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EG

PLAIN

London

Dated November 25, 1938

Rec'd 9:25 a.m.

Secretary of State,
Washington.

1357, November 25, noon.

FOR TREASURY.

One. Yesterday's drop in sterling from the opening at 4.66 1/2 to a close at 4.64 7/8 is attributed in today's FINANCIAL PRESS to political factors chiefly the Polish Czech situation. Support by the British fund yesterday is described as halfhearted until the afternoon when the rate was fairly easily brought back from 4.64 1/2 to around 4.65. THE TIMES city editor's comment may be of interest.

"If the control has resisted the fall only spasmodically and at successively lower levels that is in line with its usual practice of retreating before a major movement. So long as the main impetus of the demand for dollars comes from political apprehensions - and there is no reason to doubt that whatever may be the economic or speculative pressure on the pound it is completely dwarfed at the moment by such apprehensions - no other policy is open to it."

This

-2- #1357, November 25, noon, from London

This morning sterling opened at 4.64 3/4 and quickly dropped to 4.63 3/4 when the British fund operated heavily pushing it back to 4.64 1/2 around which level it has since stood without further support.

Two. With practically no arbitrage purchases the renewal of hoarding demand took the gold price yesterday from 149s 2d at the fixing when 359 bars were sold with a 1d premium to 149s 9d and after fixing turnover was reported as relatively small owing to lack of sellers. Today's gold price at the fixing was 149s 10 1/2d the highest on record when 294 bars were sold the bulk being supplied by the British fund the premium being 1 1/2d at 4.64 1/8.

Three. The franc was relatively steady yesterday with some support for forward rates and was steady this morning at around 178 3/4.

Gilt edged prices continue to ease slightly war loan 3 1/2 being now quoted at 98 15/16.

KENNEDY

RR

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 25, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

I called Bolton at 1 o'clock today. Their total losses today were about \$5,000,000, practically all of which had been lost prior to New York's opening. The market had closed at 4.64 3/8 without any tendency.

I referred to his cable of yesterday in which he mentioned reports of impending Czechoslovakian-Polish clashes as the reason for a heavy suddenly renewed demand for dollars and pointed out that our press seemed to attach very little significance to any such developments. Bolton thought it was probably the mystification as to what was happening which was bringing on market movements and that it only required a small incident these days to have great effect. As far as yesterday was concerned, the London market had been orderly and without any pressure until these reports from Czechoslovakia reached London and since then there had been talk of a new level of 4.50 for sterling which was spoken of as likely for Monday morning. However, at the bank they were determined to disappoint the market if that was at all possible. They were still discussing steps to be taken in connection with their forward short position in dollars (see my telephone conversation of November 22) and he was hopeful that he would get everybody to agree to these plans. If adopted he thought they would not necessarily bring about a large squeeze - for that there was probably too much foreign money still left in the market - but at least make it difficult for the

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE **November 25, 1938.**

To **CONFIDENTIAL FILES**

SUBJECT: **TELEPHONE CONVERSATION WITH**

FROM **L. W. Knoke**

BANK OF ENGLAND.

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speculators to take fresh positions, but everything was, of course, dependent upon the general European situation.

LWK:KW

REB

GRAY

London

Dated November 25, 1938

Rec'd 3:51 p. m.

Secretary of State,
Washington.

1361, November 25, 6 p. m.

FOR TREASURY.

An announcement increasing the fiduciary issue expected in some quarters yesterday did not materialize and discussion as to whether it will be (a) necessary, and (b) psychologically advisable in the present circumstances will probably continue for another week. Yesterday's Bank of England return shows a further decrease in the note circulation of pounds 2.5 million. The reserve stands at pounds 51.6 million as compared with pounds 67.5 million a year ago, when the fiduciary issue had been increased by pounds 20 million on November 17. The expansionist influence of the return of notes was neutralized by reductions in security holdings of pounds 3.1 million. There was a transfer from public to bankers' deposits reducing the former in spite of extensive open market operations in bills by only pounds 3.3 million to pounds 31.7 million and

REB

2-#1361, From London, Nov. 25, 6p.m.

and increasing the latter by pounds 2.7 million to pounds 92.2 million. It is notable that public deposits were also high a year ago when as this year, a war loan dividend fell due in the subsequent week. Clearing banks (been?) have not reluctant purchasers of bills and credit conditions relatively tight. Today's Treasury bill rate average was 17 shillings 6 pence as compared with 14 shillings 11 pence last week.

Sterling was held this afternoon mostly between 4.64 and 64-1/2 by heavy though intermittent support from the British fund.

KENNEDY

RGC

EDA

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 25, 1938, 5 p.m.

NO.: 1988

FROM COCHRAN.

Today I called on Reynaud, the Minister of Finance. I said that tomorrow I was going back to the United States for a brief visit, and I asked him whether there was anything I could do for him in the United States. Reynaud said that he would appreciate it very much if the American press would give more favorable recognition to his measures, especially the trade papers. He said that the British financial press, particularly the ECONOMIST, had given his program a most cordial reception.

The Finance Minister is still convinced that he will win out with his program, and said that the second vote of the Finance Committee - reference, my telegram No. 1981 of November 23, in which I mentioned the vote was 25 to 16 in his favor - was really indicative of what could be expected from the Chamber. The Finance Committee itself was considerably further Left than the Chamber. Political reasons had been behind the first vote. He is convinced that when it comes to a show down in the Chamber, the French will accept what they all realize is absolutely necessary and will uphold his program.

Reynaud

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Reynaud mentioned the labor problems, and said that from the first they had anticipated difficulties; this crisis was inevitable and had to be seen through. Reynaud had had a talk with the Premier yesterday, and he told Daladier that the real test period for their program would be the coming 25 hours. The firmness with which the Prime Minister dealt with the strikes would determine the outcome, for the most part. The Finance Minister told me that Daladier immediately took over the Ministry of the Interior himself. He is now following a sufficiently firm policy to meet the demands of anyone.

During our conversation Reynaud was entirely cheerful and optimistic, and was positively determined to go ahead with his program.

On the Paris market today sentiment is better as a result of the strong attitude taken by Daladier on the strike situation; it is believed that in case of a general strike Daladier will declare military law.

WILSON.

END SECTIONS ONE AND TWO.

EA:LWW

PARAPHRASE. SECTION THREE. TELEGRAM NO. 1988 of
November 25, 1938, from Paris

At five o'clock I had a talk with the Bank of France. I was told that the stabilization fund had lost for the day only 100,000 pounds, despite strikes and other causes for uneasiness. Today my friends at the Bank are more optimistic. The British fund had a bad day again today, at least 5,000,000 pounds being lost.

I will send by mail an analysis of the latest statement of the Bank of France, and give a report on the reduction in the Bank of France and government bond rates.

END MESSAGE.

WILSON.

EA:LWW

C A B L E

From: Bankers Trust Co. of N. Y.
London Office

Date: November 25, 1938
Friday

AGAIN FAIR DEMAND FOR SPOT DOLLARS BANK OF ENGLAND INTER-
VENED AT 4.6375 AND 4.63-3/8. FORWARDS STEADY. SPOT FORWARD
FRANCS STEADY OWING TO CONTROL OPERATIONS.

DeCASTELLANE REPORTS EXCHANGE VERY QUIET. SITUATION STRIKES
UNCHANGED GOVERNMENT CONTINUING EXPEL WORKERS. GENERAL STRIKE
DECIDED FOR WEDNESDAY GOVERNMENT DETERMINED DISMISS ALL
GOVERNMENT EMPLOYEES PARTICIPATING THEREIN. DALADIER HAD
CONFERENCE LAST NIGHT WITH MILITARY AUTHORITIES PROVING DETER-
MINATION TAKE STRONG STAND. GENERALLY BELIEVED REAL REASON FOR
STRIKES NOT DEMONSTRATIONS AGAINST DECREES BUT EFFORT REINSTATE
1936 POPULAR FRONT. MONEY MARKET UNCHANGED DEFENSE BONDS HOLD-
ING THEIR OWN AROUND 3 3/4% WITHOUT INTERVENTION. REYNAUD
BROADCASTING TONIGHT 8 P. M.

CONFIDENTIAL

C A B L E

From: Bankers Trust Co. of N. Y.
London Office

Date: November 25, 1938
Friday.

#250.

STRONG PRESSURE AGAINST STERLING AND BANK OF ENGLAND INTERVENED AT VARIOUS PRICES. WITHOUT TAKING IN ACCOUNT LOSS OF GOLD IN GOLD MARKET BANK OF ENGLAND HAD TO SUPPORT EXCHANGE MARKET YESTERDAY TO EXTENT OF DOLLARS 10/15 MILLION AND TODAY OVER DOLLARS 5 MILLION. FORWARDS WANTED. NO OUTSTANDING TENDENCIES SPOT FORWARD PARIS MARKET AS FRENCH CONTROL INTERVENING BOTH WAYS.

DeCASTELLANE REPORTS GROWING GENERAL BELIEF GOVERNMENT WILL HAVE SMALL MAJORITY IN CHAMBER HOWEVER PROLONGATION PRESENT MANDATE VERY UNLIKELY AND MANY FEEL GOVERNMENT MAY NOT SURVIVE BEYOND END YEAR. GOVERNMENT'S ENERGETIC INTERVENTION TO CLEAR FACTORIES CREATING FAVORABLE IMPRESSION.

ISSUE RATE 2 YEAR DEFENSE BONDS LOWERED TO 3-1/2-0/0 BID PRICE TODAY 3-3/4.

CONFIDENTIAL

Treasury Department
TELEGRAPH OFFICE

12 3

TO W E 45/44 ETAT

RIO 25/1614

SUA EXCELENCIA SECRETARIO MORGENTHAU 958 NOV 25 PM 2 44

WASHDC

25 11 38 ACABO RECEBER INTERMEDIO ITAMARATY COMUNICACAO VEXA TEVE
BONDAD E ENVIARME E QUE MUITO AGRADECO EM MEU NOME E NO DE MEU GOVERNO
ESTOU ELUBORANDO REPOSTA QUE CONTO ENVIAR POR MALA AEREA PROXIMA
SEMANA SAUDACOES OORDIAIS

SOUZA COSIA

244p

Telegram

36 W E 45/44 United States

Rio 25/1614

His Excellency Secretary Morgenthau
Washington, D. C.

November 25, 1938 I have just received through Imataraty a communication which you had the kindness of sending me and which I greatly appreciate in my name and in the name of my Government. I am elaborating a reply which I intend to send by air mail next week.

Cordial greetings.

Souza Cosia
T

Translated from Portuguese by
Dr. Schwarz, Mint Bureau.

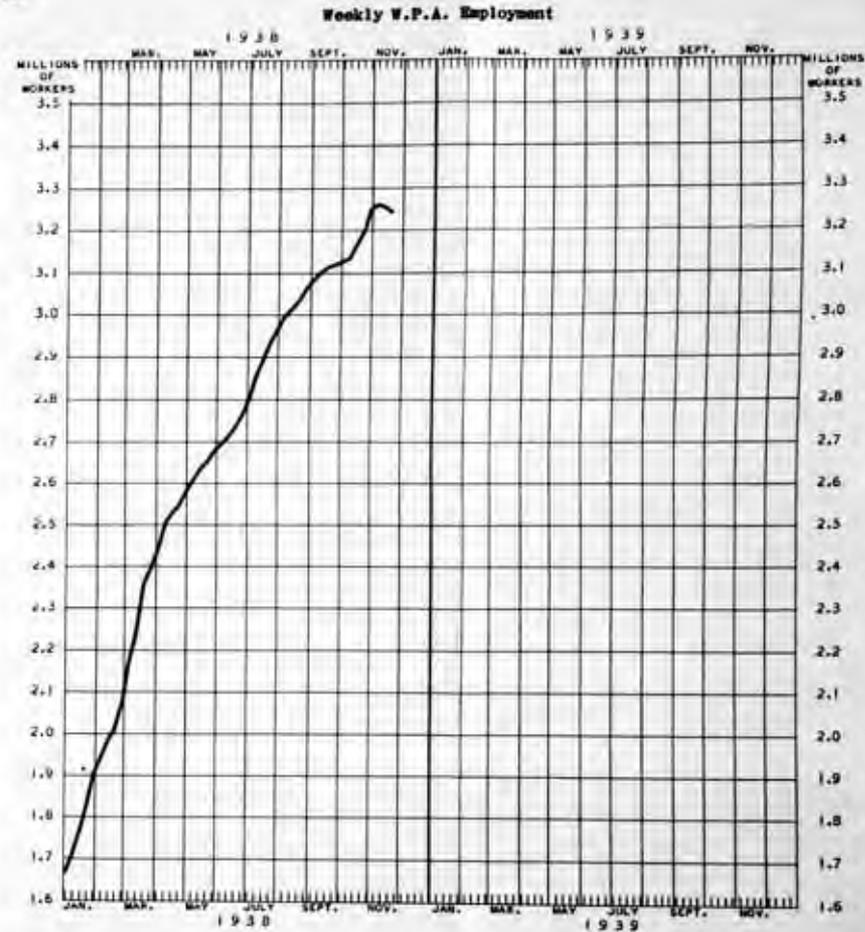
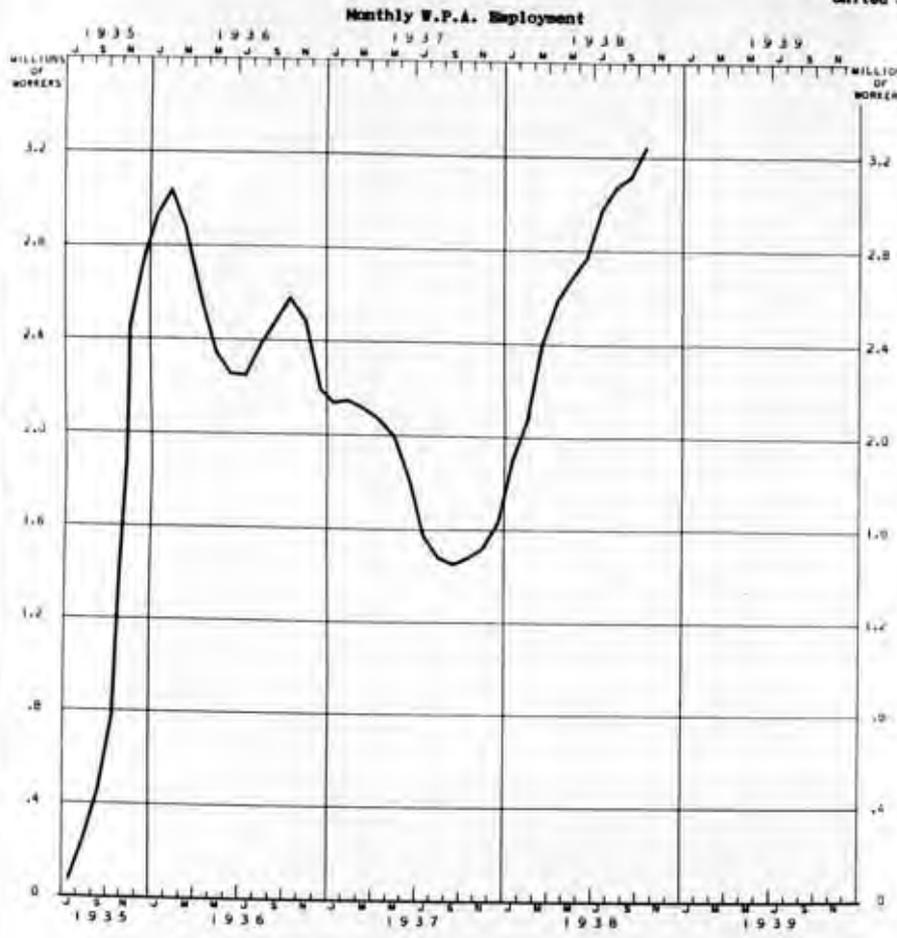
November 25, 1938

To: The Secretary
From: Miss Lonigan *e. l.*

The total number of WPA workers on November 19, 1938 is 3,243,555.

The decrease during the week from November 12 to November 19 was 13,882 workers. This is a total decrease of 19,071 workers from November 5 to November 19. The total increase from the low point of October 2, 1937 to the high point of November 5, 1938 was 1,814,215.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

Office of the Secretary of the Treasury
Division of Research and Statistics

Z - 221 - 8

WORKS PROGRESS ADMINISTRATION

16

Number of Workers Employed - Weekly

United States

Week ending 1938	Number of Workers (In thousands)
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,445
April 9	2,504
April 16	2,532
April 23	2,545
April 30	2,582
May 7	2,608
May 14	2,626
May 21	2,652
May 28	2,678
June 4	2,695
June 11	2,711
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,996
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,136
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,257
November 19	3,244 ^{a/}

Source: Works Progress Administration

a/ Confidential

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

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	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,376
September	2,482
October	2,581
November	2,482
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245 a/

Source: Works Progress Administration

a/ Confidential

Monthly figures are weekly figures for the latest week of the month.

They include certified and non-certified workers.

Confidential

P A R A P H R A S E

A telegram (No. 84) of November 25, 1938, from the American Consul General at Hong Kong, reads substantially as follows:

Rumors continue to exist of special understanding between Great Britain and Japan in south China affairs and there are some signs to this effect. However, so far the Consul General has not been able to obtain any evidence of tangible enough character to report. Principal Hong Kong business interests continue optimistic that there will be arrived at an understanding permitting resumption of hinterland trade.

Most observers in Hong Kong attach minor importance to reports which persist there of a dangerous Chinese offensive against Canton. These reports are principally propaganda inspired by the Chinese Central News Agency by way of the United Press and Reuter's in the opinion of Hong Kong observers. Gossip has it that the British representative in Hong Kong of the United Press is very much under the influence of the Eugene Chen clique and other Chinese propaganda sources with which he has very close connection.

The Consul General has been reliably informed that Japanese military forces in small numbers are systematically and successfully "mopping up" area between Hong Kong frontier and east river with a view to putting into operation the Kowloon-Canton Railway. Although Japanese forces are bombarding the frontier town of Shumchun observers here anticipate no frontier incidents because Japanese forces are understood to be operating with circum-

-2-

spection to that end. A few thousand refugees have come to the frontier but the numbers are smaller than anticipated which might indicate that Japanese promises to cause as little disturbance as possible in the immediate Hinterland are being adhered to. Refugee problem is stated not yet to have approached serious proportions.

793.94/14413

(COPY)

STRICTLY CONFIDENTIAL

AMERICAN CONSULATE

Yunnanfu, China, November 25, 1938.

SUBJECT: Yunnan-Burma Highway.

The Honorable
The Secretary of State,
Washington.

I have the honor to refer to this Consulate's despatch No. 117 of November 5, 1938, on the subject of the Yunnan-Burma highway, and to give below extracts from a report on the condition of the road prepared by Mr. C. W. Hunter, an official of the Central Aircraft Manufacturing Company, Federal Inc. U.S.A. Mr. Hunter

is

- 2 -

is the American referred to in the last paragraph of the despatch under reference as having left Yunnanfu for Shamo, Northern Burma, by motor car. Mr. Hunter had to turn back on account of the bad condition of the road after he had reached a point approximately 100 miles from the Burma border. He undertook the trip on behalf of his firm for the purpose of investigating the possibility of transporting over it supplies for an airplane factory which that firm is establishing in Yunnan. In view of the private nature of the report it is requested that it be considered confidential for the information of American Government agencies only, and that the information contained therein be not published. The pertinent part of the report reads as follows:

"On Nov. 2nd, 1938, two of our Chinese staff, two chauffeurs and the writer left Kunning with the Ford sedan and a Ford truck which carried our gasoline supply, provisions, bedding, etc. The first day we travelled to Chuhsuing which is approximately half way to Talifu and is 117 miles from Kunning. There are three very substantial cut stone and concrete bridges on this section of the road and several small wooden bridges of 10 foot span or less which are being used temporarily while the permanent stone arch bridges are being built. In general, when dry this section of the road is good. Only about one half of this stretch has been gravelled; but the dirt roads are well drained and, even in wet weather as we found out on our return, an average speed of about twenty miles an hour can be maintained. There are evidences of numerous land slides which occurred

presumably during the past rainy season; but these had all been moved.

"On Nov. 3rd we travelled from Chuhsuing to Talifu. Here the road becomes quite mountainous and there are some passes at 8,000 feet altitude. Several of the hairpin turns are so sharp that it was necessary for the truck to back up several times to mancoever around the turn. The grades, however, have been well selected. There are two stone and concrete bridges, all about 80 foot span, on this section of the road and both are equally good. There are also innumerable short span temporary wooden bridges along side the permanent arch bridges which are being constructed, and these temporary structures form a hazard until they are abandoned. This section of the road is well gravelled for short stretches. About 50% of it has not been gravelled and is definitely dangerous in wet weather. Evidences of slides are numerous; but all had been moved at the time we passed through. There is one deep fill across a valley which has not settled sufficiently and which is definitely dangerous inasmuch as both sides are falling away. There is a possibility that this section of the road will give a great deal of trouble during the wet season.

"On the third day, Nov. 4th, we left Talifu and Hsiakuan and found the road for the first hour and half to be in excellent condition. This road follows down a river gorge through mountains composed mainly of limestone and granite. There are a few evidences of slides, but in general this is probably the safest section of the entire road which we covered inasmuch as the geology is

such that slides are not likely to occur. After one and half hour's travel, however, the geology changes entirely and the mountains which become much higher are composed almost entirely of Permian shale beds commonly referred to as red beds. While the grades and curves have been well selected and laid out, the angle of the cut above the road and the angle of fill below the road are in many cases much too steep, exceeding the natural angle of repose for this type of material. The result is that slides above and below the road are very numerous and they will continue to cause much trouble, even in dry weather. In addition to the slides, many of which were taking place as we passed over the road, we were also considerably delayed by the construction work taking place on the new stone bridges. This route contains two permanent 50 foot or more span bridges capable of carrying huge loads and many small ones which are being replaced. After ten hours driving and hard work we arrived at Kungko, the total day's travel being 118 miles.

"At Kungko we crossed the Mekong River on a suspension bridge of 150 foot span having a rated capacity of 10 tons. There are no objections to the bridge, but the approach on this side is so narrow and the angle of turn onto the bridge so sharp that it took our truck about 15 minutes to manoeuvre into a position to get on the bridge. This section of the road will undoubtedly give much trouble during the rainy season.

"On Nov. 8 we left Kungko at 7 a.m. and we arrived at Paoshan at 1 p.m. after travelling 64 miles. Travel became increasingly difficult from Kungko. Here the new bridges have not progressed so far and the temporary

wooden bridges are in much worse shape due to lack of maintenance. In the vicinity of Paoshan we found that two short span wooden bridges had been completely removed and it took the greater part of an hour to improvise something on which to make a crossing. In the four hours following our departure from Paoshan we made exactly 15 miles over most difficult terrain, the road being completely blocked in many places by recent slides. We were unable to make the next town before nightfall and we stayed out over night in the hill at about 8,500 feet altitude. With the aid of ten coolies, whom we hired, we filled in two wash-outs which were about 5 feet wide and 4 feet deep.

"On the following day, Nov. 6, we left our camp at 7:15 a.m. and almost immediately came upon a slide which completely blocked the road, which required the help of 20 coolies and about two hours of time to remove. We found the road either partially or entirely blocked on practically every curve. Road gangs were quite numerous and they were in every case generous with their time in helping us get through. At 4 o'clock we arrived at the Salween River and made the crossing on a temporary suspension bridge with a rated capacity of only two tons. It was only after much consideration that we attempted to cross it at all, because the bridge is distinctly dangerous. It is our understanding that sometime within the next six months many of the suspension cables will be replaced and such repairs completed on the bridge as to give it a rated capacity of about ten tons.

"The road starts to climb immediately from the river

level up the side of the very steep mountain. Within five miles the road climbs to an altitude of approximately 8,600 feet above the river, at which place we reached the impassable slides which caused us to turn back. Here the road is only one car wide and the slide is approximately 300 yards long which covers the road completely. Just beyond this slide a section of the road approximately 100 yards long has fallen away from the side of the mountain. Judging from the appearance, these slides took place during the last rains and have not been worked on since. The local road supervisor informed us that there had been so many slides on this section that they had not been able to get to this particular one. We estimated that at least six weeks would be required to make the proper repairs so that motor traffic could pass through this location. He likewise informed us that a similar condition existed in the vicinity of Lungling, 20 miles further down the road. We turned back at about 5 o'clock, recrossed the Salween River and again spent the night in the hills.

