice that if the pound - this is what you want - if the pound falls sharply, I'll have to cancel - use the clause. And I want to do it now, so he can't say, "I wrote you"

McR: He misrepresented the Treasury attitude.

H.M.Jr: He misrepresented the Treasury attitude.

Taylor: There is something funny about that.

H.M.Jr: You bet your sweet life there is.

please, Harry.

White: O.K.

H.M.Jr: Once in a while I get the old elbow. We'll see. Now, for your information, I talk anyway.

White: Well, that's all right; that's all I want to know.

H.M.Jr: For your information, as soon as the trade treaty is over and the body is slightly cooled, I talk.

White: O.K.

H.M.Jr: I talk.

White: O.K.

H.M.Jr: But Mr. Hull, whom you mustn't forget is a mountaineer - what do they call the fellows - a feudist - plus former Chairman of the National Democratic Party, plus an office-holder for thirty years - he can teach me cards

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and spades, see? I admit it. But when he writes me "On the basis of Mr. Feis's reports of connected discussions on the subject that have taken place over in the Treasury, I understand that this action runs completely in accord with the Treasury interest and in fact merely repeats an initiative of the same kind made in accord with an understanding with the Treasury" - and this sentence in here does not represent what I want.

White: No, definitely not.

H.M.Jr: And I assure you that as soon as the body is moderately cool and the celebration is over and we have had our banquet, I'll talk.

White: O.K.

H.M.Jr: Are you satisfied?

White: Perfectly.

H.M.Jr: Entirely?

White: Satisfied.

H.M.Jr: Wayne?

Taylor: No, that's ...

H.M.Jr: What? Are you?

Lochhead: I'm satisfied, but I've got something very interesting in connection with this and with that memorandum you have there of Knoke's telephone conversation with the Bank of England yesterday. You remember yesterday the Bank of England said to the Federal Reserve Bank, "We may have to put in certain restrictions; we're thinking about them." I think I probably raised my eyebrows over the telephone to Knoke, saying that it was rather queer, the Bank of England doing all this talking to Federal Reserve Bank of New York. So Knoke told me this afternoon - he said entirely on his own account and not mentioning the Treasury, he had called up Bolton, Bank of England, this morning and said that if they were taking any steps over there in regard

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to regulations....

(On White House phone) Hello. - Sure. - Hello. Yes. - How do you do. Tom, before you get started, there must be some misunderstanding with whoever handles your calls, because Mrs. Klotz said you were a little upset about that - well, there's no record on my switchboard that you called. - No. - No. - No, no, she didn't; she was bothered because she likes to give service. And there is no record of any call on our switchboard, and I didn't ask Secret Service to check either. - No. - On this Civil Service? - Oh, really? - Oh. - Oh. - Well, I don't - I haven't seen Herman, so I don't know what it's all about.

McR: Herman tells me he agrees with me instead of Tom.

H.M.Jr: (On W. H. phone) All you need is about ten minutes?
- Well, are you up by nine o'clock? What? -
Well, I'll be delighted to see you here by nine. -
Fine. Thank you. (Conversation with Corcoran finished)

Go ahead.

Lochhead: So Knoke intimated to the Bank of England if they were considering any changes in doing anything, he thought the British Treasury might very well approach the American Treasury. Secondly - and this is rather interesting - Knoke also told the Bank of England he thought if the trade treaty was signed and sterling dropped that it would look like the deuce.

H.M.Jr: Who said that?

Lochhead: Knoke said that, which was rather interesting. See, that's gone back to the Bank of England - the Federal Reserve saying it would look terrible if sterling drops after the trade treaty is signed. So they've got another notch from another angle.

H.M.Jr: Am I getting this in writing? I'm not getting anything through the ears.

Lochhead: That was made today; it'll be coming through.

H.M.Jr: You better send it up to me. Can't you get it over the phone?

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Lochhead: Yes.