The following morning we returned to Paoshan. Before our departure from Kunming, we had been advised to travel as lightly as possible. We also made arrangements for replenishing our gasoline supply at Lungling from the stores of the Road Construction Commission. Inasmuch as we were not able to reach Lungling, we found ourselves without enough gasoline to return to Kunming. I therefore immediately sent a telegram to Kunming, asking them to dispatch another truck with sufficient supply of gasoline for us to make the return trip. We stayed at Paoshan

for three days. On the fourth day Mr. Lynn of the South-western Transportation Commission and the Shing Yung Trading Corporation arrived at Paoshan with ten trucks and a considerable supply of gasoline. His trip to Paoshan had taken three more days than our trip and in spite of the fact that we had cleared the road as we traversed over it, he found it in equally bad shape, which indicates that slides are occurring at all times on the road, even though the weather is dry. Mr. Lynn very kindly loaned us 25 gallons of gasoline and gave us a note to his storekeeper in Hsiekuan for an additional 20 gallons, which was enough for the three of us to make the return trip in the Ford sedan. We left the truck behind to await the arrival of the second truck from Kuning.

"On Nov. 11th we started the return trip in a light rain storm. However, the weather became worse immediately and we had an opportunity to see the road under wet condition. My theory that many sections of the road would be almost impassable during wet weather was borne out in the next four days on our return trip. Many times we found it necessary to hire coolies to push the car up ungravelled hills, to remove slides which were actually taking place while we were there and to pull the car out of difficult situations in the vicinity of the temporary wooden bridges. On one occasion, with everyone available working with shovels and picks, it was only by good fortune that we passed one slide which was taking place at a rate almost equal to that at which we could remove it. On another occasion, in the vicinity of Yangpi, where a permanent bridge has not been constructed and

and where no temporary bridge has been built, it is necessary to ford a river approximately 100 feet in width. Due to the rains of the previous two days the river had risen about 2 feet and the car was stalled in the center of the river bed. Here it was necessary to hire about 30 coolies who, working in two and half feet of water, actually lifted the car up and carried it out. In the vicinity of Kungkee the mountain passes reach an altitude of about 10,000 feet. Here the weather changed and it became very cold. During the night about 10 inch of snow fell in the mountains which added materially to our difficulties. The snow was heavy and wet and in many places trees had fallen across the road under the weight of the snow and in several cases it became necessary to hire coolies with axes and chains to remove them from the road. In this section trees high up above the road form a constant hazard.

"We arrived in Kunming on Nov. 16th, having taken five days for the return trip. The total mileage of the round trip amounted to 943 miles. I believe the attendant hazards of the road we travelled are greater than on any other roads I have ever seen. The driver of the sedan and the driver of the truck have both been over the road from Hengyang to Kunming and both agree that this road is much more dangerous to travel than the road through Kwangsi which, as you know, is bad enough. I would like to say that the engineering on the Yunnan-Burma road seems to have been well done. In general the grades have been very well selected and the curves are wide, except in those places where due to the natural topography it was impossible to build a wide radius into

the curve. The main difficulty is and will continue to be, the slides above and below the road bed. In dry weather this trouble will be minimized, but we must remember that about six months of the year are known as the rainy season, during which time much trouble will be experienced until the earth above the road has been removed, thereby eliminating the cause of the slides. At the present rate of progress on the new bridges, I would estimate that within two months, or by the time the very serious slides just beyond the Salween River are repaired, the bridges will be about 90% complete, and entirely complete by the end of four or five months.

"There is another feature which enters into the road as an economic factor and that is the fact that many miles of it are so narrow in width that it can accommodate only one way traffic and the control of traffic would be a very serious problem for someone to content with, and once the road is put in good condition, it will require a great deal of close attention to make it an economic success. There are no facilities whatsoever along the road for night stopovers for travellers. I understand the China Travel Service are now investigating the possibility of providing such quarters and, in fact, I met two of their men who were making a survey of this problem. One of the things that makes for slow construction is the lack of communication between many of the divisions of the road and the official headquarters in Kunming. For instance, before we left Kunming, Mr. Liu, Chief of Construction Commission of Yunnan Province, sent telegrams to all of these places that could be

- 10 -

reached and each answer indicated that those respective sections were passable. However, the telegraph system is out of order most of the time and a great many of the sections cannot be reached by telegram. Therefore the condition of those sections are unknown to the official headquarters in Kunming which means that anything may happen in any of the districts and the facts are not known in Kunming until many days later.

"You may be interested in knowing something of the organization behind the Road Commission actually. Mr. Liu, who maintains an office in Kunming, is the Provincial Chief Construction Engineer on the entire project from Kunming to the Burma border. The road is divided into districts and each district has a resident engineer who also has in addition several subordinate engineers. These resident engineers are responsible only for the road and bridges in their respective sections. It is Mr. Liu's estimation that by the first of January, 1939, his work will have been completed. It appears to me that it will require much more time. At the same time the Central Government are organizing a Maintenance and Operations Commission, whose duties are to maintain the road and bridges and operate the trucks and tractors for hauling Government materials over this road. The man in charge of this Commission is Mr. Ying, whom I believe you have met and who has only recently come to Kunming. He has never been over the road, but is planning to make the trip in two week's time. According to his statement to me since my return, on the first of January, 1939, when his responsibilities begin, he will expect the road and bridges 100% complete.

For hauling Government materials from Burma to Kunning he expects to use three and six cylinder Diesel tractors which will draw a series of four wheel trailers of approximately two tons capacity each. I have talked over this matter with Mr. Ying and am sure that he will agree, when he has been over the road, that a great many of the turns in the mountains are too sharp and of too small a radius of curvature to permit this kind of transport.

"There are many many thousands of coolies working on this road. From conversations along the road on numerous occasions, I gathered that practically all of these coolies are conscript laborers, receiving food but no pay for their work. In general, it appeared that the amount of work being done per man is very small. However, on the numerous occasions when I had to make use of these coolies I made known to them that I would pay them for their work, and I must say that they eagerly rendered excellent service. Whether this road could be of service to Central Aircraft in the reasonably near future will depend upon the amount and quality of engineering and labor which the Central Government is prepared to devote to the road after it takes over on the first of January, 1939 or such other date when the Central Government takes over. Obviously the road is of such character as will continue to require for a period of several years a tremendous amount of engineering attention and maintenance labor. Without this, for practical haulage purposes the road will be useless for many many months to come. In many

places

places the character of the soil is such that slides will very frequently occur for several years to come unless proper attention is given immediately to these places on the road."

Respectfully yours,

Paul W. Meyer,
American Consul.

In quintuplicate.
Copies to:
Embassy, Chungking
Embassy, Peiping
Consulate, Hankow
Consulate, Shanghai
RECEIVED
U.S. CONSUL
SHANGHAI
JUL 10 1940

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PAM/ehs

November 25, 1938.



Dear Mr. Spraul:

In the absence of the Secretary I am acknowledging your letter of November 23rd, commenting upon the past week's financing.

Mr. Morgenthau will return to the office the first of the week, and your letter will be brought to his immediate attention.

Sincerely yours,

H. S. Klets,
Private Secretary.

Mr. Allen Spraul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GNF/dbs

FEDERAL RESERVE BANK
OF NEW YORK

November 23, 1938.

Dear Mr. Secretary:

During the past three days we have been making a preliminary canvass of the market, in anticipation of the December financing and, in addition to our regular contacts with dealers, we have talked to the heads of some of the principal banks and insurance companies. I am sending along the following notes of these conversations which might be of interest to you. The talks, of course, have been in general terms, both because it was too early to discuss details of possible new issues, and because the men we consulted were, for the most part, less familiar with maturities and pricing than with the broader aspects of the market.

First, there was a general expectation that the Treasury would anticipate its March maturity in December, and ask for perhaps \$500 to \$800 million of new money. This general program was considered a desirable one, the feeling being that this is a good time to stay three months ahead of requirements. One or two tentative suggestions were made that both March and June notes be refunded in December, and cash requirements be met in March, or March and June, with an intervening use of existing balances or an increased issue of bills in case a pressing need for cash should meanwhile arise. This proposal, I think, grows out of the arguable belief that the combination of an offering for cash and an exchange offering, the "rights" to which are selling at a substantial premium, leads to pricing difficulties and a more erratic market than otherwise would exist. It also was suggested that such a program would prevent a further accumulation of Treasury balances in advance of the need for them.

Second, it was the general opinion of those consulted that there is no present market reason why a financing operation involving around \$1 1/2 billion of exchanges and new money should not be readily carried out. This feeling is not so strong as it was two or three weeks ago, perhaps, the market having reacted to disquieting news from Europe and to the weakness of sterling, on the one hand, and, on the other, to expectations of further recovery, increased demand for funds, and ultimate higher interest rates in this country. Nevertheless, there does not seem to be any question about the initial success of the offering. The subsidence of the feeling that anything would go, in any amount, expresses itself rather in suggestions that a 22-27 year bond might be better than a 25-30 year bond, and that it might be a good idea to raise only \$500 million of cash now and the needed remainder next March and June.

Third, there was a drift of opinion toward the possible desirability of putting out a 3-way offering this time: a note, a short or intermediate bond, and a long bond. This opinion grows out of the difficulty of combining a note and a long bond in a satisfactory package for subscription by banks which hold the larger part of the March 1939 notes or "rights." If only a note and a long bond are offered, it is held, the exchange will be almost entirely for the long bond, because it will of necessity carry a larger premium. That would mean that, combining the exchange offering and cash offering, there would be upwards of a billion dollars in long bonds in the market, which is thought to be much too large an amount for prompt placement with investors who really wish to hold this type of security. A large part of the offering would, therefore, be in the hands of the banks as underwriters and this would probably mean a long drawn out secondary market which might become very weak if there were any disturbance in the situation either here or abroad. The banks are, however, interested in intermediate term bonds, say, 10 to 12 year 2 1/4s. Query: Would an offering of notes for which there is always some market, of intermediate bonds, which the banks will take and hold, and of long bonds which appeal to investors interested more in yield than in maturity, be the best prescription for this market? There are

all sorts of variations of this scheme, of course. One suggestion was an offer-
ing of \$300 or \$400 million long bonds for cash; \$300 or \$400 million of ^{intermediate} bonds
for cash, and an exchange offer of long and intermediate bonds plus a note.
Another suggestion was a note and a long bond should be put out for cash, as there
are cash investors for moderate amounts of both types of obligation, and an inter-
mediate bond offered for exchange, which, presumably, would go largely to the banks.
The banks would take part of these bonds as investors and the rest as underwriters,
but not such nervous underwriters as they would be in the case of a long bond.

It has been too early, of course, to tackle the question of actual terms,
but when we talk to the dealers and some of the bank operating men, on Friday and
early next week, we shall get some more specific ideas.

Yours faithfully,



Allan Sproul,
First Vice President.

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

November 25, 1938.
4:15 p.m.

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HMJr: Hello.
John Hanes: Henry?
HMJr: Yes.
H: I talked to Bill Douglas.
HMJr: Yes.
H: And Bill said that he did not talk with the Boss, but he passed word along to Missy.
HMJr: Yes.
H: And that he had had no reply.
HMJr: Yes.
H: That he had just told her, it was - recited to her - apparently couldn't speak to the Boss, so he apparently told her that we had given him the information from all the Departments concerned.
HMJr: Yes.
H: And that they had decided that nothing would be said that - simply the order would be given out and Bill has decided that he's not going to make any statement.
HMJr: Uh-huh. Well, /the way he spoke I didn't think he would either.
H: Yes. I didn't think so, but -
HMJr: Now - hello.
H: Yes.
HMJr: Hello.
H: Yes. Hello.
HMJr: Have you told Danny Bell about this?
H: I haven't said a word to Danny Bell since you left here. Should I?

- 2 -

HMJr: Yes. Because on account of the apportioning of the funds and all that. I would, he'd be helpful tomorrow if anything went wrong.

H: You mean on - you're talking now about the California situation?

HMJr: Yes.

H: All right, I'll get him right away.

HMJr: Now you got - the President signed our letter.

H: Oh he did.

HMJr: It came in.

H: Oh, good. Well I'll be darned.

HMJr: Are we good, or are we good?

H: I swear I think that's wonderful. I congratulate you on that.

HMJr: I feel pretty happy about it.

H: What do you mean, he signed the letter authorizing the declaration of an emergency?

HMJr: Yes.

H: He did really. Well, I -

HMJr: He signed it just the way it was written.

H: Yes. And no word from him?

HMJr: No, I just talked to Dan. Dan said the letter comes back, a single sheet with the President's signature and no comment of any kind.

H: (laughter) I swear.

HMJr: Huh.

H: I think that's good. Gee, I'm pleased.

HMJr: Without a thing. I mean not even a note or anything.

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H: Does Hopkins know about it?

HMJr: No, not now. I said to Dan, "Why don't you let him know". He said, "Well I was waiting to talk to you."

H: Uh-huh. Well, that's damned good. I'm glad of that.

HMJr: Do you think I ought to call Harry? I think Harry ought to call me, don't you?

H: I think so, yes.

HMJr: What?

H: I - if I were in his position, I would think that I owed somebody a bit of gratitude.

HMJr: Do you think I ought to call him?

H: No, I don't think - I don't think I would if I were you, I think it's his place to call you.

HMJr: Yes, I think so.

H: I don't - I don't believe I'd call him.

HMJr: No.

H: Unless you have something specific to say to him. I think it's up to him to make the wire pretty hot on that.

HMJr: Yes.

H: Dan said he was waiting until he talked to me and he hadn't told a living soul.

HMJr: Yes.

H: Well I don't - I - I'M certainly pleased with it myself.

HMJr: Yes.

H: Is - is any announcement going to be made on that?

HMJr: No.

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H: No public announcement.

HMJr: No.

H: Uh-huh.

HMJr: I think that you might let Frederick Delano know and also Eccles.

H: Yes.

HMJr: If they're in town. I wouldn't bother to call them if they're out of town.

H: Yes. Eccles is not in town. I haven't found out where he is but I'll call Frederick Delano and tell him.

HMJr: Tell him.

H: Yes.

HMJr: I feel very good about it.

H: Well I don't wonder, I think you should feel good.

HMJr: Well now, John.

H: Yes.

HMJr: There really isn't anything more we can do tonight is there?

H: Well there's not anything but I'm going to stay here until that order has gotten out.

HMJr: Is Herbert Gaston around?

H: Yes, and Herbert and Delano and I have been meeting off and on all day because undoubtedly the Comptroller's office is going to have something to say. They are going to have to say something I'm afraid.

HMJr: Yes.

H: And we have sat with Delano and this is the program for the moment, that any requests, the reporters will ask him, for instance does this order have anything to

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do with the solvency of the bank and that question he can answer himself, that it's the Comptroller's responsibility in case there were any questions of the bank - solvency of the bank to proceed at once to close the bank or put in a conservator.

HMJr: Yes.

H: But that - since there is no question of the bank solvency and he's been into that again today, and there is, he tells me, no question of the bank solvency.

HMJr: I see.

H: They are frozen tight, but their solvency, he says all the bank examiners in his department all agreed that there's no question about their solvency, and that he can say and will say to the reporters. Herbert and I both agreed on this that any other questions that are asked him he should simply say, "Why this order comes from the SEC, it doesn't come from the Comptroller and I have to refer you to the SEC."

HMJr: Well now, John. In order to keep our wires straight, I'm not talking or giving any advice to anybody except through you.

H: All right.

HMJr: See?

H: All right.

HMJr: So, if Preston Delano or any of them want to call me let them go to your office and call me from there and then you'll know.

H: All right.

HMJr: We won't get - in order words, that's the way I'd play it and I'm not going to get my wires crossed.

H: Yes. Well, now I took the liberty here of giving instructions around to all the people in the Treasury to refer any newspaper reporter with requests about this California business to Herbert Gaston.

HMJr: That's - now did you tell that to Taylor?

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- H: Yes. I told everybody who's been in on it, say nothing, simply to say that Herbert Gaston is the man who you want to talk to and if he has anything that the Treasury has to say he will say it.
- HMJr: Yes.
- H: And that's what I'm going to do and I asked everybody else to do the same thing and simply not discuss it because it's not our affair. This order itself is from the SEC and we shouldn't be put in the position of trying to explain what it is.
- HMJr: Yes.
- H: Let them do their own explaining.
- HMJr: Yes.
- H: And let's keep ourselves out of it, because it isn't our business except in so far as the question might be asked, "Is this bank solvent or isn't it solvent", then the Comptroller of the Currency would have to say that if the bank was not solvent the law provides that I shall act immediately.
- HMJr: Well now, wait a minute. Instead of making it a double negative, couldn't we make it the other way around and simply say the bank's condition is such that there's no occasion for me to do anything.
- H: Well, that - that - I put it - stated it badly, he's going to state it affirmatively.
- HMJr: Well, that's what I
- H: Without giving - without giving figures, he gave me the figures. The figures are that they've got about ninety-seven million dollars of free capital, that is of capital in the bank unimpaired in so far as you can tell, they've got about a hundred and twenty three million dollars of slow assets.
- HMJr: Yes.
- H: Against that ninety-seven million, but there's no question in anybody's mind that there's a full ninety-seven million of salvage in that hundred and twenty three million, and therefore he's willing to say and

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go on the line that the bank is in a solvent condition and make an affirmative statement to that effect.

HMJr: Well, that's what I meant.

H: In answer to a question only that he's not going to make that statement voluntarily of course.

HMJr: Yes. Now one other thing. I wonder if you've sewed this up. Crowley and his people like to talk pretty freely.

H: No, I haven't spoken to them, I just spoke with the Treasury about that.

HMJr: Well, I think - I think I'd call up Crowley -

H: I'll have to do it through John Nichols. Is it all right to talk to him, Crowley is out of town.

HMJr: Who is Nichols?

H: Nichols is the executive, what do they call him, administrator of that division and Duffield tells me that the fellow who really is the show over there, next to Leo.

HMJr: Well I'd make sure because Crowley likes to make statements.

H: Yes.

HMJr: And I wouldn't hesitate to call him up and tell him that in this case just what you've done and it's up to the Comptroller of the Currency and not to Crowley.

H: Yes.

HMJr: Crowley might make a statement that, oh we didn't know whether these - about the insured deposits and so forth and so on.

H: Yes. Sure.

HMJr: Although he might -

H: But he's in Madison.

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HMJr: - all insured, something, I don't know, but anyway I'd talk it over with them and sew them up.

H: He's in Madison, Wisconsin.

HMJr: Well -

H: Crowley is.

HMJr: I know, but even there I've known him to shoot off his mouth and make some stupid statements.

H: You think we ought to call him up.

HMJr: I think I'd call up Crowley and ask him how you want to handle it.

H: Yes.

HMJr: And you can say that I suggested it, that he's always cooperated so beautifully, etc., etc.

H: Right.

HMJr: And - but I would sew up that one.

H: All right. Now I talked with Jesse and he's going to say nothing so far as I know.

HMJr: And how about the Fed?

H: They're going to say nothing, so far as we know here.

HMJr: Good.

H: I talked with Ransom twice, and he said they've done everything they're going to do, they've talked to the President out there, the Federal Reserve, and they've got everything in readiness.

HMJr: Well -

H: Jesse - Jesse incidentally is going to have his man standing by in San Francisco in case of emergency, so he'll have somebody there too.

HMJr: Well I'm thinking out loud. If the Comptroller of the Currency is willing to say that the bank is solvent, why wouldn't it be a good idea to let Gaston steer a

couple of newspaper men down there.

H: Well I think - he didn't want to say it unless he had to. That was his attitude that -

HMJr: Well -

H: First of all he came in with a suggestion that he would simply refer anybody to the Secretary of the Treasury. Well I said, "To Hell with that", that's not doing any good. Refer them back to the place where it belongs.

HMJr: Yes.

H: That's the SEC. You're going to refer them anyway, but if you're going to talk about insolvency of the bank, then I think you can safely say, if you've checked it, and you tell me that you have checked it, I think you can safely say that I've checked the figures, I know what the conditions are and the bank is solvent.

HMJr: Yes.

H: And this is not an attack upon the bank as I understand it, it's an attack upon the - I mean the - it's a question of the delisting of the stock.

HMJr: Yes.

H: On the New York Stock Exchange. That seems to me to be a good answer and it will spike any -

HMJr: Well, it's such a good answer that I think that the newspaper men ought to see him.

H: Yes, oh I see. All right. Well I'll talk that over with Herbert, then.

HMJr: Talk that over with Herbert and my thought is that they could be directed down there. I think - and that would take care of what the President had in mind.

H: Yes. Yes.

HMJr: I think that's worth while, but I'll leave that to you and Herbert.

H: I'll talk that over with Herbert then.

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HMJr: But the fellow might be kind of shunted down there and then he'd make that statement. Now is he going to be there or is he going to be home in bed?

H: Who, Delano?

HMJr: Yes.

H: He's going to be here. He said he thought he ought to be sick tomorrow, it would be a good day to be sick.

HMJr: Well, he ought not to be sick before seven o'clock tonight.

H: No, no. He's here now. We'll all be here. I imagine everybody -

HMJr: He ought to be at his desk tomorrow too.

H: Yes, he will be.

HMJr: Now John, let me know later on how she goes because I'm tremendously interested.

H: I will. I'll do it.

HMJr: Call me up later on.

H: I will. I'll call you up - will be sometime around dinner time.

HMJr: Well -

H: After we've - after the report is out.

HMJr: Yes.

H: O.K.

HMJr: Yes.

H: I'll do that.

HMJr: And I would say - yes. Well after the thing is out and you know where you're at.

H: All right.

- 11 -

HMJr: Just before you go home.

H: All right, I'll do it. I'll call you.

HMJr: And I can't tell you how much I appreciate the way you're handling it.

H: Well, I hope I don't make any mistakes that's all. I'm going very cautiously, and I hope I don't do anything wrong.

HMJr: It's a great comfort to me to have you there.

H: Thank you very much. I'm delighted to be here and I'll - I'll call you just before I go home or just after I've gone home, either one, around seven o'clock.

HMJr: All right.

H: Thank you, sir.

HMJr: Goodnight.

H: Goodnight.

November 26, 1938

MEMORANDUM

To: Mr. Oliphant
From: Mr. Upham

I have read your memorandum of November 22nd to Mr. Delano in which you comment on my memorandum to you of October 15th.

It seems to me that your opinion answers fully the criticism which came to me from some outside attorneys and which was presented in my memorandum of October 15th. Any doubts that have been planted in my mind with respect to the legality of the Secretary's order of September 13th extending to you authority over the Legal Division of the Office of the Comptroller of the Currency have been dissipated by your supplementary opinion of November 22nd.

Upm
Upm

November 26, 1938

MEMORANDUM

To: Mr. Oliphant
From: Mr. Upham



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Upm

file
11-21-38

November 26, 1938.

Dear Mr. Sproul:

In the absence of the Secretary, who is away from Washington, I am acknowledging your letter of November 25th.

Mr. Morgenthau will return to the office on Monday, and I am sure he will be most interested in the information contained in your letter.

Sincerely yours,

H. S. Klets,
Private Secretary.

Mr. Allan Sproul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GKF/abn

FEDERAL RESERVE BANK
OF NEW YORK

November 25, 1938.

Dear Mr. Secretary:

Almost all the corporate financing, so far this month, has been by the method of private placements - sales directly to insurance companies, without underwriting though frequently using dealers as agents and more often than not without registration with the Securities and Exchange Commission. (Many of the private sales by utility companies are filed with the Commission under the Public Utility Holding Company Act, but are not registered under the Securities Act.) Over \$500,000,000, or nearly a third of the corporate bond issues so far this year, has been placed privately.

This week three issues, sold privately, totaled \$89,000,000, of which \$24,000,000 was for new capital. The Commonwealth Edison Company is selling \$34,000,000 of first mortgage 3 1/2s of 1968 to insurance companies at 104. This price compares with 101 and 101 1/2 that the company recently received as the price, after commissions, on underwritten offerings of similar bond issues. The Goodyear Tire and Rubber Company sold \$40,000,000 first mortgage and collateral trust 3 1/2s of 1958 to insurance companies and at the same time borrowed \$10,000,000 from banks on a 5-year credit at 2 1/4 per cent. The Connecticut Light and Power Company is placing \$15,000,000 of first and refunding mortgage 3 1/4s of 1968.

In addition the registration of \$24,500,000 of Commonwealth Edison Company convertible debenture 3 1/s of 1958 became effective. The issue has been

advertised, but stockholders of record on December 2 will be given preemptive rights, which expire December 21.

A summary of issues that may be floated between now and the December financing date may be of interest. Several issues, including some issues of preferred stock, ranging between \$4,000,000 and \$15,000,000, are scheduled for marketing during the next week or ten days, and a \$21,071,600 issue of Continental Oil Company convertible debentures will be offered to stockholders under rights expiring December 16. Central Illinois Public Service Company bonds and notes for \$48,000,000 may come out of registration December 8, and Green Mountain Power Corporation bonds and notes for \$9,100,000 may become eligible for marketing December 13. Large issues for Railway Express Agency and Public Service Company of Colorado are expected later in the month.

Dealers' inventories of municipal bonds have shown a tendency to increase somewhat in the last couple of weeks. A \$25,000,000 State of Connecticut issue of serial bonds, due 1939-58, was awarded this week at an interest cost of 1.5116 per cent. Reoffered to yield from 0.15 to about 1.68 per cent, the earlier maturities and the later maturities have sold well, but the intermediate maturities have moved slowly; \$13,000,000 remains unsold.

Yours faithfully,


Allen Sproul,
First Vice President.

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

Prepared by: Lawrence H. Seltzer

Assisted by: Sidney G. Tickton

DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 26, 1938

TO Secretary Morgenthau
FROM Mr. Haas *GH*
Subject: December Financing — Preliminary

I. Recommendations

Assuming no great change in the character of the market, our first choice would be the raising of some \$500 millions of new money and the refunding of the \$942 millions of March notes by a joint offering of 1-1/4 percent 5-year notes and 2-3/4 percent 20-27 year bonds (1958-65). The holders of the maturing notes would be offered the choice of notes or bonds; and the cash offering would be divided about evenly between notes and bonds.

If a deterioration of the market dictates the use of a medium-term instead of a longer-term bond, we would substitute a 2-1/2 percent 12-14 year bond (1950-52) in the recommendation made above.

II. Pros and Cons of Longer-Term Issue

1. Although all sections of the Government securities market have exhibited reactionary price tendencies for several weeks, the proposed 2-3/4 percent 20-27 year bond issue should obtain a favorable reception under present conditions.

(a) The outstanding 2-3/4's of 1958-63 that were offered last June have acted very well in the market. They closed today at 102-9/32 to yield 2.60 (Friday).

The proposed issue would have a first call date only six months later than that of the June issue, and its final maturity date would be only 2-1/2 years later. The proposed issue should sell on a yield basis between 2.62 and 2.65, to command a premium of a little over 1-1/2 to 2 points.

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(b) The Canadian Government this week successfully floated a 30-year 3 percent issue to yield 3.14 percent -- the same as the corporation tax-equivalent yield to banks of our 2-3/4's of 1958-63.

(c) In each of the three significant market declines since late 1936, the longer-term section of the Government bond market has held up relatively better than the short- and medium-term bonds (see attached table).

(d) Thus far during the calendar year 1938, there has been a small net decrease, rather than an increase, in the total market supply of direct Governments; and an increase of only \$340 millions in the market supply of direct and guaranteed Governments combined. Indeed, during the 22 months ended October 31, 1938, the market supply of direct Governments increased by only \$727 millions. (See memorandum of November 17, 1938.)

(e) The banking situation is easy: The fall season for commercial loan expansion has passed; and on November 23, excess reserves of all member banks reached \$3,350 millions, and those of New York City member banks, \$1,810 millions -- new all-time highs in both cases.

2. We cannot be sure that conditions will be as favorable for a long-term issue next March or June as they appear to be at present.

(a) The budget for 1940 may possibly come as a shock to the market.

(b) When the new Congress convenes, proposals for liberalizing the Old-Age Benefit System, and/or eliminating the present reserve financing of that System, may prove disturbing. Other additional demands upon the Treasury may also threaten.

(c) The international situation will no doubt retain its capacity for making trouble.

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3. A long-term bond issue would no doubt be less attractive to banks for continued holding than a medium-term issue, although initial bank subscriptions might be nearly as great.

The wisdom and effectiveness, however, of designing bond issues at this time to appeal to banks for permanent investment are debatable.

(1) The open market supply of Treasury bonds increased by approximately \$2,000 millions between December 31, 1936 and June 30, 1938. Despite the fact that a large part of this increase was occasioned by the refunding of Treasury notes into bonds, the total holdings of United States bonds by all insured commercial banks increased by only \$191 millions net during this period; and their total holdings of direct Governments declined by \$1,376 millions.

During the six months ended June 30, 1938, when their total loans declined by \$1,021 millions, the insured commercial banks nevertheless reduced their holdings of direct Governments by \$413 millions, though they increased their holdings of United States bonds by \$579 millions.

(2) Judging by the experience of the past few years, the market risks to a bank of holding medium-term Governments appear to be fully as great as, or greater than, those of holding longer-term Governments (see attached table).

(3) From a monetary standpoint, it does not appear that an increase in bank investments would be preferable at this time to a fuller use of idle savings funds. Total bank deposits on June 30, 1938 approximated the highest levels ever attained in this country, indicating that there is less need at the moment for an expansion in the volume of deposits than in their activity.

Thirty-seven life insurance companies on August 31 had \$303 millions of cash, as against \$99 millions at the end of 1930, \$130 millions at the end of 1931, and a high of \$870 millions at the end of February 1936. Although their idle cash has

Secretary Morgenthau - 4

doubtless declined somewhat during the last three months, there is good reason for believing that it is still of large amount. In addition, there are the idle funds of savings banks and trust accounts.

4. In the event the market becomes significantly weaker, a medium-term issue might be easier to sell than a longer-term issue.

III. Medium-Term Issue

1. It is impossible to find a wholly satisfactory open date suitable for a 2-1/2 percent coupon. The issues that have both their callable periods and their final maturity dates wholly concentrated between 1948 and 1954 aggregate \$6,445 millions. In view of the fact that note maturities will probably be added to the bond maturities of this period in due course, it would seem that new maturities should be sought elsewhere whenever possible.

2. A single fixed maturity, such as December 15, 1951, or December 15, 1952, would doubtless be popular; but would be undesirable from the Treasury's standpoint precisely because of the great concentration of adjacent maturities already existing, and because the new issue will probably approximate or exceed one billion dollars in amount.

3. A maturity somewhat longer than a 1950-52 may be possible if the market firms during the next week. The proposed second choice issue would carry the very liberal premium of very nearly two points in the present market; but is deliberately designed to be liberal both because it is not intended to be used unless the market weakens further, and because its selection of the market has previously shown itself particularly vulnerable in periods of market weakness.

IV. Proposed Note Offering

The proposed 1-1/4 percent 5-year note issue would command the adequate premium of 31/32 if it sold on a yield basis of 1.05 percent. The two preceding note maturities -- six months and a year shorter -- are selling to yield .90

Secretary Morgenthau - 5

and .52 percent, respectively (Friday). A mechanical extrapolation would produce a yield basis of .98 for the proposed new issue. Something must be allowed, however, for adding to the supply of the long end of the note market, and hence, an assumed yield basis of much less than 1.05 percent would not be conservative.

Holders of the March notes can obtain interest worth 12/32 by holding their notes to maturity. Judging by the current discount rate on Treasury bills, 3-months' Treasury money is worth less than 1/32. Hence, holders of the March notes can enjoy a premium of about 11/32 if they do nothing.

The premium of 31/32 provided in the proposed note offering and of 1-1/2 to 2 points in the proposed bond offering appears fully liberal enough to insure a successful refunding. Nevertheless, it would be advisable, in the case of note holders who subscribe for the new notes, to make compensation for the interest differential of 1/4 of 1 percent for three months, which amounts to 2/32 of a point. A complete interest overlap, which might be advisable if the market were to weaken substantially, would amount to 12/32.

V. New Money

There are several reasons for suggesting that the amount of new money to be raised in this financing be limited to about \$500 millions.

1. The Working Balance on November 23 totaled \$1,777 millions. It included some \$282 millions still with special depositaries on account of Treasury bonds and notes sold to them in June and December of 1937, as well as some \$227 millions in such depositaries on account of various issues of Treasury bills. It is a very substantially larger balance than is needed for ordinary working purposes.

2. It might be argued that an extra cash balance to serve as an emergency cash reserve is justified in these uncertain times; and that, therefore, \$800 millions instead of \$500 millions of new money should be raised.

To this contention, it might be answered that the extra \$300 millions would not be enough for one month's deficit; and that in a real emergency any such extra cash reserve is apt to prove altogether inadequate.

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3. The December financing will be a very large operation -- approximating \$1,442 millions -- even if no more than \$500 millions of new money is raised. It would seem to be more important to do everything to assure the success of this large operation than to jeopardize it in any particular in an attempt to raise a few hundred millions more of new money.

This consideration is the more important because of the large size of the refunding part of the operation. We know from past experience that many of the holders of the March notes will turn them in for the new bonds, whether medium-term or long-term, with every intention of selling the new bonds immediately and pocketing the premium. This practice, which necessarily entails a considerable amount of secondary distribution, cannot be prevented. If the new money offering is not too large, adequate investment support is likely to be readily forthcoming to assist in the process of secondary distribution of the new bonds. If, on the other hand, the cash offering is raised to some \$800 millions, we must be prepared to see a much sloppier market in the new issues, incident to the secondary distribution thereof.

4. It remains to be pointed out that the Treasury will be in a position to add to its cash through an R.F.C. financing in February and through additional bill issues, if desired, at any time; and that after the large June 1939 note maturity, only one other really sizeable maturity (March 1940) is scheduled for several years.

Attachments

Treasury Bonds

Experience in Recent Periods of Price Decline

(Decimals are thirty-seconds)

Issue	Points decline			Number of months yield lost*		
	12/5/36 to 4/9/37	8/10/37 to 9/10/37	8/17/38 to 9/27/38	12/5/36 to 4/9/37	8/10/37 to 9/10/37	8/17/38 to 9/27/38
3-3/8% 1940-43	3.15	.23	1.07	43	7	261
3-3/8 1941-43	4.16	1.02	.30	49	9	24
3-1/4 1941	4.14	1.05	1.16	46	9	29
3-3/8 1943-47	6.00	1.19	1.23	45	10	17
3-1/4 1943-45	6.03	1.19	1.19	45	9	15
3-1/4 1944-46	6.01	1.15	1.18	42	8	13
4 1944-54	6.21	1.29	2.00	44	11	15
2-3/4 1945-47	5.18	1.19	1.20	35	8	11
2-1/2 1945	-	-	1.20	-	-	12
3-3/4 1946-56	6.19	2.05	2.14	39	11	16
3 1946-48	5.25	1.24	1.22	34	9	11
3-1/8 1946-49	5.26	1.25	1.17	34	9	10
4-1/4 1947-52	7.26	1.17	1.31	46	8	12
2-3/4 1948-51	4.23	1.28	1.28	25	9	10
3-1/8 1949-52	4.29	1.28	1.23	25	9	9
2-1/2 1949-53	4.05	1.18	1.31	21	7	10
2-1/2 1948	-	-	1.30	-	-	12
2-3/4 1951-54	3.30	1.16	1.25	19	7	9
3 1951-55	4.15	1.22	1.29	22	8	10
2-7/8 1955-60	4.15	1.15	2.02	21	6	10
2-3/4 1956-59	3.25	1.14	2.02	18	6	10
2-3/4 1958-63	-	-	1.30	-	-	9

Treasury Department, Division of Research and Statistics.

November 23, 1938

*Note: Taking market yield at beginning of price decline, these figures give the number of months' yield lost by price decline. For example: A bond yielding 1 percent would lose 12 months' yield if it declined in price by 1 point.

AC

GRAY

London

Dated November 26, 1938

Rec'd 10:30 a.m.

Secretary of State

Washington

1363. November 26, 1938, noon.

FOR TREASURY

One. Today's press comment on the sterling dollar exchange rate may be of interest. While the TIMES makes no comment, the TELEGRAPH in an editorial stating that sterling has been over-valued in the past concludes, "The fund could no doubt have checked the decline if it had wished or alternatively, the American exchange fund could have stepped in to arrest the appreciation of the dollar if it had disapproved of that tendency. That neither fund has chosen to do so or at any rate to do so effectively seems to suggest that the monetary authorities of both countries are tacitly content to see sterling depreciate in terms of the dollar. They may, in fact, be allowing the exodus of refugee money to do the work of depressing sterling to its natural purchasing power parity. If this view is correct then the prospect of a further fall may depend on the opinion the authorities have formed of the level at which this parity may be regarded

as

AC - 2 - #1363, November 26, noon, from London

as attained." THE FINANCIAL TIMES "money market notes" column contains the following sentence, "Surprise was expressed that America which was closed on Thursday for Thanksgiving Day did not follow up the movement originated in this market and force the dollar still higher against sterling. Indeed the apparent indifference of the United States authorities to the weakness in sterling brought about a fresh burst of selling."

A front page article in the FINANCIAL NEWS contains the following: "International uncertainties of every kind are still disturbing holders of sterling but operators in London are generally agreed that the anxiety being shown by many holders of London funds to convert into dollars, gold or some European currency, like the Swiss franc, without further delay is due mainly to fear that the authorities are making no serious effort to stem the fall in sterling."

The city editor of the CHRONICLE describes the British authorities' exchange policy as "palter, falter and maunder."

Two. Sterling opened today at 4.63 5/8 and the British fund sold dollars heavily until fixing when 147 bars of gold were sold all but 21 being supplied by the British fund. The price was 150 shillings. Subsequently

the

AC - 3 - #1363, November 26, noon, from London

British authorities supported the market at 4.63.3/8 under considerable pressure. Dealings in the franc are very small today, the bank having sold sterling at 178.70 in small amounts.

KENNEDY

PEG:CSB

PARAPHRASE OF

TELEGRAM FROM American Embassy, Rio de Janeiro

DATE: November 26, 1 p.m., 1938

NO.: 276

6
Reference my 265, November 19, noon.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange during the week of November 28 for daily quotas and maturities from October 17 to October 23 inclusive.

Will you please inform Commerce.

SCOTTEN

EA:DJW

November 28, 1938

11:10 am

Present:

Mr. Bewley
Mr. Butterworth
Mr. Hanes
Mr. Taylor
Mr. Lochhead
Dr. White

HM, Jr.: Where are we today?

Mr. Bewley: Well, I had an answer from London to the message I sent on last week, which was to the general effect that they had, like you, been hoping that the trade treaty would help the position of Sterling, but that unfortunately the political situation in Europe had clouded over in Europe again just about the same time as the treaty had been signed and that had led to a renewal of the removal of money out of London.

You said that, given recovery in this country, that your purchases abroad could be expected to increase and that there was nothing in the economic situation which seemed to you fundamentally to justify the appreciation of the Dollar vis-a-vis Sterling. With that, the people in London agreed, but they say that the weakness of Sterling is not fundamentally entirely economic, but it's largely psychologically; that the Continent, especially Holland and Switzerland, are, whether rightly or wrongly, frightened at the political situation in Europe and that is at the base of what is at present happening and that the rearmament program in England has a double effect: that it no doubt strengthens our bargaining power and our prestige in Europe, but it is also feared, whether rightly or wrongly, it may hurt our export power for the time being, but they hope it will improve.

They said they were grateful for your appre-

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siation that they were doing all they could to support Sterling and that as regards what you said that you are handicapped by lack of exact knowledge, they are sending by this bag as full instructions as they can to me as regards the capital and gold position, which they hope will help you to appreciate the situation. The bag arrives, or is due to arrive, midday Thursday. Whether they sent it in duplicate or not, I do not know, but if there is a lot of typing I may not be able to bring it until Friday.

Then they went on to repeat what they had stated in previous telegrams on the position of Sterling, which I need not repeat. Really, the political situation in Europe is at the bottom of it. I think I ought to add perhaps, on my own account, that the general tenor of the telegram is the weakness of Sterling is due to fundamental economic and political factors; that the foreign policy of Europe, at present, as you know, is directed to trying to increase confidence in the European situation. As regards the economic situation, no doubt it will help when your purchases increase, but at the moment that has not yet occurred. We hope it will occur shortly. That you can't really fight a fundamental economic situation by means of any technical devices. That's my own glossary of this. That seems to me to be all.

HM, Jr.: Well, in the first place, I take it this is from the Treasury.

Mr. Bewley: Oh, yes! This is from the Treasury.

HM, Jr.: Thanks for the message.

Now, let me put this to you. Supposing, whatever reason it is, that Sterling should break through its previous low of 4.81. Has the British Treasury any suggestion to make, because, for instance, this morning, I pick up the Washington Herald and on the second page I see a story written -- but which did not originate from here -- talk of further devaluation on our part, and I think there

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will be all kinds of stories like that. But does the British Treasury agree with the last statement that you made that there are no technical devices that we can take?

Mr. Bewley: They have not said so in so many words. I can only say that's the impression I got from their telegrams.

HM, Jr.: What I would like you to do is send another telegram.

Mr. Bewley: I will ask them again in so many words.

HM, Jr.: The question that I would like to have answered is -- let's say that it breaks through the low, which I think was 4.61?

Mr. Lochhead: That's right.

HM, Jr.: Let's say it breaks through that. Are we just going to sit here? Do nothing? Is the British Treasury proposing to let it take its course or have they some suggestion to make? Now the Treasury is beginning -- I am beginning to be put under pressure of one kind and another and as the convening of Congress approaches, it's going to be more severe.

Mr. Bewley: When you say "pressure" you mean pressure for devaluation of the dollar?

HM, Jr.: I don't mean that. Pressure to do something.

Mr. Bewley: To do something. Yes.

HM, Jr.: To do something. I don't stress that. That just happened to be in this morning's paper. Don't over-emphasize that.

Mr. Bewley: No. Quite.

HM, Jr.: Because that does not come from here. As I have said before -- I think I said it to Sir Frederic Phillips -- I say it now, the question of devaluation is one which I would only consider using as a last resort. But those stories will come and

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it will not come from here, but I will be under pressure.

Mr. Bewley: Under pressure; yes.

HM, Jr: To do something.

Mr. Bewley: I quite understand.

HM, Jr: I wonder if they feel we are just going to sit here and not try different devices or do they think it is hopeless to try any devices. I sincerely would like to get some suggestions from them what we could do, individually or collectively. See?

Mr. Bewley: Yes.

HM, Jr: Because it's going to be increasingly difficult for me to sit here and not do something. See?

Mr. Bewley: Oh, yes! I fully appreciate that.

HM, Jr: Already the crackpots are beginning, getting busy. Therefore, I wish you would get off a message to Sit John Simon and just repeat what I have said.

Mr. Bewley: I will.

HM, Jr: And has he any suggestions what we might do to stem this tide. It looks to me like the thing is going to get steadily weaker.

Mr. Bewley: I did put that to him the last time. I don't like you to think I did not pass your message on correctly and I assume that they have not suggested a device because it is a reasonable assumption, on my part, you can't stop a movement of this type by technical devices, but I will certainly ask again.

HM, Jr: I want you to go this far: that not only is it going to be increasingly difficult for me to sit here and see the Pound go down, but I don't want to sit here and not do something about it. After all, your political situation may take months to correct itself, and to see the Pound constantly go lower it won't be possible for me not to make some kind of a move.

Mr. Bewley: Yep.

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HM, Jr: But I want to do that with the British Treasury.

Mr. Bewley: Yes. Yes.

HM, Jr: See?

Mr. Bewley: Yes.

HM, Jr: And we are studying it. I have no suggestion to make as of today, but the minute I have one I will lose no time in giving it to you to pass it on. But, on the other hand, it's your Pound.

Mr. Bewley: Oh, quite!

HM, Jr: And it's your political situation and it can't be the way it was last summer when you said that some people said that through our depression we were dragging the whole world. If that was so, which I don't think particularly it was, -- at least, now we are leading the way back; at least we are having a strong recovery here; a very sharp recovery -- so that particular argument is eliminated. But as time goes on and as the Pound continues to get weaker, I am beginning to get a little restless.

Mr. Bewley: Yes, I fully understand.

HM, Jr: And I just wish you would pass that on.

Mr. Bewley: Certainly, I will.

HM, Jr: And if I could get an answer within a reasonable time -- today is Monday; if I could have something maybe by Thursday or Friday, that isn't

Mr. Bewley: Oh, certainly; yes!

HM, Jr: They will get this tomorrow.

Mr. Bewley: Oh, yes; certainly!

HM, Jr: And they will have Tuesday and Wednesday and I ought to have it back Thursday. Is that crowding?

Mr. Bewley: No.

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HM, Jr: Say by Thursday or Friday?

Mr. Bewley: Yes.

HM, Jr: I am here. You can see how much importance I lay on this, I have everybody in the Treasury who has to do with it working on it.

Mr. Bewley: You say you have no suggestions. Have you any ideas of the sort of line on which it could be done, because I have no doubt people in London would be as grateful as anybody.

HM, Jr: I am having the so-called best brains come down tomorrow and we are going to spend the day on it. People outside. And as a result of that, if we have anything I won't wait to hear from you, I will give it to you.

Mr. Bewley: No doubt my people will be most grateful.

HM, Jr: I have a memorandum from Mr. Knoke of his idea, which I am trying to digest, and we are asking ideas from people whom we think have suggestions. I don't know if Mr. Butterworth has any ideas. If he has, he will have a chance to unburden himself, but as of this moment, a concrete suggestion? No.

Mr. Bewley: As regards the fundamental economic situation, if you can increase your purchases of goods it will be obviously helpful.

HM, Jr: But that's what the trade treaty was for.

Mr. Taylor: Those rates don't go into effect until after the first of the year, so you can't expect very much from that until after that.

Mr. Bewley: Slow business.

HM, Jr: I am talking very confidentially. I am letting you know just how I feel and if you will transmit that, as I know you will

Mr. Bewley: Certainly.

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HM, Jr: As a good reporter.

Mr. Bewley: I think the British Government realizes fully your position. I know they appreciate your attitude, but the difficulty is simply to find anything which won't be worse than the disease, because they felt all the time that supporting the £ artificially it provides the bears with a good market.

HM, Jr: As I say, I have nothing concrete to suggest today, but I may have tomorrow night or Wednesday night. I may have nothing, but these so-called best brains are coming here and I am going to listen and they may not have anything, but we do consider this of first importance as far as our own economy is concerned and as I said, the other day, it seems to me as far as the Treasury and the British Treasury are concerned together we ought to be able to lick this thing. It's like which comes first, the chicken or the egg? Whether the financial aggravates the political or the political aggravates the financial. I don't know, but I have listened to this for five years and I don't know which comes first, but in our own case, as far as the Treasury is concerned, we stabilized the dollar and then we got political stability and they are closely related and I don't know which comes first, but to have to sit here for months and see the Pound go lower while we wait on your By-Elections will be rather nerve-wracking and I don't know whether my nerves could take it or the nerves of the American people!

Again, to go back. "What are you going to do about it?" As of today, I don't know. Only we are very conscious of it and we want to do something to be helpful and we want to do it together. Some place, somebody is going to get an idea which will work other than to just sit here and say, Well, it's the political situation.

Mr. Bewley: Well, I will certainly pass it on and if anybody can think of any idea in London I am sure they will send it back at once.

HM, Jr: You can tell them we are all pacing the floor trying to think of something to do.

oOo-oOo

REB

GRAY

London

Dated November 28, 1938

Rec'd 2:55 p. m.

Secretary of State,
Washington.

1367, November 28, 6 p. m.

FOR TREASURY.

The dollar opened bid at 4.62-3/8 but after a small amount of support of sterling by the British authorities a natural market, predominated by profit taking, carried the rate to as high as 4.65-1/2 and it has stood around 4.64-1/2 since the New York market opened.

The Bank of France is thought to have bought a fair amount of sterling today first at 178.64 moving the rate gradually to around 60.

451 bars of gold were sold at the fixing at 149 shillings 9-1/2 pence the premium being quoted as one penny on 4.64-1/4. About 500 bars were provided by the British fund. British Government securities eased slightly today, war loan 3-1/2 closing 3/16 down at 98-3/4.

KENNEDY

PEG

CSB

TREASURY DEPARTMENT

72

INTER OFFICE COMMUNICATION

DATE November 28, 1938.