H.M.Jr: Now, I want the President of the United States to get a copy of this tonight, and send me a copy to the house. Will you?

Lochhead: Yes.

H.M.Jr: I didn't get what you said.

Lochhead: Well, I'll send a copy of this and also a copy of the new conversation.

H.M.Jr: Yes, please. And if you gentlemen will do that. Now, "ayne, are you - don't you think I ought to do something?

Taylor: Absolutely. There's something screwy about that.

H.M.Jr: Yes, and Mr. Hull doesn't do things accidentally.

Taylor: I think that's correct, sir.

H.M.Jr: And he's a good marksman.

Now, Mr. Hull called me up and asked me to do him a personal favor.

Taylor: Whether Sayre got him to do it or not is something else again.

H.M.Jr: Well, I haven't got time or the inclination ...

Taylor: That I don't know.

H.M.Jr: But I want to go on record that I'm not satisfied, I've stood by and kept my peace in order that the blankety-blank trade treaty can be signed; but if the pound should continue to fall rapidly, then the United States Treasury goes into action with a broadside. And, for Harry White's sake, we go into action anyway.

Come on there, you errand boy for Hull.

McR: That's your copy of your conversation.

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- H.W.Jr: Yes, but what can I do for him? Can I do it or not?
- JCR: Sure you can do it, if you like.
- H.W.Jr: well, he wants to tell the British Ambassador tomorrow morning you've accepted the check and all that. Can you clear it at 9:30, Mac?
- JCR: well, you can clear it. The British company, in which the Ambassador is financially interested,...
- H.W.Jr: Whaaaaatttt!
- JCR: ...is one of the offenders on opium smuggling. They claim that they have guards in Hongkong and various other places, and our boys, Harry Anslinger and his gang, say that the guards are just a set-up. And what they're trying to do is to trade them into saying they're satisfied to take twenty-five thousand that they've already got and let it go so far as the fine is concerned. But they want to make this snipping compromise to follow the Canadian Pacific System, which is to guard their stuff while it's in their jurisdiction, so that - search their seamen when they come on and all that sort of thing, so they can stop the smuggling, which hasn't been stopped. And that's all they want in addition to this.
- Now, that's the only objection they've got. Now, if you need to, you can go ahead and tell them they can go ahead and continue to ride them on their guarding; but unless they guard, they're going to catch them in another case and they're going to fine them, and ...
- H.W.Jr: Well, of course, that isn't what Mr. Hull told me, and I'm sure Mr. Hull is only telling me what he was told.
- JCR: Yes. They can tell the best story in the world about how well they take care of their ships.
- H.W.Jr: well, what should he tell the British Ambassador tomorrow? I mean is the \$25,000 - is that settled?
- JCR: We've got the 25.
- H.W.Jr: We've banked it?

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McR: We've banked it.

H.M.Jr: Now, what else we going to do?

McR: Of course, negotiations are now going on - two conferences have been held today - ...

H.M.Jr: Yes.

McR: ... trying to get them to assent to an entirely new arrangement with respect to guarding their ships from smuggling.

H.M.Jr: Are we going to fine them any more?

McR: No, nobody wants to fine them any more.

H.M.Jr: That's what I'll tell Mr. Hull. Is that right? No more fine?

McR: No more fine.

Klotz: Wasn't he concerned about this \$25,000?

H.M.Jr: No.

Taylor: Well, if you catch them again, you'll fine them.

McR: As to this particular case, nobody is excited about this particular fine. They're satisfied with that. \$91,000 would have been the penalty if they had let it go; now they made an offer in compromise of \$25,000.

H.M.Jr: And we accepted it?

McR: Accidentally. Julian's boys put the wrong stamp on the check. They've got a deposit account.

H.M.Jr: I better go into the thing. I'm sorry. I better go ...

Klotz: I think so, because he was terribly upset about it, and I don't think the man was informed. Really I don't. He hasn't got the story.

H.M.Jr: No, we better go into the thing. And the Ambassador himself is interested?

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McR: Well, that's what Steve tells me. I wouldn't swear to it.

H.M.Jr: I don't know. You'll see whether we have time. No, I want - I'm tired now - we'll go into the thing tomorrow.

McR: All right.

November 16, 1938.
4:31 p.m.

HMJr: Hello.

Operator: Dr. Bowman in Baltimore.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Dr.
Bowman: Yes.

HMJr: Morgenthau speaking.

B: Yes, how do you do Mr. Secretary.

HMJr: Fine. I had a chance to talk to the President.

B: Yes.

HMJr: And he told me about his work with you and was quite amused and pleased that we both went to the same source.

B: That's nice.

HMJr: And - I asked about bringing on that man from California, and the Treasury paying for him and he said, "That'll be fine."

B: Yes.

HMJr: So if you would do that, and let me know what it is, anything within reason we'll pay.

B: Well, that's fine. He's a young man and he won't require any fancy salary.

HMJr: Good.

B: Probably getting, not more than two hundred or two hundred and fifty a month now, and his traveling expenses, and if that'll be all right with you.

HMJr: Fine.

B: That'll be fine.

- 2 -

HMJr: Now the President wrote me out, in his own handwriting, a list of countries that he was interested in.

B: Yes.

HMJr: And tomorrow I'll send you a photostat of it.

B: Oh, I'd like that.

HMJr: And - you'd like that.

B: I'd like that as a souvenir.

HMJr: All right.

B: As well as marching orders.

HMJr: And I'll explain, he has these countries particularly in mind, but we could do all of them.

B: Yes.

HMJr: In South Africa.

B: Yes.

HMJr: But, and you come over to Washington any regular intervals?

B: No I don't, but I can come over at any time.

HMJr: You could. Well maybe I'll get in touch with you and possibly we could have lunch together.

B: That would be fine.

HMJr: Thank you.

B: I'll get right after that man.

HMJr: Because the President is keenly interested in this.

B: Yes.

HMJr: Yes.

B: And what - what are your time limits now?

- 3 -

HMJr: Well -

B: You see I have to bring that man from California.

HMJr: Well, I'd say - I'd do it as quickly as is feasible.

B: Yes.

HMJr: Yes.

B: Yes. All right, we'll go right to it.

HMJr: Fine.

B: Thanks. I'll send off a telegram tonight.

HMJr: Thank you.

B: See you soon.

HMJr: Right.

B: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 16, 1938, 6 p.m.

NO.: 1936

FROM COCHRAN.

At half-past five I visited the Under Governor of the Bank of France, de Boisanger. Today's unfavorable trend both in French rentes and security market and the check in franc recovery he told me was because of the opposition to Reynaud's program by organized labor, the Communists, Socialists - under the influence of Blum - and some veterans of the War. The French atmosphere is moreover disturbed by the international tension from the anti-Jewish campaign on the part of Germany.

It was the Under Governor's opinion that it was to be expected that there would be some opposition. It is his belief that Reynaud's program is the right one, and that it will have to be accepted by the French. He thinks that Parliament will have to convene before there is any real recovery, so that Daladier may show that he has a (omission) which will guarantee a government of some permanency and may then demonstrate real force in the carrying out of his program. Should the present issue cause an upset in the Government, the Under Governor hesitates to envisage what might take place. He does not think that Parliament will convene until after the British ministerial visit.

At

- 2 -

At 6 o'clock this evening I visited another section of the Bank of France. I was told that during the morning the French fund had lost sterling while following a policy of strategy of adhering to the dollar rather than to sterling, the broker Maurice Rueff apparently having sold this idea to the Minister of Finance. The Bank of France technicians advised that the franc should be kept in line with sterling, and this afternoon the control had gained enough pounds to break a little better than even for the whole day. I am told that industrialists who are becoming concerned about the growing agitation among those who work for them state confidentially that if Daladier were strong enough to place under arrest 50 or 100 of the main agitators - who are for the most part foreign troublemakers - the whole opposition movement in these circles could be stopped.