TO Secretary's Files
FROM Frank Dietrich

At 1:15 P.M. I informed the Secretary that sterling was offered in the market at 4.65-3/8, which was above our operating point, and that as the rate went higher we would sell sterling in small amounts at advancing rates. The Secretary instructed me not to sell any sterling without first consulting him, and that if the rate reached \$4.66 he was to be advised immediately.



sterling close d
at 4.65 $\frac{1}{4}$ up

2 $\frac{1}{2}$ points

Myruthaer

November 28, 1938

TELEGRAM (VIA WHITE HOUSE WIRE)

THE PRESIDENT

WARM SPRINGS GEORGIA

STERLING CLOSED AT FOUR POINT SIXTY FIVE AND ONE
QUARTER UP TWO AND ONE HALF POINTS

HENRY MORGENTHAU JR

November 28, 1938

TELEGRAM (VIA WHITE HOUSE WIRE)

THE PRESIDENT

WARM SPRINGS GEORGIA

STERLING CLOSED AT FOUR POINT SIXTY FIVE AND ONE
QUARTER UP TWO AND ONE HALF POINTS

HENRY MORGENTHAU JR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 28, 1938, 6 p.m.

NO.: 2008

FOR TREASURY.

The atmosphere on the exchange and security markets today was less pessimistic, as apparently it was hoped that the railway strike will finally be averted and that much of the force of the present opposition of labor to the Government's program will thus be lost. A fair amount of sterling was obtained by the fund at 178.58 - 178.68, the rate at present. There was improvement in forward premiums for sterling to 38 centimes for one month, and for three months it improved to francs 2.38. The present rate for the dollar is 38.65, after the low of 38.38. In relation to the franc the other main currencies were weaker.

French rentes went up 65 to 75 centimes. Other French securities were firm today.

END SECTION ONE.

WILSON.

EA:LWW

PARAPHRASE. SECTIONS TWO, THREE, FOUR of telegram No. 2008 of November 28, 1938, from Paris.

Reynaud on Saturday evening appealed to the nation not to disregard supreme national interests and to accept the reform plan of the Government. The Finance Minister warned of disaster that would surely follow the rejection of his plan, and urged the public to examine the facts and not to consider the campaign of misrepresentation which opponents had launched against the program of the Government.

In an article in LE TEMPS today Frederic Jenny discusses at length the pound sterling situation. The present lack of confidence in sterling is mentioned, and he then successively examines the effect on it of the harm done to the foreign trade of Great Britain through happenings in Central Europe and the Far East, and the rearmament program costs. Mr. Jenny does not believe that this trade loss has caused important loss of confidence in the currency, nor does it appear that he thinks the effort of rearmament need give rise to any serious preoccupation in this regard. Mr. Jenny mentions that the Brazilian(British?) Government is obliged to spend large amounts for armament under the most favorable conditions that could be imagined, because it finds that British finances are perfectly sound and balances, no borrowing has had to be done by the Chancellor

of

- 2 -

of the Exchequer for several years, and because normal budgetary resources will take care of part of the special armament outlays. It is Mr. Jenny's opinion that the necessity to borrow 200,000,000 pounds next year for armaments, and the budgetary deficit which is anticipated, should by no means have such an effect on the financial situation in Great Britain that the stability of the currency would be imperiled. In the article it is pointed out that it should not be difficult to borrow for the purpose of arming on a market which for the past few years has been left practically untouched. He adds that "compared with American and French finances those of Great Britain in truth appear very enviable".

It is Mr. Jenny's opinion, however, that there may be cause for preoccupation in the desire of the British to continue their cheap money policy. He states that it may lead them to increase the note issue. In this connection he mentions that certain newspapers have indicated that the British envisage an increase of 20,000,000 pounds to replace the funds which the Government loan issues absorbed. The sterling note, he fears, might well be unfavorably influenced by such an action.

END SECTIONS TWO, THREE, FOUR.

END MESSAGE.

WILSON.

EA:LNW

C A B L E

From: Bankers Trust Co. of N. Y.
London Office

Date: November 28, 1938

#281.

DOLLARS OPENED WANTED BUT SOON TURNED OFFERED ON PROFIT TAKING.
CONTROL HELPED MOVEMENT. FORWARDS STEADY. SPOT FORWARD FRANCS WANTED
AS SENTIMENT BETTER IN PARIS.

DeCASTELLANE REPORTS EXCHANGE MARKET QUIET CONTROL TOOK IN CERTAIN
AMOUNT OF STERLING. DAY TO DAY MONEY VERY TIGHT NOMINALLY RATE 2 1/2%
BUT NOTHING OFFERED AT THAT FIGURE. BOURSE NOT VERY ACTIVE BUT STRONG.
DOES NOT BELIEVE WORKERS WILL RESPOND TO CALL ON WEDNESDAY BANKS WILL BE
OPEN.

CONFIDENTIAL

November 28, 1938

Dietrich came in at 1:15 and said, "I suggest that you sell Sterling because it is going up too fast." The Secretary's answer to Dietrich was, "Let her go up. Just let her ride. I definitely do not want to sell."

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 28, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Mr. Bolton called at 5:05. He had something to tell me, he said and it concerned our conversation of the past two or three days: during December they had \$150,000,000 of forwards maturing (this was the bulk of their total short position in dollars). They were going to let them all run off and they were going to ship gold here for that amount less any spot dollars which they might be able to buy. They had called a meeting of the London clearing banks this afternoon and arranged with them that they would use none of their funds to finance more exchange contracts for forward delivery or to finance advances against gold. [He figures that the gold contracts for forward delivery which in August had stood at about £50,000,000 were now down to from £35,000,000 to £40,000,000 - all this is more or less guess work because they get no information; the premium paid for forward delivery had been about 2 1/2d per month, equal to 1% per annum.] If the clearing banks made no money available to the market for the above purposes it would be difficult to run a forward short position in sterling. If the spot rate for sterling should show weakness they would try and support that market as they had done today (today they succeeded in pushing the spot rate for sterling up 2 1/2d without spending any money). This program of theirs would lead to one of two possibilities: either it would raise the sterling spot rate or else put a big premium on forward dollars, thereby, and to that extent, reducing the profit of the speculators. The arrangement with the clearing banks was a

FEDERAL RESERVE BANK
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DATE November 28, 1928.SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knobe

2

confidential one; the market knew nothing about it and there would be no publicity of any kind.

I replied that this program of their's to me seemed a logical second step in the set of operations, the first of which had been their previous swap operations; if the remaining foreign balances in London were not too large - and of that he was the best judge - a squeeze of the short position might well prove successful. Mr. Bolton thought this program was the only one of a technical nature which they could at this time embark upon short of a general embargo. The latter, very obviously, would advertise the weakness of sterling and have most unsatisfactory repercussions.

They had arranged with the British Treasury to notify Mr. Morgenthau of the steps contemplated.

As regards France, Bolton thought evidence was beginning to accumulate that Daladier might emerge from his battle with French Labor with flying colors. News from France continued to be favorable. Cariguel was still gaining some gold.

WK:KW

EDA


Confidential

CANTON VIA N.R.

Dated November 28, 1938

Received 6:20 p.m.

Secretary of State

Washington

71, November 28, 7 p.m.

On November 24 and 25 most of Monehan Road, one of Canton's most important modern business streets, was gutted by fire.

Japanese troops have recently been throwing up numerous sand bag and barbed wire barricades throughout the city, seemingly in fear of guerrilla infiltration and attacks. The barricades on Taiping Road, one of the principal thoroughfares of the city, were yesterday temporarily manned by machine gun units. The military have begun requiring special military passes in the northern suburbs.

During the last three days firing of rifles and machine guns as well as heavy explosions believed to be aerial bombing and artillery fire have intermittently been audible in Canton. Foreign observers report that the village of Shaho, about a mile from Holy Trinity College in the northern suburbs, has been leveled as a result of fires there.

Japanese

EDA - 2 - #71, November 28, 7 p.m. from Canton

Japanese planes have been observed bombing a suburb near the old West Gate, and early this morning a plane, believed to be Chinese, is said to have dropped a bomb at or near the White Cloud air field. It is reported that this morning Chinese were not permitted to leave the city to visit nearby villages.

Repeated to Chungking, Peiping and Hong Kong.

MYERS

DDM :HTM

GROUP MEETING

November 28, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Hanes
Mr. Taylor
Mr. Gibbons
Mr. Duffield
Mr. White
Mr. Lochhead
Mr. McReynolds
Mrs. Klotz

H.M.Jr: The climate here isn't much better than the one down in the country.

I thought that the Trans-America thing went off very quietly.

Gaston: Very.

H.M.Jr: You haven't heard anything more, have you?

Hanes: No sir, I haven't heard a thing since Saturday afternoon. The papers didn't do very much damage to it.

H.M.Jr: If I had to do it again, I'd do the same thing.

Hanes: Thanks.

Gaston: I notice Gianinni says it is a plot to discredit him; he says it very mildly.

Oliphant: I thought the Vice President's answer was best; he said it is a misunderstanding about the book-keeping and accounting problems.

H.M.Jr: Herman?

Oliphant: I want to go over this material I sent to the farm whenever you are ready, today.

H.M.Jr: Well, I'll tell you people now, at ten thirty I'll go over this thing. It has to do with this stuff on German countervailing duties, so you (Mr. Oliphant), Taylor, Steve Gibbons, White, be back here at ten thirty, and we'll tear it down. Ten thirty.

Gibbons: Want Johnson, too?

H.M.Jr: No. No, it's all prepared. I want you to know it's just

Oliphant: I'll be in.

H.M.Jr: it wasn't quite in order to go down. I mean, there is no accompanying letter to the President.

Oliphant: By the way, that carbon was sent along merely to show you everybody initialed it.

H.M.Jr: But there is no other carbon to send to the President.

Oliphant: May I see it?

H.M.Jr: You want to bet first?

Oliphant: No. I know somebody never makes a mistake.

H.M.Jr: What's that? You never make a mistake?

Oliphant: No, I never said I never make a mistake.

H.M.Jr: Listen, boy, I went over that three times. I'll catch you. You didn't take it for the whole office?

Oliphant: Oh no. It isn't mine, but my responsibility.

H.M.Jr: (Hands Mr. Oliphant papers.) I think it's all there - all you sent me. If you are coming back, if you have time at ten thirty, I'd like to write a letter to the President - "My dear Mr. President:" Just the way you sent it to me.

Oliphant: I have already dictated that, this morning.

H.M.Jr: Fine. Anything else?

Oliphant: (Nods "No.")

- 3 -

- H.M.Jr: Herbert?
- Gaston: Miss Paxton, of the Bachrach Studios telephoned a while ago and said that Mr. Bachrach is in town and would like to get a picture of you for his files. He has a picture of all the other Cabinet members. He doesn't want to sell you any pictures but he wants to make a negative of you.
- H.M.Jr: Well, he's out of luck. I don't want to fuss with it right now.
- Gaston: Not now, but some day, I think it would be a good idea to let him do it.
- Mr. Goldsmith tells what your December financing is going to be.
- H.M.Jr: What does it boil down to?
- Gaston: He says probably seven fifty million of new money, and we'll pick up the March notes.
- H.M.Jr: All right. You people, in confidence, know that the President signed that Executive Order to Danny Bell, don't you - the one that was prepared by his Fiscal and Monetary Board? He signed it at once - no comment at all - just signed the piece of paper.
- (To Mrs. Klotz:) Just get it and have it photostated and send a copy to Eccles, and Frederic Delano, and one for Bell.
- I thought that was interesting, and encouraging.
- Gaston: There is that editorial I spoke to you about.
- H.M.Jr: Thanks. I also would be interested in what Gene Duffield's friend, Wilcox, sent out over the weekend in his letter.
- Duffield: We'll have to try it again somewhere.
- H.M.Jr: Anything else?
- Gaston: There is quite a bit of favorable comment on this organization of this Fiscal and Economic Advisory Committee.

E.M.Jr: They call it the Board, which is nameless.

Gaston: Yeah. No, I haven't anything else.

H.L.Jr: George?

Haas: I just have a few of these regular Monday morning things.

E.M.Jr: I'll see you later on. I want to go over that latest public job with you. There was some rise in the New York Times Index, wasn't there?

Haas: Wasn't there? That Bulletin is still standing - whenever you feel rested.

H.L.Jr: I sent the President a telegram yesterday, letting him know how much the Times Index was up. He'd asked me Saturday night, and I said I thought it was up, but on account of the railroad business, I sent it later. I said it was up almost three points. On account of Thanksgiving and the railroad business, I sent it yesterday.

White: You notice the absence of a lag of business and unemployment. Taking the statement made by the President, it seemed to be contrary to that. I wonder if some letter might not

E.M.Jr: In the Times?

White: The editorial in the New York Times.

H.L.Jr: But the Times was wrong. Why don't you ask Lubin to prepare a statement, and I'll send it down, in answer.

Haas: Send it down to the President?

H.M.Jr: Give me the statement and maybe we'll do it the way we did before. Let Gaston take it over to Krock and show it to him. The last time we did it Krock corrected it.

Haas: It wasn't Krock making the statement.

- 5 -

H.M.Jr: No, but he's on the Editorial Board. Get it; it was Friday or Saturday, answering the President. The President undoubtedly used the thing.

Haas: He used the general thing on unemployment.

H.M.Jr: Yes, and, incidentally, in the one you sent me, that part that said, twenty-nine to date, that the number of employables increases at the rate of six hundred thousand a year, so we've got six million more employables than before. Include that in that thing. I've never seen that pointed out before.

Haas: That is based on figures. There is some controversy, but Lubin is willing to go along on it.

H.M.Jr: Get that stuff from Lubin to you, to Gaston, and Gaston to Krock and let him handle it.

Gaston: Unless Krock handles it in the editorial I think we'd better take it up with Charlie Moore.

H.M.Jr: Let us be respectable about it, and see what they do with it. Get it today, George.

Haas: Yes sir, I'll do it right away.

H.M.Jr: Thanks, Harry. But do it that way; don't do it at the race track.

Gaston: No. That all arouses controversy; you never can prove it.

H.M.Jr: (To Mrs. Klotz.) Did you get it.

Klotz: I get it now.

H.M.Jr: Race track.
Gene?

Duffield: Nothing.

Taylor: (Nods "Nothing.")

H.M.Jr: Have you fellows - somebody, in his vest pocket or something - got a memorandum on how to put

- 6 -

Brazil on its feet?

- White: Well, we had a memorandum prepared some time ago in which, I think there is the general outline of a proposal which would be considered, and if you wanted to move in that direction, then the next step necessary to do is much more comprehensive, and requires careful details in executing it, but I don't think there is any merit in moving on it unless the general idea appeals to you.
- H.M.Jr: I don't know what the general idea is. The Brazilian Ambassador asked to see me at three o'clock. If I could see the memorandum maybe I could read it before then. Have you got a memorandum?
- Taylor: I've got the one that Harry's talking about.
- H.M.Jr: Well, let me have what is in the shop. Have you got one?
- Oliphant: No; I have a composite one that Harry and I worked up, and I think that is the one Taylor has.
- Taylor: Yes, that is the one I have.
- H.M.Jr: Will you slip it to me.
- Taylor: With a long string on it so I can get it back from you. Frankly, I don't think it is in good enough shape so you should be talking specifically about it.
- H.M.Jr: Bring it in at ten thirty when we do this other thing, and maybe we can take a look at it.
- Anything else?
- Taylor: (Nods "No.")
- Hanes: Nothing.
- Gibbons: No.
- White: Nothing more.
- Lochhead: Sterling continues steadily at 4.65. I was interested to see England is carrying out their idea of

- 7 -

shipping over gold to meet that short position they had in December. Instead of extending their short position, they apparently are going to call for extensions. They are shipping seventy-five million - mostly from France; some from the Argentine.

H.M.Jr: Well, Bewley is coming in at eleven, so if you will be here, Harry, Taylor, and listen. You want to listen?

Hanes: I'd like to.

H.M.Jr: Would you like to listen?

Hanes: (Nods "Yes.")

H.M.Jr: Mac?

McReynolds: Nothing. I have nothing.

H.M.Jr: If Mac, Gaston, and Oliphant could stay, please.

November 28, 1938.
10:01 a.m.

HMJr: Hello.

Operator: Mr. Jackson. Go ahead.

HMJr: Hello.

Robert
Jackson: Yes. Good morning.

HMJr: How are you?

J: Very well thank you and you?

HMJr: All right. Are you alone?

J: Yes.

HMJr: Bob, get hold of a copy of the New York Times and read the story about Father Coughlin, and then will you go over, I don't know, it goes over to page 6 or 8 and talks about the American Secret Service, see? Hello.

J: Yes.

HMJr: Now I've had Chief Wilson in, and he has made a quick survey and he is ninety-nine per cent sure that the work that Father Coughlin is referring to is not done by the United States Secret Service - hello.

J: Yes.

HMJr: He thinks, but he doesn't know that there was an organization called the American Protective League which was sort of a volunteer arm of justice at that time, see?

J: Yes.

HMJr: Now I've sent out to see Chief Moran to make a thousand per cent sure whether it was or was not in the Treasury, but of course at four o'clock I'm going to be asked, see?

J: Yes.

HMJr: And Wilson, Chief Wilson is coming back at twelve to tell me, but he's talked to the - all the old men and he says he's ninety per cent sure that it's not Treasury - hello.

- 2 -

J: Yes.

HMJr: I thought you might be looking into it on your own.

J: Yes, I'll do that.

HMJr: Because if - and my offhand thought was that if I find that we had nothing to do with it I'd simply say that I've asked both Chief Wilson and the former Chief Moran, and no such investigation was ever made by the United States Secret Service. See? - Hello.

J: Yes.

HMJr: But then they naturally would be running over to your shop.

J: Yes.

HMJr: And - ah - I'd like your advice.

J: Yes. Well I'll get - I'll get the paper and look it up right away.

HMJr: I'd like your advice.

J: All right. I'll call you back.

HMJr: I thank you.

J: Right. Goodbye.

November 28, 1938

10:30 am

Present:

Mr. Oliphant
Mr. Taylor
Mr. Gibbons
Dr. White

Mr. Oliphant: I have here a complete set, just as it is to go to the President.

HM, Jr.: But not as it went to me.

Mr. Oliphant: Well, there was a ribbon copy of your letter to Hull which would have gone to the President, but there wasn't a copy of your letter to the President which would have gone to Hull.

HM, Jr.: O. K. As I told you, if there was a question I would have sent it anyway, but I wanted an accompanying letter, because it goes all the way down to the President without an accompanying letter.

Mr. Oliphant: The only changes I made were two. You suggested in Hull's letter (which is being retyped) I said we were enclosing a copy of your letter to the President. And then the other change is that in the letter to the President I start out by enumerating the documents attached.

HM, Jr.: (reading Memorandum for the President.) No place for my signature.

Mr. Oliphant: It's a memorandum.

HM, Jr.: (Signed the memorandum)

HM, Jr.: Now, are there any changes in this?

Mr. Oliphant: No, except just two things. I put the list at the head and in the letter to Hull I am saying I am inclosing a copy of your letter to

-2-

the President, the thing you just read.

HM, Jr.: A copy of this to Hull?

Mr. Oliphant: You want Hull to have a copy of what you told the President.

HM, Jr.: Where's the letter to Hull?

Mr. Oliphant: Next to the bottom. Now just read that paragraph.

HM, Jr.: (Reading aloud) "As you state, the question whether the procedures described in the memorandum attached to my letter of October 31, 1938, constitute a bounty or grant within the meaning of Section 303 of the Tariff Act of 1930 is a question for determination by the appropriate legal authorities. In line with your suggestion and as I did in 1936, I am, before acting, bringing the matter to the President's attention and suggesting he consider whether he desires to place the legal questions involved before the Attorney General. A copy of my letter to him is enclosed."

That's all right. Is this the one I sign?

Mr. Oliphant: Yes, that's all right.

HM, Jr.: Now, my thought was write on this, just longhand on the memorandum

Mr. Oliphant: Just take a piece of paper.

HM, Jr.: Just say, 'I hope you will draw this to the Attorney General.' Stick it underneath. Simply say, 'I sincerely hope that you find it possible to refer this to the Attorney General.'

Mr. Oliphant: 'I hope you will find it desirable.'

HM, Jr.: 'I sincerely'. (Writing on his card: 'I sincerely hope you will find it possible to refer this question to the Attorney General.'

Mr. Oliphant: O. K. That's the way I would do it.

-3-

HM, Jr: Oliphant will prepare all this and will give it to Miss Chauncey and it will go down in the pouch tonight and the letter to Hull will be delivered by hand. Shouldn't this be addressed to the Acting Secretary of State?

Mr. Oliphant: It will be handled by the Acting Secretary.

Mr. Gibbons: We always send it that way when Cordell is away.

HM, Jr: Anybody got a question?

Mr. Taylor: What are you going to do? Tack that on so it won't get lost?

HM, Jr: Just put it on with a clip.

oOo-oOo

11/28/38

97

Miss Charnsey

This is copy
of what goes to
State and is for
Key's file

8

HDO

November 28, 1938.

My dear Mr. Secretary:

I have your reply of November 19, 1938, to my letter of October 31, 1938, with respect to practices in connection with exports from Germany to the United States involving subsidies that seem to require the application of countervailing duties under Section 303 of the Tariff Act of 1930.

As you state, the question whether the procedures described in the memorandum attached to my letter of October 31, 1938, constitute a bounty or grant within the meaning of Section 303 of the Tariff Act of 1930 is a question for determination by the appropriate legal authorities. In line with your suggestion and as I did in 1936, I am, before acting, bringing the matter to the President's attention and suggesting he consider whether he desires to place the legal questions involved before the Attorney General. A copy of my letter to him is enclosed.

I am aware of the importance of the considerations of policy referred to in your letter, but, I know you will agree with me that, the legal duties of the Secretary of the Treasury in this matter having been determined, I am not at liberty to disregard them for reasons of policy or convenience. The results of your Department's further study of the questions of policy you outline will, I am sure, be most useful in other connections, and I appreciate your purpose to make them available to me.

- 2 -

If action under Section 303 is determined to be necessary, I perceive no objection to your suggestion that advance information be given to the German Government, in order to afford that Government an opportunity to abandon the procedures in question.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary

The Honorable

The Secretary of the Department of State

Enclosure

November 28, 1938.

MEMORANDUM FOR THE PRESIDENT

I attach hereto:

1. My letter of October 31, 1938 to the Secretary of State, with which I sent a memorandum of law, also attached, indicating that subsidies are being paid in connection with exports from Germany to the United States which requires application of countervailing duties.
2. Secretary Hull's reply to my letter dated November 19, 1938.
3. My reply of November 28, 1938 to Secretary Hull's letter, and finally
4. Proposed Treasury Decision.

In explanation of the foregoing, by letter dated April 16, 1936, I advised you that I had before me a Treasury Decision giving notice of the imposition of countervailing duties on certain imports from Germany under Section 303 of the Tariff Act of 1930. You will recall that you referred the matter to the Attorney General for an opinion, and that on June 2, 1936, he concurred in the ruling of the General Counsel for the Treasury Department that the Treasury Decision proposed to be issued was dictated by the requirements of Section 303 of the Tariff Act of 1930, and that its form was appropriate to carry out the mandate of that statute.

I now have before me for my signature a new Treasury Decision giving notice of the imposition of countervailing duties on certain imports from Germany under Section 303 of the Tariff Act of 1930. The General Counsel for the Treasury Department has approved this

- 2 -

decision. I am attaching a copy of the proposed Treasury Decision, together with a memorandum of the General Counsel concluding that dutiable German merchandise imported into the United States in accordance with the practices therein described are subject to countervailing duties under Section 303.

This Section, you will recall, vests no discretion in anyone. In view of its requirements and of the facts now before me, I am satisfied that there is no alternative to the imposition of the countervailing duties. However, I conceive it my duty, as on the previous occasion, to bring the matter to your attention before acting, particularly since Secretary Hull, in a letter dated November 19, 1936, copy of which is enclosed, has mentioned several considerations of policy and observes that the opinion of the Attorney General was requested before action was taken in the 1936 case.

(Signed) H. Morgenthau, Jr.

The President

The White House

Attachments

HW/A G/a/ta
Rewritten 11/28/58

Miss Chauncey 102

This is copy of
all that goes
to Pres and is
for Secy's file
H0

11/28'38

~~SECRET~~

November 28, 1938.

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(Signed) H. Morgenthau, Jr.

The President

The White House

Attachments

HW/EG/s/Em
Rewritten 11/29/36

October 31, 1938

My dear Mr. Secretary:

Recent information coming to the Treasury Department from responsible quarters, indicating that practices in connection with exports from Germany to the United States involve subsidies that require the application of countervailing duties under section 303 of the Tariff Act of 1930 (U.S.C. title 19, sec. 1303) has led the Treasury Department to inquire into current procedures and reexamine the whole matter.

The present stage of this examination is set forth in the enclosed memorandum, which is submitted to you at this time for any comment you may care to make.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

The Honorable

The Secretary of State

Enclosure

Typed in final form 10/29/38 a

(COPY)

MEMORANDUM

Under current regulations of German governmental authorities, the importation of substantial amounts of many German products into the United States has come to be financed through the medium of so-called "barter" arrangements. The essential features of all these arrangements as set forth in Special Circular No. 486, issued by the United States Department of Commerce on July 15, 1938, and other reliable information before the Treasury Department, are:

(1) The prospective American importer of German goods "buys" one of a limited number of kinds of merchandise (cotton or copper in most, if not all, cases) for dollars at the world price. The kind of merchandise to be admitted into Germany for the purpose of the "barter" must be approved by the German import control authorities, and such approval is strictly limited to a very few kinds of goods.

(2) The merchandise is shipped into Germany, having theretofore been sold to a German purchaser for free marks (which, as appears below, are immediately blocked) at a price substantially higher than the mark equivalent of the total cost to the vendor, if such cost is calculated at the current official rate of exchange. This spread or "überpreis" (over-price) is uniformly 23-1/3% in the case of cotton. It has been less uniform but usually greater in amount in the case of copper. In every case the price to be paid by the German vendee must receive

- 2 -

prior approval by the German import control authorities.

(3) The marks paid by the German vendee are required to be paid into special accounts in German banks, where, as mentioned above, they are held as "blocked" or controlled funds for the account of the prospective American importer mentioned above.

(4) Whatever the formal limitations upon the use of such controlled funds by their American owner may be, their only practical use is in payment for German goods to be shipped to the United States. The kinds of goods for which such payment may be made are restricted to those set forth in detail in a list published by the German exchange control authorities on July 19, 1938. Excluded from this list are, in general:

(a) Articles and commodities in which Germany has a virtual international monopoly to such extent that their export at the current high German prices requires no assistance.

(b) Goods of which there is a shortage in Germany so that their export is not favored by the German Government.

(c) Goods composed of foreign materials to such a large extent that their export is objectionable to the German Government because of the drain on

- 3 -

Germany's foreign balances which would result from the purchase of the materials used in their manufacture.

The net result of the above described system would seem to be that, to those who avail themselves of it, the grant of a valuable privilege is being bestowed by the German Government in connection with the exportation from Germany to the United States of the selected kinds of merchandise enumerated in the above mentioned list. It appears that, by restricting imports, fixing import prices, regulating the method of paying for imports, and controlling the disposition of the proceeds of payment, the regulatory system of the German Government has provided a means whereby commodities (cotton and copper) suitable for the purpose may be used as a special medium of exchange for converting dollars into marks on the basis of an assured premium of marks, on condition that the total marks received, including the premium, be used for the purchase of the listed goods to be exported from Germany to the United States.

The purposes and underlying causes of the regulatory system appear to be immaterial. If the result of the system is to benefit exports in an amount which may be determined or estimated and in such manner that the goods may be sold to the United States for less than would otherwise be possible, it seems clear that there is a bounty or grant within the meaning of our countervailing duty law. The features of the system which give to the American importer certainty as to the premium rate at which his dollars will be converted into marks by the use of cotton or copper as an intermediate and special medium of

- 4 -

exchange, and those features which restrict the use of the enhanced mark proceeds of the exchange transaction, would seem to preclude a conclusion that the premium created in the form of marks to be used for promoting exports is a profit on the sale of the cotton or copper in Germany by the American importer, rather than a subsidy on the export of German goods.

Since the usual and ordinary result of the system in its current operation seems to be the payment or bestowal of a bounty or grant upon the export of German merchandise in the form of an assured sum in marks for the German exporter in addition to the equivalent of the investment made by the American importer in transactions directed solely to payment for the German goods, it would seem clear that such goods which are dutiable under the Tariff Act of 1930 are subject to countervailing duties under section 303 of that Act (U.S.C., title 19, sec. 1303) in the amount of the premium. Downs v. United States, (1903) 187 U.S. 496; Nicholas v. United States, (1919) 249 U.S. 34; (1936) 38 Op. Atty. Gen. 489.

Typed 11/23/38

lld:copied 11/26/38

C O P Y

DEPARTMENT OF STATE

Washington

In reply refer to
RA 611.6231/1070

November 19, 1938.

My dear Mr. Secretary:

I refer to your letter of October 31, 1938 stating that recent information coming to the Treasury Department, indicating that practices in connection with exports from Germany to the United States involve subsidies that require action under section 303 of the Tariff Act of 1930, has led the Treasury Department to inquire into current procedures and reexamine the whole matter and inviting such comment as I may care to make upon the memorandum enclosed with your letter.

This question has been given the most careful consideration in the Department and was laid before the Executive Committee on Commercial Policy at its meeting on November 9. The question which is presented involves two major aspects: (1) whether, under the facts, action under section 303 is required as a result of the procedures in question and (2) questions of commercial policy.

Whether

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury.

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Whether the procedures described in the memorandum attached to your letter constitute a bounty or grant within the meaning of section 303 of the Tariff Act of 1930 is, of course, a question for determination by the appropriate legal authorities. It will be recalled that in 1935 when countervailing duty action was taken in connection with certain imports from Germany, the Treasury Department decided to request the opinion of the Attorney General as well as that of its own legal staff before taking action.

With regard to questions of policy I believe you will recognize that countervailing duty action affecting a considerable part of imports into the United States from Germany cannot fail to have important reactions upon German - American relations. In this connection there may be cited the probable further reduction of the already reduced exports of cotton to Germany and the possible intensification of German competition with American products in third markets. In view of recent and current events it is also to be anticipated that political interpretations would be placed upon action under section 303. I might also point out that this action at this time might possibly affect the prospec-

tive

- 3 -

sive attempt of the Intergovernmental Committee on Political Refugees to secure German cooperation looking towards the facilitation of the emigration of refugees from Germany - though I may say that the prospects of such facilitation at the present moment are distinctly uncertain.

These questions of policy are being further examined by a subcommittee of the Executive Committee on Commercial Policy and as soon as their study is completed I should like to transmit to you more detailed comment thereon.

You will also recall that in 1935 the German Government was advised by this Government, upon approval by the Treasury Department, that the Treasury Department was inclined to the view that trade procedures like or similar to those now in question would not be in violation of section 303 of the Tariff Act of 1930 and therefore would not require the imposition of countervailing duties. In view of this fact I am sure you will agree that, if it is determined that it is necessary now to take action under section 303, advance information should be given to the German Government and that Government should be given an opportunity to abandon the procedures under discussion.

Sincerely yours,

(Signed) Cordell Hull

November 28, 1938

My dear Mr. Secretary:

I have your reply of November 19, 1938, to my letter of October 31, 1938, with respect to practices in connection with exports from Germany to the United States involving subsidies that seem to require the application of countervailing duties under Section 303 of the Tariff Act of 1930.

As you state, the question whether the procedures described in the memorandum attached to my letter of October 31, 1938, constitute a bounty or grant within the meaning of Section 303 of the Tariff Act of 1930 is a question for determination by the appropriate legal authorities. In line with your suggestion and as I did in 1936, I am, before acting, bringing the matter to the President's attention and suggesting he consider whether he desires to place the legal questions involved before the Attorney General. A copy of my letter to him is enclosed.

I am aware of the importance of the considerations of policy referred to in your letter, but, I know you will agree with me that, the legal duties of the Secretary of the Treasury in this matter having been determined, I am not at liberty to disregard them for reasons of policy or convenience. The results of your Department's further study of the questions of policy you outline will, I am sure, be most useful in other connections, and I appreciate your purpose to make them available to me.

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If action under Section 303 is determined to be necessary, I perceive no objection to your suggestion that advance information be given to the German Government, in order to afford that Government an opportunity to abandon the procedures in question.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary

The Honorable

The Secretary of the Department of State

Enclosure (1)

Memorandum for the President
Dated November 28, 1938
Signed H. Morgenthau, Jr.

(T.D. _____)

COUNTERVAILING DUTIES ON IMPORTS FROM GERMANY

Notice of countervailing duties to be imposed under Section 303, Tariff Act of 1930, by reason of the payment or bestowal of a bounty or grant upon the exportation of certain goods from Germany. Collectors of Customs instructed to suspend liquidation of entries covering dutiable imports from Germany and to collect estimated additional duties in certain cases.

Treasury Department
Office of the Commissioner of Customs
Washington, D. C.

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

The Bureau is in receipt of information concerning the operation of so-called "barter transactions through which the importation into the United States of merchandise from Germany is financed by means of premium prices for certain products, particularly cotton and copper, which satisfies the Bureau that such transactions involve the payment or bestowal of bounties or grants within the meaning of Section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303).

Accordingly, notice is hereby given that dutiable merchandise imported directly or indirectly from Germany, which has been or shall be acquired by or through the disposal of other goods on a premium basis (regardless of the character of such other goods or of the method or means of such disposal), if entered for consumption or withdrawn from warehouse for consumption after the expiration of thirty days after the publication of this decision in a weekly issue of TREASURY DECISIONS, will be subject to the payment of countervailing duties equal to the net amount of any bounty or grant determined or estimated

- 2 -

to have been paid or bestowed upon its exportation from Germany.

Upon the entry for consumption or withdrawal from warehouse for consumption, on or after the effective date of this notice of dutiable merchandise imported directly or indirectly from Germany, there shall be collected in addition to any other duties estimated or determined to be due, estimated countervailing duties at the rate of 25 per centum of the invoice value. The liquidation of entries covering such merchandise shall be suspended and the facts concerning the manner of payment for the goods shall be reported promptly and in full to the Bureau.

Commissioner of Customs

APPROVED:

Secretary of the Treasury

HC/cp/fm 11/28*30

Confidential

P A R A P H R A S E

A confidential telegram (No. 569) of November 28, 1938, from the American Ambassador at Chungking reads substantially as follows:

In November (from the third to the twentieth) of this year an American engineer made a survey of the Yunnan-Burma highway and recently prepared a confidential report in regard to this survey. This report was prepared for the Central Aircraft Manufacturing Company Federal Incorporated United States of America. This company is said to have under consideration the building, with certain financial assistance from the Chinese Government, of a large airplane assembly factory in Yunnan province close by the city of Bhamo and adjacent to the Burma border. A member of the Embassy staff has just been allowed to read a copy of the report in which is set forth the following:

Although doubt was expressed with regard to the usefulness of the section between Yunnanfu and Talifu during the rainy season due to the inadequacy of hard surfacing, the bridges and road bed in this section were found to be well built and in a condition suitable for heavy traffic if it were slow. The road is in many places narrow and for long stretches is suitable only for one way traffic in the section from Talifu to the Salween River and, as the surveyor traveled westward, the condition

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tion of the highway and the quality of the construction work in this section were found to grow poorer and poorer. Three or four months more work will be needed to complete the permanent bridges (which are strong and large) in the Talifu-Salween River section; the grades are so steep and the curves are so sharp in many places as to make heavy truck traffic dangerous, difficult and slow and, most troublesome of all, landslides take place at all seasons, especially during the rainy season, in this section of the road. Between Paoshan and the Salween River the American engineer met landslides frequently and was able to go on his way only after workmen had been obtained to clear away the debris. As a result of huge landslides which road engineers on the spot thought would require about six weeks to clear away, the American engineer was forced to turn back after proceeding a short distance to the west of the Salween River. It was found that the suspension bridge over the Salween River could bear only a two-ton load although the same kind of bridge over the Mekong River was found to be satisfactory and to have a ten-ton capacity. The bridge over the Salween could be strengthened by the installation of new cables to a satisfactory capacity and it was estimated that a period of six months would be required for this work. In conclusion the report stated that, considering the amazing difficulties of the terrain

STRICTLY CONFIDENTIAL

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terrain, the building of the road was a wonderful piece of engineering work but the view was expressed that such improvements as widening, straightening of curves, reduction of grades, hard surfacing, and especially prevention of landslides which are likely to block the road for long periods of time, especially in the rainy season, were needed. In order to complete the road for use by general traffic it was thought that four or five more months of intensive work would be needed. Doubt was expressed whether the road could be made use of by the Chinese authorities especially before the forthcoming rains were over.

According to information received by the Ambassador, the Chinese National Government has under active consideration the desirability of taking over direct control of the Yunnan-Burma road with the idea of increasing its efficiency. Although the National Government has supplied funds for the building of the road the Yunnan provincial authorities have had charge of the work. Now it appears that after January 1 of next year the National Government will have supervision of this road.

893.154/227

flat

Invited November 22, 1938 for a supper meeting at
the secretary's home on Monday evening, November 28, 1938

Mr. George B. Roberts,
Vice President,
National City Bank of New York.

Mr. F. Leslie Hayford,
General Motors Corporation.

Mr. Walter Lichtenstein,
Vice President,
First National Bank of Chicago.

Mr. Ragnar D. Naess,
Vice President,
Tri-Continental Corporation.

Mr. Seymour L. Andrew,
Chief Statistician,
American Telephone and Telegraph Co.

Dr. W. L. Crum,
Harvard University.

Members of Industrial Committee of
National Resources Committee

- Mr. Thomas C. Blaisdell, Jr. - Director, Monopoly Study,
Securities and Exchange Commission.
- Dr. Mordecai Ezekiel - Economic Adviser to the Secretary of
Agriculture.
- Mr. Leon Henderson - Executive Secretary, Temporary Economic
Committee, Federal Trade Commission.
- Mr. Lauchlin B. Currie - Assistant Director, Div. of Research
and Statistics, Board of Governors,
Federal Reserve System.
- Mr. Charles W. Eliot, 2nd - Executive Officer, National
Resources Com.
- Dr. Isador Lubin - Commissioner of Labor Statistics,
Department of Labor.
- Dr. Gardiner C. Means - Director, Industrial Section, N. R. C.
- Dr. Harry D. White - Director of Monetary Research

Dinner Monday night, 7:30 - business suit.

November 28, 1938.

November 28, 1938.
11:01 a.m.

HMJr: Hello
Robert Jackson: Good morning.
HMJr: How are you?
J: I can tell you something of the history of that American Protective League.
HMJr: Uh-huh.
J: That you may want to have the background on.
HMJr: Please.
J: I get it from the Attorney General's history of the Department of Justice. Are you familiar with that book?
HMJr: No, I'm not.
J: Entitled "Federal Justice". The Attorney General and Carl MacFarlane wrote it.
HMJr: Pardon me.
J: The Attorney General and Carl MacFarlane.
HMJr: Oh, yes.
J: Wrote it, and the story is given in pages 420 to about 425.
HMJr: I see.
J: And I'll tell you what it says, briefly.
HMJr: Do.
J: Private organizations with hundreds of thousands of members were set up to investigate and report disloyal acts and utterances. Complaints of even the most informal or confidential nature are always welcome Gregory announced to District Attorney. Then John O'Brien testified in Congress about that Division, he was the head of it -
HMJr: Yes.

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J: And he said this, "No other one cause contributed so much to the oppression of innocent men as the systematic and indiscriminate agitation against what was claimed to be an all pervasive system of German espionage. One unpleasant fact continually impressed on my associates and myself was the insistent desire of a very large number of highly intelligent men and women to become arms of the secret service and to devote their entire time to the patriotic purpose of pursuing spies." And then the story of the organization. The Department of Justice had some three hundred investigators scattered throughout the country. In addition it relied heavily upon the services of a volunteer organization known as the American Protective League.

HMJr: Uh-huh.

J: Which had been organized early in 1917 with the approval of the Attorney General for informal assistance in gathering evidence of neutrality violations. It spread rapidly. By the middle of June it had branches in almost six hundred cities in towns and a membership of nearly one hundred thousand. By 1918 the membership ran to some two hundred and fifty thousand.

HMJr: My gosh!

J: It performed varied services for the Government in addition to reporting pertinent information of value which came to its attention. The American Protective League made thousands of investigations regarding registrations, the antecedents and loyalty of civil employees and applicants for commissions in the Reserve Corps and so forth. Secretary of the Treasury McAdoo proposed to the President the creation of a Bureau of intelligence in the Department of State to coordinate the war work of the Secret Service, and the Bureau of Investigation of the Department of Justice, and the Postal Inspection Service. Gregory wrote President Wilson a pointed reply. He quoted statutes and declared there had been no confusion except that the Secret Service had encroached upon the prerogatives of the Bureau of Investigation. McAdoo sent to Gregory a four page letter in which he regretted

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that he could not reply at length concerning the inaccuracies in Gregory's letter.

HMJr: Yes.

J: He criticized the American Protective League and its badge and identification cards, bearing the words "Secret Service Division" which naturally led to confusion with the Secret Service of the Treasury Department. You see that's right where your confusion is now.

HMJr: Uh-huh.

J: Confusion that McAdoo called attention to. And then this quotes from McAdoo - "For seventy-five cents or a dollar" he wrote, "membership may be obtained in this volunteer organization and authority conferred with the approval of the Department of Justice to make investigations under the title of Secret Service". He insisted that the badges and cards be destroyed. "You will recall", he said in closing, "that during the American revolution the volunteer organization committing great confusion, and so forth". However, they didn't destroy them and Gregory replied with a long defense to the League, doubting that there was danger of confusion to the Secret Service, he nevertheless arranged that his literature and badges should be changed but declared nothing could be done about the badges already in private possession. He proposed that a new badge, stating that the League was cooperating with the Department of Justice. The League members thought this too weak.

HMJr: Yes.

J: In the denial of proper recognition. After several months auxiliary to the United States Department of Justice was adopted. I think that's the story of the confusion right there.

HMJr: Well that - that page is 420 to 25?

J: Yes. And if you haven't got it, -

HMJr: Why, we've got it.

J: And can't get access to it why I have a copy here that I'll be glad to send over to you.

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HMJr: No, that won't be necessary. I think that's the whole answer.

J: I think Herman has it probably, and -

HMJr: Yes, I'll ask Herman.

J: But if you have any difficulty I'll -

HMJr: What's the title of the book?

J: Federal Justice.

HMJr: Right.

J: By Cummings and MacFarlane. And you can see that they'd not only cause confusion but that the Treasury pointed out at the time that it would cause confusion.

HMJr: Yes. McAdoo evidently took a very strong position.

J: Yes. He sensed the danger of it, so I think you have a stronger background for your statement than you thought.

HMJr: Well, I might even refer them to that book.

J: Yes, I - I think that would give the whole story.

HMJr: Yes.

J: Of the confusion of the thing.

HMJr: Well, I'm ever so much obliged.

J: Very welcome indeed.

HMJr: Thank you.

J: Goodbye.

November 28, 1938.
12:19 p.m.

HMJr: Hello.

Operator: Dr. Magill.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Roswell
Magill: Hello.

HMJr: Hello, Ros.

M: Yes.

HMJr: You speak a Spanish?

M: (laughter)

HMJr: How is your Spanish today?

M: Well, I - this makes it worse. So you're interested in this too, are you?

HMJr: Sumner Welles called me up and says, "If you don't go down there"- I don't know what they call that drink Coca Cola and Spanish rum, but they tell me it's hot stuff.

M: (laughter) Well I don't suppose that I could have any of it do you?

HMJr: Oh, they'll just fill you up.

M: They will, eh.

HMJr: When are you sailing?

M: Well I don't know about this thing Henry. Heavens and earth, I'm supposed to be teaching school, you know.

HMJr: I know, but that's just a supposition.

M: Well, I bet Mrs. Klotz is in the room.

- 2 -

HMJr: Yes.

M: Well, what do you think about it anyway?

HMJr: Well, I think you're rusty.

M: Well I -

HMJr: You've been teaching for two months.

M: I can see your fine hand in it, and I -

HMJr: No, no, I was out of town. No, you're wrong, they just asked for the best man in the United States and it was unanimous opinion it was you.

M: (laughter) Well, that's - that's very nice.

HMJr: Didn't you see those three girls that won the Cuban beauty prize that landed in New York?

M: They didn't excite me much. (laughter) Well, what was the - Sumner, what he said was - My - I said, "I didn't see how I could get away and so forth". He said, "Well he thought that I could go down there and spend a week and come back and then go down again in the Christmas recess."

HMJr: Sure, take the whole family with you and make the Cuban Government pay for it.

M: Do you think anything like that would work?

HMJr: I - ah - I wouldn't go unless they'd pay for the whole family to go down there for the holidays.

M: Well, I - that seems to be a sound plan.

HMJr: It does. All right on the fifty-nine cent dollar.

M: Are you - are you going - will you fly me down there Henry?

HMJr: Listen, if you go down there, I'll see that they - they not only - that the Pan American flies you down.

M: Yes.

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- HMJr: But that when you go down Christmas they'll pay the expenses for your whole family.
- M: Well now what - nothing could be handsomer than that could it?
- HMJr: What? No, you want anything else?
- M: I - well I'll think, I don't know, but you're feeling awfully good for Monday morning.
- HMJr: Well Sumner Welles said put the screws on.
- M: He did, eh?
- HMJr: Yes, he wants this badly.
- M: What do you think about it Henry, seriously. Do you think I ought to do it?
- HMJr: I think this way. It's a short thing and I think that - that they're really up against it down there, and we've been fooling around for five years, saying we're going to do something for Cuba, and we haven't done a thing except give them a lot of money for their sugar.
- M: Yes.
- HMJr: And that's kind of wearing off, and I really - I really think that from now on, I don't - anything that has to do with Central South America, I'm giving it the preference over everything else.
- M: Well, that's the way it looks to me.
- HMJr: And I think everybody else that has anything that - can contribute should do the same thing, I
- M: There's one thing that immediately worries me about the situation, am I correct in understanding what he said that their Congress meets right after the first of the year?
- HMJr: I - I think - I know that they've got a deadline to the first of January. It's a hurry up job.
- M: I - I don't - you know how it is, how it was with us, the time you reformed the Administration. Now of course,

- 4 -

Cuba is a much smaller place, but I don't know just how much you're going to accomplish in this length of time.

HMJr: Well, you give them that Pat Harrison's smile and just melt away.

M: (laughter) I - I'm afraid that I don't know how much you can do in this length - length of time.

HMJr: Well, it's at least - if you go we're giving them the best we've got. If this was something for months I'd say no, because I want you down here to help us later on.

M: How are things going, by the way?

HMJr: Beautifully, nothing is happening.

M: (laughter)

HMJr: Not a thing, that's why we haven't called you.

M: I called you last week and -

HMJr: I haven't called you -

M: - I've had lunch with Earl Baillie, and they said you were head over heels with other stuff.

HMJr: Yes. No, nothing is happening and that's why I haven't called you, and as soon as we know where we're at, why Johnny Hanes and I'll send an ambulance up for you.

M: All right, that's probably - well I'll need that coming back, going down I might be able to use the train.

HMJr: Yes.

M: Well thank you very much for calling Henry. I haven't yet got a hold of my wife, but I'll do talking about it -

HMJr: No.

- 5 -

- M: - and I'm going to see President Butler at two-thirty, and see if he can stand the shock.
- HMJr: Well, and then as to the taking your family they ought to pay for that. That's the least that they can do.
- M: Well, I - the flying down, I suppose I would have to do if I'm going to do it quickly.
- HMJr: Well, there's the Pan - they'll fly you down Pan-American.
- M: And is that all right?
- HMJr: Oh, sure. I mean I don't know who's paying for this, but that's up to the State Department.
- M: Yes.
- HMJr: Did you mean is it safe?
- M: Yes.
- HMJr: Well you go Eastern Airways to Miami.
- M: Yes.
- HMJr: Then Miami two hours by Pan-American, they're all good lines.
- M: Yes.
- HMJr: Absolutely.
- M: Yes. Well, it's awfully nice to hear your voice. I wish I was seeing you one of these times.
- HMJr: You do that, but I didn't want to bother you to come down here until the Treasury knew where we're at and we haven't got any idea, in the meantime we're all taking bets on Arthur Krock and Harry Hopkins.
- M: (laughter) Well I - I appreciate that because I've had - I've had plenty to do here, getting straightened around and so forth.
- HMJr: Yes. Well, we'll be needing you and just as soon as we know where we're at we'll send for you.
- M: Well thank you very much, Henry. Give my regards to Mrs. Morgenthau.