END MESSAGE.

WILSON.

EA:LWW

Lichfield at 8. P.M.

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November 16, 1938

My dear Mr. Secretary:

I beg to acknowledge receipt of your letter of November 15th with the inclosed copy of a memorandum describing a conversation between the British Ambassador and Assistant Secretary of State Sayre.

You say in this letter: "I understand that this action runs completely in accord with Treasury interest."

Late Tuesday afternoon, November 15th, I called Mr. Sayre, having a copy of his memorandum before me which he had furnished Mr. Taylor at my request. I read to him the following sentence from his memorandum:

"After telling the Ambassador of the President's anxiety, I suggested that he might want to cable at once to London to see if steps could not be taken to sustain the Pound, particularly during the coming few days."

I explained to Mr. Sayre that our interest in the level of the Pound was not confined to the next few days, but that we were also vitally interested in what might happen to the Pound after the Trade Treaty between the United States and Great Britain was signed.

I explained to him also that we have postponed discussing with the British Treasury our grave concern in connection with the continued fall of the Pound as we did not in any way wish to introduce an element which might be controversial until after the Trade Treaty has been signed. However, if after the signing of the Treaty the Pound should continue to fall,

-2-

I shall wish to discuss this question with a representative of the British Treasury at the earliest possible moment.

Sincerely yours,

The Honorable

The Secretary of State.

November 16, 1938

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-2-

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Sincerely yours,

The Honorable
The Secretary of State.

November 17, 1938.
11:52 a.m.

Wayne C. Taylor: Yesterday afternoon tea, this was the trade delegations, British and Canadian gave a tea.

HMJr: Oh, yes. Did they really drink tea?

T: Well that, I didn't ask about. That was, but technically it was. The British Ambassador came up to Sayre and said that they had - had received a reply to his cables about Japan.

HMJr: Yes.

T: That he gave it to him and let him glance through it.

HMJr: Yes.

T: It was about a page and a half and the sense of it was they were - they were doing the best they could and would continue to do so.

HMJr: Yes.

T: And they asked me whether, first if it had come over here in any fashion and I said, "Not as far as I knew."

HMJr: You mean this last one?

T: This last one.

HMJr: Yes.

T: And also whether, during the day, if it didn't come over we wanted them to ask for something more formal than that. I said that, unless heard from the contrary, we'd, we'd let nature take its course today until they got the damned/signed up.

HMJr: That's right.

T: And then if we hadn't heard, say by tomorrow, about this thing, why then we'd prod them on it.

HMJr: Well, I'd let her ride today.

T: Yes.

- 2 -

HMJr: And then tomorrow we - we can talk about it.
Right.

HMJr: How's that?

Well, that's - I think if we, say, get them to say, "Well, where the hell is this message", because they have showed-to Sayre, you see, at a tea, and they didn't give him a copy of it.

HMJr: Oh you mean that the British - that the State - well ask the Ambassador for a copy of the message.
Yes. But, he didn't want to do it necessarily today, unless we felt that it was very urgent.

HMJr: No, and especially in view of my letter to Mr. Hull last night.
Yes. Yes.

HMJr: Did they know about that?
No. Didn't seem to.

HMJr: No. I'd let her ride today. The pound it still 4.70 See?
Yes.

HMJr: And tomorrow, if they want to ask the Ambassador for a copy, O.K.
Well, that was what I thought your feeling would be, and I said we'd leave it like that unless you wanted to do it differently.

HMJr: No. I'm more than willing to have it that way.
O.K.

HMJr: Thank you.
Right.

November 17, 1938.
1:01 p.m.

HMJr: Hello.

Operator: Postmaster General.

HMJr: Thank you.

O: Just a moment, Mr. Farley.