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HMJr: I'll do that. Remember, going to Cuba doesn't keep you from helping U. S. Treasury.

M: (laughter)

HMJr: This is just a little pleasure trip.

M: I think I would a little rather help the home industry.

HMJr: All right.

M: All right.

HMJr: Remember me to your family.

November 28, 1938.
12:32 p.m.

Marriner
Eccles:

Oh, yes Henry.

HMJr:

How's Warm Springs?

E:

Well, it isn't very warm.

HMJr:

It isn't.

E:

It was twenty-six degrees there yesterday, so I don't know where it gets its name.

HMJr:

Good heavens.

E:

Have you got a minute or two?

HMJr:

Sure.

E:

When I was going to talk to you about going down to Warm Springs when I came over there on Wednesday.

HMJr:

Oh!

E:

As a matter of fact I didn't know I was going until Wednesday.

HMJr:

For heaven's sake.

E:

And Mac called me up and asked me to come down there. What I had been trying to do, I had been trying to see the President for - since last August - I've seen him fifteen minutes in four months.

HMJr:

Good heavens.

E:

That's right. The day you saw me over there was the only time I've seen him since before I went out West in August.

HMJr:

That seems unbelievable.

E:

So what I've been trying to do is to get an appointment and I told Mac that unless I could get at least an hour or two I didn't want one.

HMJr:

Yes.

E:

I said, when I - when you find it possible to get that much time, why I'd like to sit down and have a long

- 2 -

visit about this whole banking and Federal Reserve picture as I see it. I'm not - I'm very unhappy about the situation and I want to just sit down and have a long talk with him. So, Mac said, "Well, there's no chance in Washington it doesn't seem," and he said the thing to do would be to come down to Warm Springs. I've arranged it.

HMJr: Uh-huh.

E: So that - that happens to be how I went down there to - apparently he couldn't get any chance - any time here. Well, instead of talking about banking, I didn't get very much time because the President did most of the talking about other things.

HMJr: I see.

E: And -

HMJr: He had lots of stuff on his mind, huh?

E: Yes, he seemed to have. He wanted to talk most of the time about his Budget.

HMJr: I see.

E: And wanted to know what this committee had done, and so forth and so on. Well, I - nothing new, I mean that I just told him what you already know. But on the banking end of it I did get an opportunity to talk about, oh I guess half hour on it, to get - to get - give him the general high spots and if you're interested in the thing I'll be glad to tell you just what I told him.

HMJr: Yes, I am very much interested.

E: And sometime, whenever you feel you've got a little time, when you want to -

HMJr: Well, I -

E: - talk the thing over, why I'll be glad to tell you.

HMJr: Yes, I - I'd appreciate it and I'll call you up either tonight or the first thing in the morning.

E: O.K.

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HMJr: Find out when it's all right for you.

E: Well, are you tied up tomorrow at lunch?

HMJr: Yes, I've got some fellow coming down from New York, but I'm not tied up Wednesday.

E: Yes, well all right. Wednesday would be - you see we've got that - we've got that open market meeting Wednesday morning.

HMJr: Yes.

E: Haven't we?

HMJr: Yes.

E: Well, I think Wednesday would be fine with me.

HMJr: All right, one o'clock say?

E: Yes.

HMJr: But you say he was interested in this - in what we were doing in this, what they call the Nameless Committee.

E: The what? That's right.

HMJr: What?

E: That's right.

HMJr: Yes.

E: Yes, he was - seemed to be - he seemed to be very interested in that.

HMJr: Because I haven't - I haven't sent him any report, because I had no report to make.

E: No, well I mean he wasn't - it was just a question of him - you know how he does, he gets off on a - on a - apparently he's been thinking about his - about his Budget message and about this job that he's - about what the Budget is going to look like and what it's going to look like the following year and whether there should be taxes or not and if so, what kind of taxes, and he also brought up this question that -

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he said, "I just received a letter signed by you and others." Of course you know what that letter was.

HMJr: Sure. God we worked hard enough on it.

E: And he - he said rather facetiously, he did this at the dinner table the first night I was down there, with Mrs. Roosevelt, Doc. McIntyre and Miss LeHand there, he said rather facetiously, he said he'd gotten this letter. He said, "You know I had told them that I would not" he said, "Hopkins and Aubrey Williams have gone ahead and defied my orders and done so and so and so . . ." and he said, "They got themselves in a jam and I told them that I wouldn't sign this order", and he said, "They go around to my committee, see, and then my committee comes to their rescue, you see".

HMJr: Yes.

E: And he said it rather facetiously.

HMJr: Yes.

E: And of course when he got through making this little speech kind of trying to have a little fun at my expense.

HMJr: Yes.

E: And I - I said, "I'm sure those here would be glad to hear the other side of this debate."

HMJr: Yes.

E: So, then I got my little say in. But, he seemed to feel perfectly all right about that, and I think he was very glad to be taken off the position that he was on and have the thing put in the shape it is. He seemed to be glad about it.

HMJr: I should think he ought to be.

E: Well I think he was and I had a very good chance to talk to him about the importance of the Government's contribution and about - about rapid decreasing of expenditure, and he could undo all that had been done if that thing wasn't properly timed.

HMJr: Well I think he ought to be very glad because -

- 5 -

- E: Well I think he was. I think he was - I think he - he felt all right about it, and -
- HMJr: He signed it you know.
- E: Oh yes. Yes. I knew he signed it. But he - he was glad to sort of put it on our doorstep.
- HMJr: And he - he was under the impression that Hopkins had come around to see us.
- E: Well he seemed to be. Of course I said to him, I said, "Well now, as a matter of fact, none of us saw or talked to either Williams or Hopkins, none of the committee, unless it possibly was the Secretary, and knowing what the situation was, but there was not the slightest effort made on their part to - to - that the first time we heard of it at all was the Secretary, at a meeting of this committee."
- HMJr: That's right.
- E: And he's merely said that he thought it was his duty to tell us of the facts.
- HMJr: Yes.
- E: That we would be interested in this thing, and of course immediately he told us what the situation was we - we were - we were - felt that something should be done. We were just as strong for doing something as - as the Secretary was or as Hopkins could possibly be.
- HMJr: That's right.
- E: And I said, "We never even saw Hopkins until the whole thing was decided what ought to be done as far as we were concerned."
- HMJr: That's right.
- E: So -
- HMJr: Well, if the committee never does anything else I'll always be proud of that thing anyway.
- E: Well I think that's - I think that's O.K. Well, I

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thought you'd - inasmuch as he did bring up some of these other things, I didn't bring them up because it wasn't my place to, but inasmuch as he did bring them up and discuss them I - I just thought I'd tell you about it, and -

HMJr: Well I appreciate your calling very much and I'll look forward to hearing about it at lunch on Wednesday.

E: Yes. All right then.

HMJr: Thank you so much.

E: Goodbye.

November 28, 1938.
2:38 p.m.

HMJr: Hello.

Operator: A long distance call from Mr. Beardsley Ruml.

HMJr: Yes.

Beardsley
Ruml: This is B. Ruml.

HMJr: How do you do?

R: I have a suggestion in connection with that job you talked to me about.

HMJr: Yes.

R: If you're still interested.

HMJr: Oh very much.

R: Well now this fellow I know very well.

HMJr: Yes.

R: He is - from the standpoint of character and integrity he is absolutely first class.

HMJr: Yes.

R: I say that first off, because I think it's pretty important.

HMJr: Yes.

R: His name is Paul Loeb. L-O-E-B.

HMJr: Yes.

R: He's about thirty-seven years old.

HMJr: Yes.

R: He organized and ran the purchasing office in Macy's.

HMJr: I see.

R: For about four years or so.

HMJr: Yes.

R: He is now at Bamburgers as Assistant Controller.

HMJr: But he comes from New York.

R: No, he lives in New Jersey.

HMJr: Well that wouldn't help much.

R: That wouldn't what?

HMJr: Well, I - you see we've got, besides myself we've got Hanes from New York and Steve Gibbons from New York.

R: Uh-huh. Uh-huh.

HMJr: I've got to go South or West.

R: Well - (laughter)

HMJr: Makes it a little difficult doesn't it?

R: It does make it difficult.

HMJr: But I appreciate this suggestion just the same.

R: Now listen he came from California originally.

HMJr: Yes.

R: His father was in business in Mexico, he knows the Latin-American thing very well from a business point of view. He's a sort of a second nephew of Percy Straus and Percy knows him very well.

HMJr: I see.

R: And I don't know whether he's - he's too far out of the South - I mean too long ago, he was in Texas. He married a Texas girl I know.

HMJr: Uh-huh. Well, let me think about it and I certainly appreciate very much your bothering.

R: Yes.

HMJr: But let me turn it over in my mind.

R: All right. If there's anything, if I - but you really want something further South or West.

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HMJr: Yes I really do.

R: All right.

HMJr: Try again.

R: All right.

HMJr: Thank you.

R: Goodbye.

November 28, 1938

3 pm (before arrival
of Brazilian Ambassador.)

(HM, Jr to Mr. Taylor)

Sumner Welles called me up on three things:
(1) would I please call up Magill and urge him to do that, which I did and he will. (Tax adviser to Cuban Government.)

(2) Trade Agreement with Cuba. An additional 15% benefit to Cuba which amounts to \$5,000,000 or \$6,000,000. I told Harry White. I understand we have been waiting or holding out. I told Harry White to bring it up at 9:30. White says it's a straight grant.

(3) The other thing: he says that the cooperation between the two Departments on China has not been good, because they have not been giving us the political end on China. They will from now on give it to us from day to day, but would we please also give them anything of significance. Will you take that? He mentioned Buck, Nicholson and Campbell.

Then I said, Well, you know about the other thing. You know about this business about making this loan on nut oil. He says, Yes. I says, Where is it? He said, It is with the President. And the President has given his word and nothing has happened. He said, Well, I am going to talk to the President shortly and I will ask him about it.

I also told him that the German thing was going over; wish he would look into that. He wasn't at all familiar with it. I told him that I was recommending to the President that he refer it to the Attorney General.

November 28, 1938.
3:01 p.m.

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Operator: Operator.

HMJr: Put Knoke on the wire please.

O: All right.

HMJr: Hello.

O: Knoke. Go ahead.

HMJr: Hello.

Knoke: Yes, Mr. Secretary.

HMJr: Knoke?

K: Yes, sir.

HMJr: I've got the boys here. Now start all over again and tell me in simple language what Bolton's been telling you.

K: Well Bolton said this that their forward contracts maturing in December are hundred and fifty million dollars.

HMJr: Yes.

K: They have decided not to renew any of those but to let them run off which means that they will - they've decided to ship gold to that amount.

HMJr: Ship gold to the amount of how much?

K: Hundred and fifty million dollars, when I say - they will ship gold unless they can buy the dollars back of the profits.

HMJr: Yes.

K: But the basis is that they - they are going to let it run off and will not renew.

HMJr: Yes.

K: They got this afternoon the London clearing banks together, and arranged with these clearing banks that

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they would use none of their funds for the financing of forward contracts in exchange nor for the financing of forward contracts in gold.

HMAJr: Well, they're getting a little sense aren't they?

K: Why, on this gold, I found this out, the figure that the forward contracts outstanding are between thirty-five and forty million pounds.

HMAJr: And you mean to say that those damn fools have been financing forward contracts on gold?

K: Well the banks have, yes.

HMAJr: And the Bank of England stands there and -

K: Well the Bank of England as you will remember, some six months ago, through that market oper^{ed} again. For a while they've had a gentleman's agreement or an embargo, a gentleman's embargo, preventing operation of forward gold that earlier in the year when things began to look a whole lot more normal they thought it would be the right gesture for them to - to remove whatever restrictions had been on the forwards.

HMAJr: Well now Knoke, do you think we'll get a hundred and fifty million gold?

K: Well, I just looked at the figures that are now on the water about eighty million dollars, that they have shipped already, and the first is beginning, the first shipment of that is due tomorrow morning.

HMAJr: Well isn't this going to be a squeeze?

K: Well, if they - they cover it - if they provide gold for all their operations it surely will be a squeeze unless other foreigners or other people who have - who have sterling advance the necessary money.

HMAJr: Now where are they going to get it?

K: Well I said - after - it's conceivable that the foreign balance is still held in London which after all although nobody knows were estimated last July about a million pounds - a billion pounds, and say that half of that has been transferred you would still have five hundred million pounds.

HMAJr: Yes.

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- K: Now if sterling goes up too suddenly and too fast, people who still have balances, foreigners and members of the sterling area for instance, they might say, well we'll advance the sterling for which there seems to be a temporary need and get it back later on. In other words, they might thus avoid a squeeze.
- HMJr: Yes.
- K: The Bank of England is fully aware of that, and they are not sure that they can avoid a squeeze but they feel pretty sure that they will avoid continuation of these forward contracts.
- HMJr: Well, don't you think this is all to the good?
- K: Oh, of course it's all to the good. I think you saw that - today already the rates have gone up about two cents, -
- HMJr: Yes.
- K: And it hasn't cost the British anything.
- HMJr: You know I've been doing a little squeezing down here, you know.
- K: With whom?
- HMJr: Well with their British financial representative, we have -
- K: Oh, yes I know
Now let me add this, that when Bolton was through he said, "Our Treasury is going to notify Mr. Morgenthau of this."
- HMJr: Good. Good.
- K: Yes I think that -
- HMJr: Maybe they read the Fortune article.
- K: The Fortune?
- HMJr: Yes. Haven't you seen the article in Fortune?
- K: No, did I miss something?
- HMJr: Did you. Well they gave you the most wonderful send-off in the World.
- K: Gave it to who?

HMJr: You.

K: Well then that would be the reason that I didn't read it.

HMJr: Well -

K:

HMJr: Well, you'd better get a copy of it.

K: Fortune, well, well.

HMJr: Yes, very nice.

K: Well all this, I think, is ^{as you said} - is/all for the good.

HMJr: Yes.

K: How far it will carry

HMJr: Well it's good for a week anyway.

K: Yes I see the connection.

HMJr: All right. Well I'm damned glad because believe me I was getting worried as this thing approached 4.61. And I don't want anybody - now get this in your talk - I told Bewley this morning that I'm very much in earnest and, about this thing, and that I just wasn't going to sit here and see this thing go through 4.61 without doing something.

K: Yes.

HMJr: See?

K: Yes.

HMJr: I've been kidding but I've been very much in earnest and I want everybody else to be very much in earnest with that, and I told them we're worried, we're facing the floor and ^{they} with Congress coming on we could not just see sterling continue to drop.

K: Yes.

HMJr: And that's what I told them today. And very courteous but very firm and I told everybody who's working with me also to be courteous and firm. So, if you'll keep that up, I mean anything, if we are disturbed, we don't want to see and we can not see sterling continue to drop.

K: Yes.

HMJr: Now evidently that's gotten across and this is just common sense and it's particularly interesting because Bewley, this morning, say speaking for himself, he said there was no technical devices that they knew of that they could use. Well, this shows that there are. I've always thought there were.

K: Yes. Well on this I knew - we knew that the Bank had been working.

HMJr: Right.

K: May I just add one thing Mr. Secretary, there will be no publicity in London on this.

HMJr: I don't understand, but there will be nonehere either.

K: Well I mean, by that, there will be no announcement by the Treasury in London by the Bank. That is an arrangement that the Bank of England made with the clearing banks.

HMJr: I see. Well if I get hard up for a story I may have to use it Knoke.

K: No, please don't.

HMJr: Can't tell what I'll do when I'm pressed hard.

K: Don't because there's only one fellow you got it from.

HMJr: Now listen, at four o'clock I've got a press conference. I haven't got a good story.

K: Yes, but I know you won't use this one so it's all right.

HMJr: You never can tell Knoke. All right, don't worry.

November 28, 1938.
3:47 p.m.

HMJr: Hello.

Operator: Tom Smith Go ahead.

HMJr: Hello.

Tom
Smith: Yes.

HMJr: Hello Tom.

S: How are you Henry?

HMJr: God, you take a long time to eat lunch.

S: Well I had some guests here today.

HMJr: Oh, boy. Do you suppose I could get a job out in
St. Louis?

S: Yes, sir, we'll put you on the payroll Monday.

HMJr: Attaboy.

S: On Monday.

HMJr: On Monday?

S: Only do it on Mondays.

HMJr: Only do it on Mondays.

S: That's all.

HMJr: (laughter) I think that Transamerica thing went off
all right.

S: I didn't hear anything about it here. I gave all the -
all the people that I knew an opportunity to mention
it and nobody seemed to give a damn about it.

HMJr: Well the point I meant is there was no runs of any kind
on the bank or any indication of any runs.

S: Well, you - of course you watched that very carefully.

HMJr: Very.

S: And there isn't any.

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- HMJr: There isn't any and we had everything ready and there was nothing.
- S: Uh-huh. Well that's fine I didn't think there would be.
- HMJr: No, nothing. Now about that fellow that you mentioned was possible for the Federal Reserve.
- S: Yes.
- HMJr: I just want to - you want me to give you the kind of information that I ask of you.
- S: That's right.
- HMJr: You want the low-down.
- S: That's right.
- HMJr: Well, I don't think he'd be an addition.
- S: Well, I don't know what his record is there and I didn't know, and I don't want to get into it unless you told me enough.
- HMJr: Well, here's the point. I would classify him as the salesman type, see?
- S: Yes.
- HMJr: And if he wants to get in over there he'd just want to get in over there as a place to rest, see?
- S: Yes.
- HMJr: And that Board, Tom, is not too strong now. Hello.
- S: Yes, I get you. I'm following.
- HMJr: And I don't think we need over there, say, a man who's made his reputation as a high pressure salesman.
- S: Well that's about the answer I expect you to give. I didn't want to anticipate anything because, but that's -
- HMJr: Well I mean that's - I think that anybody goes in there now ought to be a fellow that we could all, well be proud of, somebody we can go and talk to occasionally, see?

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- S: Well I agree with you a hundred per cent Henry.
- HMJr: And I don't think that man fills the bill.
- S: Well I don't, but I didn't want to -
- HMJr: Well, you were asking me and -
- S: I appreciate it and I shall be, having you say that, and knowing what I know, I think he's done a good - I understand he's done a very good job where he is and I can understand how he would.
- HMJr: Oh, yes, but that's a promotion job.
- S: That's a different thing.
- HMJr: That's a promotion job.
- S: That's right. When you - you asked me about him in the beginning I said he was too lazy.
- HMJr: Well -
- S: But he evidently wants to do this job.
- HMJr: Well, the point is this Tom. Sometime, when you're here, we've got to strengthen that Board, it's an awful weak Board Tom.
- S: Well of course I've been thoroughly disgusted with it.
- HMJr: And instead of their holding up my hand on important things, really important, that are not controversial, they're always blocking. Hello.
- S: Yes, I hear you.
- HMJr: And -
- S: Well I'll - I agree with you and what I'll do is just do nothing and if - well I can handle the - if I'm asked what I can do I'll say I can't do anything.
- HMJr: I'll be calling you up along the end of the week on the bond market.
- S: All right and I'll keep my eye a little closer on it than usual.

HMJr: Right.

S: How's - how is Preston getting along?

HMJr: Well of course he's been sick all the time, he hasn't been here.

S: Yes, but he's there now isn't he?

HMJr: He's there today and he said he hopes to be well from now on, but whenever he is here he's fine.

S: Yes.

HMJr: He's fine when he's here.

S: Yes.

HMJr: But he hasn't been here. But I - the little I've seen of him it's all to the good.

S: That's what I think.

HMJr: All to the good.

S: He's very serious about it.

HMJr: Yes, and Johnny Hanes is swell.

S: Oh he's a grand boy, Henry. You're awful lucky.

HMJr: Yes.

S: I think you're lucky in both of them.

HMJr: Sure, I'm a lucky guy Tom.

S: All right. (laughter)

HMJr: O.K.

S: All right. Give my best to the family.

HMJr: Thank you.

S: Thank you for calling me Henry.

HMJr: Goodbye.

S: Goodbye.

November 28, 1938.
3:55 p.m.

Senator
William
H. King:

May I speak to you for a minute?

HMJr:

You can talk to me as long as you want to.

K:

You won't get mad?

HMJr:

I never get mad at you.

K:

You won't get tired?

HMJr:

No.

K:

I haven't had the pleasure yet of meeting Mr. Hanes.
He's taking Magill's place isn't he?

HMJr:

That's right.

K:

My you lose a great man in Magill.

HMJr:

I know, but -

K:

We miss him. I think he - I think it - he was so helpful
to us on the Committee. I've been working a little on
the tax bill, that is looking at the source of revenue,
and I wanted to talk with the one down there that we'd
have before our Committee to help us, that'd be Mr. Hanes,
isn't it?

HMJr:

Well, that'll be

K:

I beg your pardon.

HMJr:

Would you like him to call you or call on you?

K:

Oh, I'll - oh, my dear friend, I'll call on him.

HMJr:

Well, he - I know he'll be delighted to see you at
any time.

K:

Well thank you very much. I wanted to speak to you
before I went to see him because I haven't had the
pleasure of meeting him.

HMJr:

Any time and I'll tell him to get in touch with you.

K:

Yes. All right. Well I'll come down there because I
- I want him to feel that he's - he's the mountain and
I'm just Mahomet.

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HMJr: Well - he'll get in touch with you Senator.

K: All right. Now just one other word.

HMJr: Please.

K: You - do you know a man named Harry Sokol - S-O-K-O-L who claims that he rendered some important aid in getting testimony to help get some taxes out of those Canadian people.

HMJr: No. No the name's not familiar.

K: He claims that he did a lot of work there.

HMJr: No, I'm sorry.

K: And he's got - claim for service or something.

HMJr: No, of course -

K: What's that?

HMJr: It's a big place the Treasury but I'm not familiar.

K: He claims that he did a lot of work and met with one of your representatives, and he wanted to see you. I told him I didn't know him, -

HMJr: Harry what?

K: Harry Sokol S-O-K-O-L.

HMJr: No.

K: S-O-K-O-L.

HMJr: No, I - I don't know him Senator.

K: I see. Well if he wants to see somebody down there to furnish some -

HMJr: Now if this is the fellow who is the informer, see?

K: Yes, that's the fellow.

HMJr: Well of course I won't meet these informers, they are all a lot of rats.

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K: Yes.

HMJr: And I tell them to go over and see the head of the Enforcement Units.

K: Well that's what I told -

HMJr: And these informers are a lot of rats and we've got to do business with them but I don't have to do business with them.

K: Well I agree with you.

HMJr: And he was around the other day and I refused to see him, and I said that he could see the Enforcement man, I think his name is Ray, something like that, and I said, "Go over and see the head of the Enforcement Unit," but I'll be damned if I'm going to do business with them.

K: My dear friend you do the right thing.

HMJr: I mean I hate to pay for information but that's the only way we can go and get it, but I don't have to meet the fellow socially.

K: Well, I - I'd do just the same as you and I don't blame you, and I've just -

HMJr: That's the fellow, we once paid him fifty thousand dollars.

K: Is that so?

HMJr: Yes.

K: Great Lord.

HMJr: Well, what happened was, two of these fellows from Vancouver each put up a hundred thousand dollar bond.

K: Yes.

HMJr: And they came over to this country and on a visit he informed that they were here and then they jumped the bond and we paid twenty five per cent. He collected fifty thousand dollars for that.

K: I see.

HMJr: And frankly I just don't want any contact with him at all.

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- K: Well I agree with you. I hate to deal with that - that kind of
- HMJr: That's the fellow, but -
- K: And that's the same crowd.
- HMJr: But - he can see Guy Helvering or he can see one of his assistants.
- K: Yes. All right. Well, I've done my duty.
- HMJr: Righto.
- K: One of my friends asked me to see if you'd -
- HMJr: Well, you don't want to meet him any more than I do.
- K: Well, if I were you I wouldn't see him.
- HMJr: I'm not going to.
- K: I share your view my friend.
- HMJr: No, there's - these people like that in the Narcotic people, I just don't want to see them.
- K: All right my dear friend. Thank you. Goodbye.

November 28, 1938.
4:53 p.m.

HMJr: Hello.

Operator: Mr. Sproul

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Sproul: Hello Mr. Secretary.

HMJr: How are you?

S: Been doing some more checking of the market.

HMJr: Good.

S: And the concensus of opinion up here seems to be that they would like a three way offering.

HMJr: Yes.

S: A long bond a sixty sixty-five say, two and three quarters and something around eight and a half year two, putting those out for cash and exchange plus an offering of a note for exchange probably adding to the outstanding one and one-eighths of forty three. We think that that sort of a program would stop all types of buyers in a way that they could be expected to buy and hold rather than to have the banks do a big underwriting job on a very large long term issue which they wouldn't want to hold.

HMJr: I see.

S: As near as you can put together all the various opinions that's about where the concensus would come out, I should say, in our conversations for the last couple of days.

HMJr: I don't - I'm not very crazy about an eight year two.

S: About what?

HMJr: An eight year two. I don't like an eight year two.

S: Well an eight and a half year two, it fits into a period

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where there isn't any testing materially I think, and it's something that the banks would buy and hold and we have to depend on the banks for a large part of the financing.

HMJr: Well, it's just anyway what the boys think, uh?

S: That's right.

HMJr: Well, that's all right, and when are you coming down?

S: Coming down Tuesday night, and be there Wednesday.

HMJr: Right.

S: And I wanted to ask you about the people you want to see from up here.

HMJr: Well, I can see some people, well I want to see the discount boys.

S: Yes.

HMJr: I want to see Devine.

S: Yea.

HMJr: I thought I might do those Thursday.

S: Do them on Thursday.

HMJr: Don't you think so?

S: I think it would be a good idea.

HMJr: And then I want to see somebody from Chase.

S: Well I thought we could get Mr. Aldridge, he's the man.

HMJr: Yes. You can have all day Thursday to do with what you want.

S: All day Thursday.

HMJr: Yea.

S: Well I'll make -

- HMJr: The only thing I have, I have a press conference at ten-thirty Thursday, that's the only thing.
- S: Leave that out then, press at ten-thirty.
- HMJr: From ten-thirty to eleven, but you can have - you can have the whole day as far as I'm concerned.
- S: Well, let's say from eleven o'clock on then.
- HMJr: Oh, you can have from nine o'clock on.
- S: Nine to ten-thirty and from eleven on.
- HMJr: Yes. Well make it nine-fifteen and give me at least a chance to look at sterling anyway.
- S: Yes, that's something the market's been watching very closely and for a while it had them scared and they were pulling in their horns pretty fast, but they've taken on some new courage I think.
- HMJr: Yes, from nine-fifteen on, say from nine-fifteen until twelve and then if you want somebody for lunch we can have them for lunch, I want twelve to one off.
- S: Yes.
- HMJr: And then from one o'clock on we'll run them right through until four.
- S: Yes.
- HMJr: So you be thinking it over and if you give me a ring again tomorrow give me a list of suggestions.
- S: All right. We'll have Mills and Devine and some one from the Chase.
- HMJr: Yes.
- S: I think you - thought you finally want to say someone from the City too.
- HMJr: Yes.
- S: Get Rentechler and Randolph.
- HMJr: Yes. Randolph might have some ideas.

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S: Yes. And then we might put in one or two others.

HMJr: Yes. Well you think it over, and supposing you read me over a list in the morning.

S: I'll do that.

HMJr: Right.

S: All right.

HMJr: Thank you.

S: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: November 28, 1938

To Secretary Morgenthau
FROM W. A. Harris
W. H. Hadley

December Financing

It is suggested that the December 15th financing consist of a long term bond and a 5-year note, both in exchange and for cash. It is further suggested that the offering for cash be limited to about \$600 million unless the bulk of the cash be taken through the note offering. We firmly believe a long term bond will meet with a warm reception but from a market standpoint it is essential that such an issue does not become too large or that the spread between the premiums provided by a note and a bond is not of such a proportion as to invite undue speculation.

Of the possible long term bonds, a 2-3/4% 25-30 year issue appears to offer adequate premium and at the same time give a return which should prove attractive to long term investors such as insurance companies. On a yield basis of 2.64 to 2.67 such a bond should show a premium of 1 1/2 to 2 points under present market conditions.

In regard to possible note offerings, a 5-year issue with a 1-1/4% coupon appears to be preferable to a 1-1/8% coupon. The 1-1/4% note on a yield basis of 0.97 to 1.00 should show a premium of 1 3/8 points to 1.7/32 points, while a 1-1/8% note shows only 3/4 point to 19/32nds on the same yield bases. The 1-1/8% note offers a satisfactory premium in itself but coupled with a long term bond the spread in premiums between such a note and a 2-3/4% 25-30 year bond would be too great. The large spread in premium would result in heavy speculative subscriptions for the

bonds in preference to the notes and many of the holders of the maturing notes, although they prefer a new note, would exchange for the bond due to the profit incentive. A large bond issue would thus result and consequently the market might take quite some time to absorb a huge supply of long bonds. However, speculative selling of the new bonds might reduce the premium spread but, at the same time, all long term bonds might be dragged down proportionately.

The only way that such a situation can be avoided is to equalize the premiums on the two new issues as far as possible. For this reason we prefer the 1-1/4% coupon on a 5-year note over a 1-1/8% coupon. Even if the holders of the maturing notes were given an interest adjustment if they exchange for the 1-1/8% note, the total inducement would hardly exceed 3/4 point. The difference between 1-1/2% (coupon on March rights) and 1-1/8% for three months is .09375 cents per \$100 or 3/32nds. The 1-1/4% coupon should provide ample premium without the interest adjustment inducement.

If the cash offering does not exceed \$600 millions, we suggest a 50-50 split between the two issues but if the amount exceeds this figure it is further suggested that the additional amount be raised through the note. Under normal circumstances the exchange of "rights" should be largely for the bonds. In the past, as shown by the tables below, this has been true even when the premium spread was as low as 1/4 point and when the spread approached 1/2 point the exchange was almost entirely for bonds in preference to notes. Assuming that 75% of the maturing notes will be exchanged for bonds and \$300 million cash will be raised through the bond, an issue totaling about one billion would result. Such an issue should be easily absorbed but if larger may prove to be quite a

heavy burden to the market.

September 15, 1938 Financing

	<u>Amount of maturing notes exchanged</u>	<u>Percentage exchange</u>	<u>Premium price spread between new issues on day of offering</u>
2-1/2% Treas. bonds 1950/52	405	95.5 %	10/32nds to
1-1/8% Treas. notes 6/15/43	19	4.5 %	14/32nds
	424	100. %	

June 15, 1938 Financing

	<u>Amount of maturing notes exchanged *</u>	<u>Percentage exchange</u>	<u>Premium price spread between new issues on day of offering</u>
2-3/4% Treas. bonds 1958/63	919	77.4 %	6/32nds to
1-1/8% Treas. notes 6/15/43	268	22.6 %	9/32nds
	1187	100. %	

* Two issues: 2-7/8% due 6/15/38 (608 million) and
2-1/2% due 9/15/38 (579 million)

Also, from the above figures it can be seen that the short term debt has been greatly reduced by the two recent financings so that the short term market is now in a position to easily absorb quite a large issue.

Attached is a table showing the possibilities discussed as well as several others. If it is deemed advisable to remain in the medium term field our preference is a 2-5/8% bond dated 1952/57 (14-19 years). Such a bond fits in very nicely whereas any 2-1/2% bond would fall into a heavily congested area.

"Rights"

The 1-1/2% Treasury notes due 3/15/39 are currently quoted 101.16 bid, 101.18 asked, which is a price 1 point 14/32nds above a "no yield" basis.

<u>Possibilities</u>	<u>Estimated Market Basis</u>	<u>Indicated Premium</u>
<u>NOTES:</u>		
1-1/8% due 12/15/43 (5 years)	.97 % 1.00 %	3/4 point 19/32nds
1-1/4% due 12/15/43 (5 years)	.97 % 1.00 %	1 3/8 points 1 pt. 7/32nds
<u>BONDS:</u>		
2-1/2% 1950/53 (13-15 years)	2.38	1 1/4 points
2-1/2% 1951/53 (13-15 years)	2.36 2.42	1 pt. 15/32nds 7/8 point
2-5/8% 1952/57 (14-19 years)	2.50	1 pt. 15/32nds
2-5/8% 1953/57 (15-19 years)	2.52	1 pt. 10/32nds
2-3/4% 1963/68 (25-30 years)	2.67 2.64	1 1/2 points 2 points
2-3/4% 1958/68 (20-30 years)	2.65 2.63	1 1/2 points 1 7/8 points

Note: For most of the issues two market bases are given. The first is quite a conservative estimate and the second is the basis on which the issue should sell if it is to move immediately into line with the market.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1938

To Secretary Morgenthau

FROM M. A. Harris
W. H. HadleyA Short Review of the U. S. GovernmentSecurity Market during the Past Week

In view of the impending Treasury financing, the only significant changes in government securities during the past week were market adjustments in anticipation of new Treasury offerings.

Market activity was comparatively light although there were some portfolio adjustments by banks and other investors involving sales of intermediate and long term bonds in anticipation of a possible new issue of similar maturity. There was also some evidence of exchanging small amounts of long term bonds for the March 15, 1939 notes ("rights") as well as outright purchases of these notes. Bank demand for the longer notes appeared during the latter part of the week.

The price of the "rights" closed the week at 101 1/2 bid, down 1/16th for the period.

Price changes of Treasury issues varied with the different maturities. Short term bonds were unchanged to 1/16th up; medium term bonds were unchanged; while long term bonds were down 3 to 5/32nds. Short notes were unchanged to 1/16th down; medium notes (1-3 years) were up 1 and 2/32nds; while long notes (3-5 years) were up 1/8th point.

Guaranteed issues were about unchanged on the average. As a result of

these price changes, the average price of bonds callable or maturing after 8 years closed the week 1/8th point lower and about 5/8ths point below the October 26 high point from which the present decline originated.

Dealers' Portfolios

Dealers' holdings were lower at the end of the week by \$11.5 million. However, the change was of no particular significance other than a reduction of \$4 million in notes maturing within 1 year. This particular change was probably the result of continuing customer interest in the "rights". Net positions in all classifications of issues, except the 1 year notes, continue very low. Bond and longer note holdings have been reduced to a bare minimum in apparent expectation of an increase resulting from exchanging the "rights" for the new offerings.

(in millions of dollars)

	Holdings <u>Nov. 19</u>	Holdings <u>Nov. 26</u>	<u>Change</u>
Treasury bonds	4.8	5.0	↑ 0.2
Treasury notes (1 year)	56.9	52.7	- 4.2
Treasury notes (1-5 yrs.)	1.0	1.1	↑ 0.1
Treasury bills	16.8	12.8	- 4.0
H. C. L. C. bonds	1.4	-1.4	- 2.8
F. F. M. C. bonds	<u>4.2</u>	<u>3.4</u>	<u>- 0.8</u>
	85.1	73.6	- 11.5

New Security Issues

Four corporate bond issues were sold privately last week to insurance companies totaling \$119 million, of which \$54.1 million was for new capital. Municipal bond awards reported amounted to \$33.4 million.

The Public Service Company of Colorado filed last week statements covering \$40,000,000 issue first mortgage bonds, due 1963; \$10,000,000 issue sinking fund debentures, due 1948, and 50,000 shares of cumulative first preferred stock. This is in addition to the prospective issues listed in last week's memorandum.

Corporate Bond Market

Prices of both high and medium grade corporate bonds drifted lower during the week in continuation of the decline starting November 12. Moody's AAA average closed $3/8$ ths point below that date with about $1/4$ point drop this week, while the BAA average was $3/4$ point below November 12, having lost $1/4$ point this week. Activity continued light. The greatest weakness was shown in medium and speculative grade rails. Industrial issues showed mixed tendencies, utilities were inactive, while the foreign bond market continued dull with a generally lower tendency.

Federal Reserve System Account

The only transaction during the week involved the redemption of \$44,950,000 maturing Treasury bills and their replacement in the market by purchase of \$44,300,000 new bills maturing February 23, 1939 and \$650,000 bills maturing February 15, 1939.

Treasury Investment Account

The only transaction in the New York market for Treasury investment account was the purchase of \$100,000 $2\ 3/4\%$ Treasury bonds of 1958/63 for the U. S. Housing Authority. A further investment of \$1,800,000 was made for the account of the U. S. Government Life Insurance Fund in 2% special 5-year Treasury notes, bringing the total holdings of Government Life in these special notes to \$3,800,000.

November 28, 1938

(HM, Jr to Mr. Hanes, Mr. Oliphant, Mr. McReynolds and Mr. Gaston.)

HM, Jr: Somebody is going to be smart enough to have an answer to this barter trading. If we are told that Russia has "X" million tons of manganese that she has to sell and we say that we will not trade with her, someone else will. The trouble with Sterling is that England has less and less people to do business with. We have one-third of the people to trade with, Sterling has one-third, and barter, one-third.

Take these countries. Why don't they organize a purchasing organization in the United States with headquarters here, so that if they want to buy locomotives, instead of having competition all over the lot they can do it. We will help them trade ^{here} and get good prices.

When I came to Farm Credit, they had \$100,000,000 worth of merchandise and everybody in the Farm Board was trained to buy, not to sell. We got Ed Babcock to come down for three months and all he did was sell, sell, and in that rise of 1933 we sold everything.

We need a man like Ed Babcock, who has courage, backbone and intelligence. Of course, Ed Babcock's training is agricultural. The way the thing is written, our trade is just going to shrink and shrink. We must out-trade everybody else. I have come to that conclusion, and if anybody puts stones around my neck I will just exclude them from my conferences. I don't want anybody to tell me we can't do this and we can't do that, because it is too good for the United States. As the Sterling area and the Dollar area shrink, our world's commerce shrinks. What are we going to do about it?

Do you suppose that I could get Basil Harris to come down for three months and see if he can set up an organization that will trade anything with anybody? For instance, if Argentina needs \$6,000,000 worth of locomotives and Portugal wants to build bridges, we will be able to build the bridges and we will sell them the locomotives.

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I read a very intelligent report on Brazil by Thomson of the Foreign Policy Association. It is a private report. Most interesting! He is now with the State Department.

President Vargas, of Brazil, is just as much a dictator as anybody else. I am not going to say that I will not do business with him because he is a dictator. The fact remains that these are dictator countries, but I want to do business with them on any basis as long as the United States gets just a little bit more than the other fellow. I want 51% for the United States.

If we wait until Hull does it, we are just going to go through another 1931-1932. I need an Ed Babcock, who, as I have just said, is an agricultural merchandiser and I cannot use him on this, but I want someone who knows how to trade. I think Basil Harris is our man.

Does what I say make sense? Basil Harris is in the shipping business and his business is going to grow less and less, and we will have to subsidize our shipping companies more and more. I want him to come down, but I want to clear it first with the President.

I want a national sales organization. Everybody is outsmarting us. When we stop selling cotton to Germany I want an answer as to where we will sell our cotton. As world trade slips, Sterling is going to go down and down. The answer is a fellow like Harris -- who likes me and I like him -- and if he does a job for me, his shipping business will benefit by it.

Kennedy calls up Arthur Krock, who calls up Julius Adler: "Can't you stop the Jews from criticizing Chamberlain in America, because Chamberlain wants to ride back into favor by doing something for the Jews." Chamberlain is through and Deladier is through. Nobody is doing any thinking. I want the President to say, "O. K." We are not so well on our way to recovery that we can throw away \$5,000,000 worth of locomotives. If Germany gives them four years, we will give them five years. We should always go the other countries one better.

Harris was willing to come down when he thought we

-3-

were going to have a war. Well, we are in a war now. We ought to wipe off England and France now.

Ask Basil Harris if he can come down and lunch with me tomorrow. I want to have a talk with him. Germany is outsmarting us every day. It's just a waste of my time to worry, from minute to minute, what the Pound will be. If the President is willing to back Basil Harris, he has to be willing to take a licking from a lot of people once he comes down here.

This thing is a creeping paralysis. They will not know it until it is too late.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 28, 1938

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending November 26, 1938.

Conclusions

(1)

Industrial production currently is at a level of about 100, in terms of the FRB index, and may exceed that level before the end of the year. Business optimism over the outlook for uninterrupted improvement into 1939 has been tempered, however, by recent developments, which include: (1) Further declines in sterling and other foreign currencies, and unfavorable political developments abroad, which have now centered public attention on the possibility that the foreign situation may prove a handicap to further recovery in this country; (2) a declining tendency in security and commodity prices, which shows no definite signs of coming to an end; (3) a setback in steel operations during the current week.

(2)

We see no evidence of maladjustments in the domestic situation which might warrant the expectation of more than a minor setback in business activity during early 1939. On the contrary, production has apparently not yet fully recovered to the level of demand, and demand itself is showing a tendency to improve. Favorable conditions in this country may, however, be partially nullified by weakness in the foreign situation.

The general business picture

Though seasonally affected by the Thanksgiving holiday, business activity on an adjusted basis continues to improve. Activity in various industries normally begins to slacken after the middle of November. This year the slackening

Secretary Morgenthau - 3

Disquieting news from abroad is cited as a factor in the recent stock market setback. The Wall Street Journal mentions that "Bullish operations (in the stock market) were restrained by the depressing nature of the foreign news. The slumping pound has been a drag on commodity prices, and the further sag in that currency yesterday pulled against our stock market's effort to improve. Conditions in France also were far from reassuring."

Foreign business statistics coming to hand, on the contrary, have turned somewhat more favorable. Reuter's index of sensitive commodity prices in Great Britain has begun to turn upward. Business activity increased during September in Great Britain, Canada, and the Scandinavian countries. The 1-point rise in the relatively stable Economist index for Great Britain in September, seasonally adjusted, was largely caused by a higher volume of exports of manufactured products, with gains also recorded in coal and electricity consumption, commercial motors in use, postal receipts, and bank clearings.

Steel output in Great Britain during October, according to the Iron Age, showed an increase of 13.4 per cent over September, a greater increase than any other recorded during that period over the past ten years. The October output, however, was 24.6 below that in October 1937. It is reported that the improvement in the iron and steel market is being maintained and that business is now expanding in practically all departments. While the October increase represented mainly commercial buying, the accelerated armament program is expected to influence the figures for November and subsequent months.

The stock price situation

While stock price indexes during the past two weeks have lost all the gains made since the middle of October, the fact that stock prices have maintained a conservative trend since early October, while business activity was making rapid gains, should serve as some measure of protection against extensive declines.

In Chart 2 we show the trend of industrial stock prices by quarters over a period of years in comparison with the FRB index of industrial production. It will be noted that the sharp upturn in business activity so far during the last quarter of the year has been reflected only slightly in the

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stock price index. In past years, when stock prices on this chart have been low in relation to business activity, they have been little affected by temporary business setbacks. This was especially noticeable in 1924, 1927, and 1934.

Steel orders and operations lower

A slight decline in the rate of steel operations this week, not related to the Thanksgiving holiday, provides the first indication that the operating rate for the industry may be near its year-end peak. The average rate for the industry was reduced to 61.9 per cent of capacity, as compared with 62.6 last week. Trade expectations are that the rate will hold around current levels until the end of the year, which would be better than the usual seasonal trend.

New steel orders for the week ended November 17, as reported by the U. S. Steel Corporation, declined to the equivalent of 54 per cent of capacity. This compares with 62 per cent the previous week, and with a recent high of 71 per cent. Total steel order bookings in November, according to the magazine Steel, appear likely to fall below the October volume.

While estimated automobile output this week was reduced by the holiday to 84,930 units, comparing with 96,735 units last week, the average daily rate reached a new high for the year. Next week is expected by the trade to see the first 100,000 unit output of 1938, after which a levelling out of production is looked for. The backlogs of orders for most manufacturers are said to equal four weeks' output or better, which would insure a relatively high production during the winter months.

Production of non-durable goods lower

The production of non-durable goods, which led the upturn in the summer of 1938, reached a peak of activity in August and has turned downward in September and October. The fall rise has therefore, to a large extent, been concentrated in durable goods, largely steel and automobiles.

In Chart 3 we show production indexes for the two groups for the period from January 1937 to date, with selected components of each group. The decline since August in the production of textiles, leather products, and tobacco products

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is particularly noticeable. During a general business recovery, a second advance in non-durable goods production often occurs after payrolls and consumer demand have been raised to a higher level by an increased output of durable goods. Some evidence of an impending upturn in textile activity has already appeared.

No maladjustments have yet appeared

While a temporary setback in business activity during the early part of 1939 would not be surprising, no economic maladjustments in the way of excessive production or speculative buying, which might indicate that business currently was borrowing from the future, have so far appeared. Industrial production, on the contrary, has not yet fully recovered to the estimated demand level, and demand is showing a tendency to improve with rising payrolls and increased industrial requirements. Under such conditions, any setback in business activity of more than a temporary nature cannot be anticipated, except as a result of some outside influence such as the unfavorable foreign situation.

Current business news

The trend of new orders during November has been downward since the first week of the month, due at least in part to seasonal influences. As shown in Chart 4, textile orders were the only one of the three major groups to improve during the third week of November.

The New York Times index for the week ended November 19 rose 2.8 points to a new high for the year at 93.1. All components except "all other" carloadings showed substantial increases, these being particularly pronounced for cotton mill activity, which rose to the highest level since August, for automobile production, and for lumber production, and for miscellaneous carloadings. The automobile and steel figures show further increases for the following week.

The BLS index of factory payrolls (unadjusted) increased to 83.7 during October, which compares with 81.0 in September and a low of 70.6 in July. While the increase seems moderate in comparison with the 6-point rise in the index of industrial production, it conforms to our expectations, owing to a tendency for payrolls to lag about one month behind production. The moderate payroll increase in October should be related to the small (2-point) rise in industrial production for the previous month. A more substantial gain should appear in November payrolls.

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promises to be less than usual, which will register as further gains in the seasonally-adjusted indexes. The October FRB index has been revised upward to 96, and the November index is expected by the Federal Reserve Board to equal or exceed 100. Statisticians of the Board, off the record, expect the December index to be about 105, which would be at the average level of the year 1936.

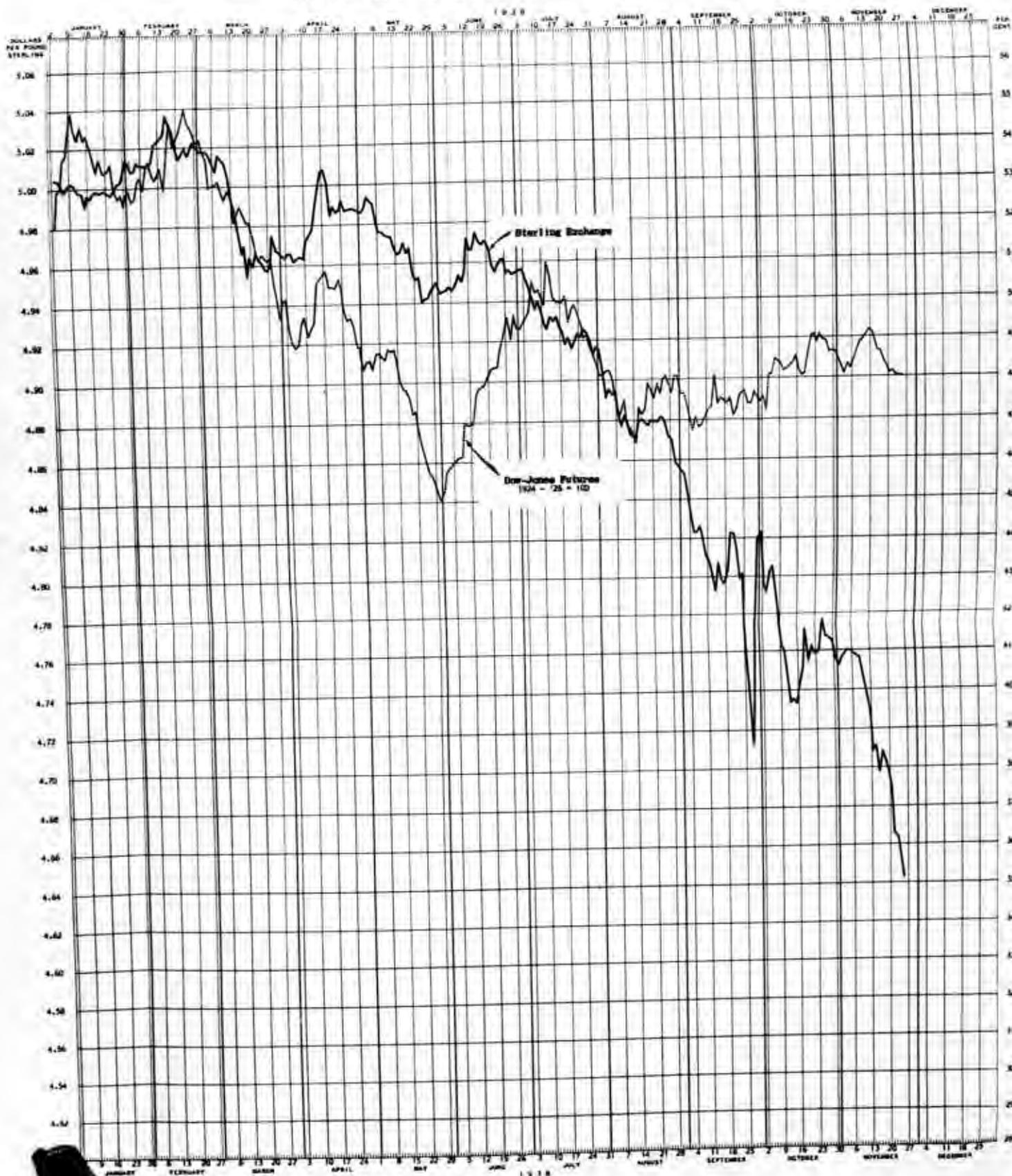
Looking forward into 1939, business sentiment has modified its expectations somewhat in view of recent developments. Some setback in early 1939, representing a more or less normal reaction after seven months of uninterrupted business rise, appears now to be rather generally expected. This feeling has been strengthened by the decline in security prices of the past two weeks, by pronounced weakness in foreign currencies, by reports of a falling off in new steel orders, and by some setback in the rate of steel operations.