O: Go ahead.

HMJr: Hello.

James Farley: Don't believe what you read in papers, I haven't resigned yet.

HMJr: (laughter) What a man. What a man.

F: I was having breakfast this morning, and I was startled, for a moment, at the news.

HMJr: Well, the Times only prints the news that's fit - that isn't fit to print, uh?

F: Yes. Well, that's all right.

HMJr: Well I wasn't worrying about you, but I thought that Danny Roper was a little vigorous in his denial.

F: Yes, I was interested in reading, in one of the newspapers about Danny being suggested he might - maybe he'd go to Russia.

HMJr: No.

F: And for your information that didn't come out of the air. You can imagine where that one came from.

HMJr: Really.

F: Oh, yes.

HMJr: They are thinking of sending him to Siberia.

F: Going to offer it to him - to you.

HMJr: No.

F: Really.

- 2 -

HMJr: Well I'll be damned. God he must have it in for the Bolsheviks.

F: That's very funny, but I was amused when I saw it in print, so somebody must have talked.

HMJr: Uhhuh. Well is everything as it was?

F: As far as I know.

HMJr: Uhhuh.

F: I'll tell you why I'm bothering you now.

HMJr: Yes.

F: Stewart Underhill whom you undoubtedly know.

HMJr: Yes.

F: From Corning, New York.

HMJr: Oh, sure.

F: Came in to see me today and started talking to me about some regulations, all of which I'm not familiar with.

HMJr: Yes.

F: He tells rather a plausible and rather an interesting story of events of the last ten or fifteen years in connection with their industry.

HMJr: What industry is that?

F: The wine industry

HMJr: Wine?

F: Wine.

HMJr: Oh, yes.

F: They control a big wine -

HMJr: I didn't know that.

F: And Henry, I'd like very much if you'd at least let Stewart -

- 3 -

HMJr: Sure.

F: Tell you the story and then maybe I - I think he's entitled to help as I listened to his story -

HMJr: Well, tell him to come on down.

F: I don't much about - anything about regulations.

HMJr: Well, tell him to send me a telegram and I'll see him.

F: Well when would you want to see him? He's here in New York. When would it be convenient for you?

HMJr: Oh, - you mean his business is in New York?

F: No, he's in New York now. He's here in my office. Not in the office while I'm calling, but he's outside.

HMJr: Oh. That's a hell of a day tomorrow.

F: Would Monday be all right?

HMJr: Well, yes. Just a moment. Hello.

F: Yes.

HMJr: Tell him at three o'clock Monday.

F: Now, - will you hold on one second, and I'll -

HMJr: Sure.

F: I'll get him right here and find out if that's all right, and we can settle it right now.

HMJr: Sure.

F: Meanwhile you hold Danny's hand and Harry's hand tomorrow, I won't show up at the meeting.

HMJr: You won't.

F: No.

HMJr: I can't hold both their hands at the same time.

F: Well, you settle the farm problem for Wallace and that'll be all right.

- 4 -

HMJr: Yes, and how.

F: Get in on that mattress business. That's a good business.

HMJr: (laughter) Well at least I saved the President from being foolish about it.

F: Yes. Well it's all very funny to me.

HMJr: Yes.

F: Just a minute. (aside - Stewart, will three o'clock Monday be all right?) That'll be all right Henry.

HMJr: Stewart Underhill?

F: Stewart Under - Just a minute. Now, would it be all right if he brought his attorney with him, who might be more familiar with some of the regulations than Stewart?

HMJr: Oh -

F: One man with him.

HMJr: If he wants to, but I'd rather - I don't understand anything legal.

F: You'd rather he come alone would you?

HMJr: Yes.

F: O.K.

HMJr: Yes, let him leave his lawyer home.

F: O.K.

HMJr: They're no damned good anyway.

F: O.K. That's all right.

HMJr: All right.

F: Thanks a lot.

HMJr: Thank you.