There is reason for expecting that the seasonally-adjusted FRB index will decline in January, owing to the fact that the seasonal factor used for adjusting iron and steel output has not been changed to conform with the new automobile season introduced in 1935. This was at least partly responsible for a 4-point drop in the FRB index from December to January in 1935-36, and for a 7-point drop in 1936-37. The known effect of automobile buying in stimulating steel activity during the last quarter of the current year adds weight to the possibility of some setback in the adjusted FRB index during January.

Conflicting foreign influences

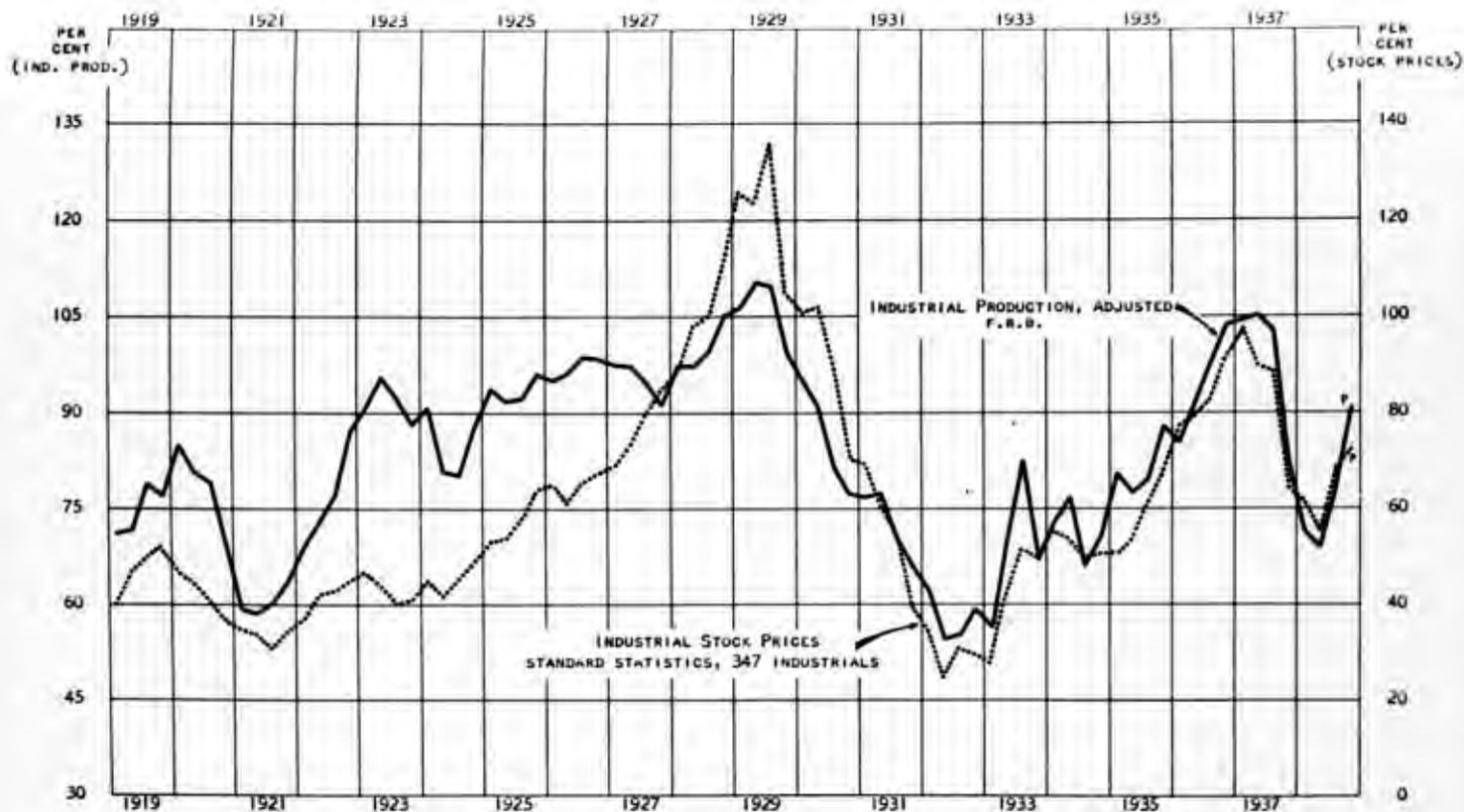
The attention of business is now being directed more apprehensively toward world economic conditions as a factor in the 1939 business outlook, with the recent pronounced weakness in sterling (See Chart 1) attracting unfavorable comment. In some quarters it was believed that some informal arrangement to prevent further declines in sterling had probably accompanied the Anglo-American trade pact. Otherwise, as Moody's Investors' Service commented at the time of the announcement, "a declining rate for sterling would have meant price unsettlement in the commodity markets, which would obviously not be a favorable factor from the point of view of industry generally and the stock market". The trend of the sensitive Dow-Jones futures index (shown on the chart) has been downward since the middle of the month.

STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES

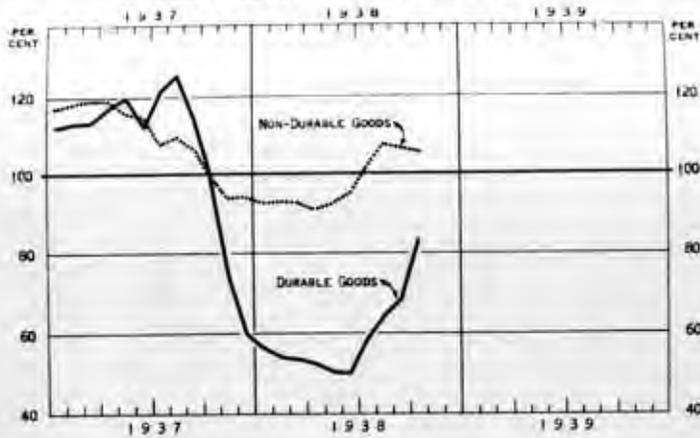


INDUSTRIAL PRODUCTION AND STOCK PRICES

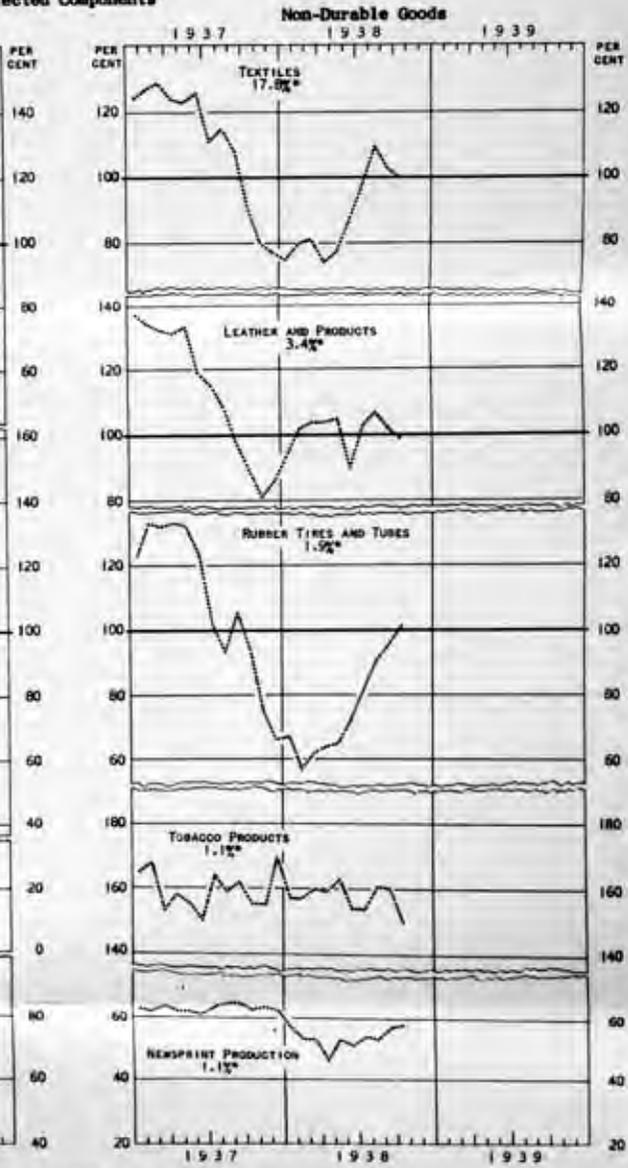
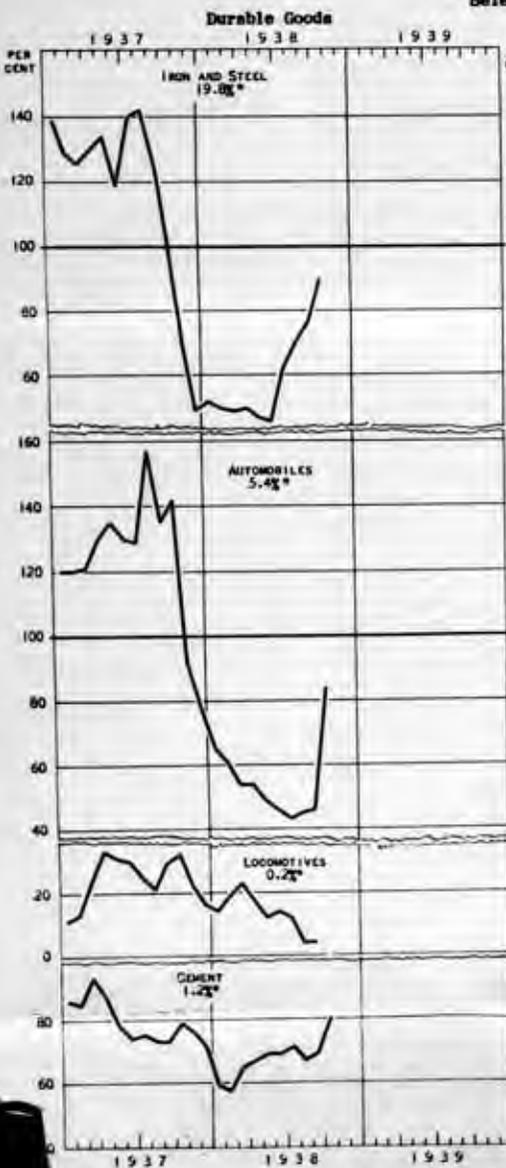
QUARTERLY AVERAGES: 1920 = 100.



INDICES OF DURABLE AND NON-DURABLE GOODS PRODUCTION AND SELECTED COMPONENTS



Selected Components



* WEIGHT IN COMBINED F.P.R. INDEX

November 28, 1938.
5:03 p.m.

HMJr: Hello.

Operator: Mr. Welles.

HMJr: Hello.

Sumner

Welles: Hello, yes.

HMJr: I had some good news so I thought I might pass it along.

W: I'm delighted to hear good news, Henry, at any time.

HMJr: I don't know whether they've kept you informed of my talks with Bewley.

W: No.

HMJr: Financial attache of Great Britain.

W: No.

HMJr: Well you know I've been - seen him twice and I've been putting the pressure on.

W: Yes.

HMJr: See, and I couldn't sit here and see this thing slide, and today sterling went up two and a half points on its own.

W: Yes.

HMJr: Went up to above 4.85.

W: Yes.

HMJr: And then the Bank of England. They were - the market was short on a hundred and fifty million dollars and they've decided to call it in.

W: Yes.

HMJr: And the other thing, the English banks have been lending money to speculators to buy forward gold and they've stopped that.

W: Yes.

HMJr: So evidently for one reason or other they are taking action although they said they couldn't.

W: Yes.

HMJr: And the result is all to the good. Now it only may be for one day, but at least it's one day to the good.

W: I think that's..

HMJr: And I've been worried sick over the thing as I saw it go down, down, down.

W: That's very - very encouraging.

HMJr: And with - it looked as though there was no bottom to it and I wanted to give it to you.

W: The British Ambassador is sitting with me now.

HMJr: Right.

W: And, are you going to be in your office a little while?

HMJr: Well, why do you want to talk to me?

W: Yes, there are one or two things I wanted to ask you.

HMJr: How long are you going to be at your office?

W: Well, I'll be here until after seven.

HMJr: I was going home, but I got a White House phone and I'll call you when I get home. How's that?

W: Fine. Let me know when you get back.

HMJr: And I've talked to Magill too.

W: He told me.

HMJr: Right.

W: And he said he'd give me a definite reply in the morning.

HMJr: I'll call you on the White House phone when I get home.

W: Thank you very much.

HMJr: Right.

W: Goodbye.

C A B L E

From: Bankers Trust Co. of N. Y.
London Office

Date: November 29, 1938
Tuesday

DeCASTELLANE REPORTS CONTROL RECEIVED TODAY ABOUT 2 MILLION POUNDS.
SOME BEGINNING TAKE SHORT POSITION IN STERLING AGAINST FRANCS BELIEVING
RATE MIGHT IMPROVE TO 175.

CONFIDENTIAL

C A B L E

From: Bankers Trust Co. of N. Y.
London Office

Date: November 29, 1938
Tuesday

#306.

DOLLARS OFFERED DURING MORNING AND HIDDEN CONTROL STARTED BUY
DOLLARS AROUND 4.66. MUST HAVE OBTAINED CONSIDERABLE AMOUNT. SINCE
LUNCH DOLLARS INCLINED BE BID. MOVEMENT MAINLY DUE DENIAL DEVALUATION
RUMOR. FORWARDS STEADY. SPOT FORWARD FRANCS WANTED BUT TURNOVER IN
LONDON MODERATE.

DeCASTELLANE REPORTS FEELING IMPROVED DUE GOVERNMENT STRONG
ACTION REGARDING STRIKE. TRADES UNION WOULD ENDEAVOR POSTPONE STRIKE
WITHOUT LOSING FACE BUT GOVERNMENT REFUSES COMPROMISE. GENERALLY
BELIEVED STRIKE ONLY PARTIAL. FRANC ON DEMAND CONTROL RECEIVED SUB-
STANTIAL AMOUNTS FOREIGN EXCHANGE.

CONFIDENTIAL

RE STERLING EXCHANGE RATE

November 29, 1938.
10:15 a.m.

Present: Mr. Hanes
Mr. Taylor
Mr. Butterworth
Mr. White
Mr. Lochhead
Mr. Stewart
Mr. Warren
Mr. Williams
Mr. Goldenweiser

H.M.Jr: I think we might start, while I'm waiting for Harry White - he's got a memo - we can tell you what's going on.

You people all can read the papers and see what's going on; and what we were doing here was to hang on with our teeth and grin until Mr. Hull got his trade treaty signed. We didn't want to do anything that in any way would embarrass him in that proposal.

We did, as you people know, decide we'd use the tripartite as a device rather than the trade treaty, let the trade treaty thing go through as is, and with the hope that after deciding that the thing would improve. Everybody was very much disappointed that it didn't.

The British were more or less put on notice three or four days in advance how we felt by Mr. Sayre, so there is no doubt in their mind where we stand. And then when I asked you to come down on Sunday - I mean the thing just seemed to be getting worse and there just didn't seem to be any bottom. And I'm particularly disturbed because I think the one soft spot and the spot we have to worry about in our own recovery picture is commodities and sterling. And there just didn't seem to be any bottom.

We sent another message last week to them, simply taking the position that we are disturbed. We saw them again yesterday or day before and again told them. I said that I just can't sit here and take it and not do something, because Congress is coming on and there are already started rumors on further devaluation. I said, "I haven't got any suggestion

-2-

to make today" - that was yesterday - because I'm not going to make a suggestion or make a threat unless I know where I'm going to land if they call my bluff.

But the whole purpose of the conversation was to let them know that we couldn't - and then I told them that certainly all through the Munich episode what happened, and up to a week ago or so, or the last few days, I had felt that the British Treasury was doing everything that they could, and that - but then last week they only began to give up half as much gold as was necessary, which just aggravated the situation and didn't help it. And I kept saying to them that the two Treasuries ought to be smart enough to lick this thing. But I didn't make any concrete suggestion and I haven't made any threats. I mean the conversation has all been amicable up to this stage. But I did let them know I was worried - damn worried.

Well, yesterday the thing took for one day a turn for the better. And explain to these gentlemen technically what happened yesterday, Archie, so they get it.

Deane: The Bank of England advised yesterday that their short position in dollars for December amounted to 150 million; they had been considering whether or not they would push on that position, swap it out, to a further month, or whether they would close it out in December; they had decided to close it out in December, and were going to ship enough gold to meet those dollar requirements. The thought was that that would cause a shortage of sterling in the London market and they would be able to squeeze these people that were short on sterling.

Secondly, they have called all the London clearing house banks in and had gotten them to agree not to finance forward exchange; and secondly, not to finance gold purchases. They had just called them in yesterday, and they felt that that would also, of course, technically help the situation.

They stated that we're getting official advice of that. That was just a telephone call. So far there's been no comment in the market, but it is probably due to come out in a day or two. But of course that

-3-

doesn't cover the other private banks in London, but the general idea would be that they follow along pretty generally what the clearing house banks do.

H.M., Jr:

When White comes in, we'll have a list of possibilities that we might do, that I want to have you fellows chew over. But the frame of mind that I am in is, I want to do something, I know I've got to do something, and I'd like to do something that is sense and not just for today or tomorrow. And I want to do it before Congress makes me do something foolish, because they're saying this morning here - I don't think any but a very small group appreciate what they have had in a stable dollar for four years, but they'll appreciate it like hell the minute they lose it. I mean it's something they have just taken for granted, but take it away from them and give them a floating dollar and I think they'll appreciate very quickly what they've had for the last four years.

Now, I look at this thing from what I think is a broader viewpoint, and that is this: that roughly, I think, sterling area does about a third of the world's business; the blocked currency countries do about a third; and we do about a third. And the way the thing is going, I think that the sterling area is going to do less, I think that therefore we'll do less, and I think the blocked currency countries are steadily increasing.

And everybody in this country is all excited about the German planes. They suddenly wake up to a fact which, if anybody travels in Germany, they could have seen or been aware of. But now we're all worried about their factories and everything else, talking of spending a billion dollars to meet these planes which may or may not ever come over here. But personally I think the trade situation, as far as their own country is concerned, is far more critical and they are spending more money, or at least as much, to get their trade and hold it, and we're not doing anything to meet that competition, which I think is licking us all over the world. And as it continues to grow and lick us, suddenly somebody wakes up and says, "Oh my heavens, look at this vast organization that Germany has, as well as Italy and Japan. We just have to do something."

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I just don't want to sit here and not do something. I think it's a far greater menace to America than the airplanes - everything I say here is in this room - because this is something we're feeling today, which is licking us today. The plene situation we may or may not have to meet, but the trade one we have, and they're beating us at this business every single day, and as they do, our business is going to shrink and sterling is going to go down, what we going to do about it, just sit here?

Now, that's - that's the way I see it, and I - I don't know anything as far as this Administration is concerned which is more serious. And I don't want to be in this chair and see us go through another '31 and '32. I mean that must - I wasn't - that must have crept up on us, and some people realized it, undoubtedly, while we were in it. We look back on it now and the picture is clear, but I wonder how many people realize what was happening to us in '31 and '32, how many students realized in '31 or '32, did the public generally realize, what was going on?

Stewart: No, I think '32 was the thing that broke their hearts and surprised them. They got ...

B.S.Jr: I mean they didn't realize that England going off gold and all the rest of that, huh? At the time, I mean, big argument, wasn't there, as to where the depression started and all the rest of it, huh? Well, I just don't want to find ourselves slipping into that kind of a situation again, for different reasons, but at least losing our world trade and then suddenly waking up and saying, "Oh my god, we've got to do this or do that," and then have all the monetary crackpots in Congress getting busy and forcing us. I mean the sign of the times is that Rene Leon is in town again. I mean that's indicative. I mean he's in circulation again. Right? I mean that's indicative; he hasn't been around here for a year or two. He's in circulation again. It all points up.

Now, as I told Bewley, haven't we got enough brains in the British Treasury and our own to meet this situation? And I'm here to listen.

Stewart: Is the evidence of the snort position pretty large?

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Was the short position large?

Lochhead: Well, the mere fact that England is short 150 in the market indicates that the position is at least that large. Now, of course, the short position exists on the other side. It doesn't exist on this side, in the sense of a speculator's short position; the banks are not short here and the individuals are not short. However, there is no doubt that the commercial firms are short; I mean the people that have been importing from London have been holding off. But that's just the regular phenomenon you always find; they always hold off while the market is going down. Of course, it's hard to figure out how much of a shortage that is.

Stewart: Then could you expand a little further on the gold shipment arrangements?

Lochhead: England some time ago sold dollars for forward delivery. Those contracts are coming due in December. In order to have the dollars to deliver here, they must either send gold over and sell the gold or else they'll just have to swap their contracts forward again. Now they have been at times dealing in forwards and keeping their position shifted forward all the time. In other words, they could just keep shifting the short position forward by shifting contracts. But by making people take up the dollars, they would in effect squeeze the shorts. Don't know how effective that would be, but it's a step in that direction.

Gold'r: You mean by not letting them borrow for the purpose of carrying it, they make them ship gold to take their

Lochhead: No, the Bank of England has sold the dollars. You say a man over in London has bought dollars from the Bank of England. The contract is due in December. The Bank of England is going to make him take the dollars, and therefore the man in England will have to give sterling to the Bank of England in payment for that, and that's going to squeeze him, because there is not an awful lot of sterling around. Of course, that forces the Bank of England to ship gold over here to get the dollars that they're going to deliver to the man they sold them to.

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- Gold'r: I understand that part of it. The part I don't understand - you say they're going to discourage lending for that? That one I'm not clear on.
- Lochhead: Those are two other methods. That is, they don't want to finance any forward dealings in exchange, and secondly, they're going to ...
- Stewart: ... accept bona fide ones.
- Lochhead: Of course, they always make allowances for that. And secondly, they won't allow the clearing house banks - have asked the clearing house banks not to lend against gold, which in my opinion was a very serious thing that they ever did allow that. I don't see how any country that figures it's going to stay on the gold standard can allow banks to make loans on - five and ten percent loans on margin, and still stay on the standard.
- Gold'r: It isn't clear to me, though, how that's going to strengthen sterling.
- Lochhead: How it will strengthen sterling?
- Gold'r: Yes.
- Lochhead: It will bring back gold. The ones that have gold will have to liquidate borrowing against gold when the loans come due; they'll have to sell the gold.
- Williams: The gold price in London might go down under those conditions?
- Lochhead: The gold price might go down if there was a shortage of sterling.
- Williams: That would strengthen sterling.
- Stewart: Then they're working three squeezes. They're working a squeeze by covering their own short position in dollars; they're attempting to bring down the price of gold by pushing the liquidation of loans against gold; and they're narrowing the futures market by making it more difficult to sell futures.
- Butterworth: The latter isn't a squeeze. The latter is a prevention for the future.

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Stewart: But it may narrow the market in the sense it will limit the amount of futures.

Williams: Reduces the demand for dollars, doesn't it?

Lochhead: Yes.

H.M.Jr: I think it would be helpful, Butterworth, if you'd take a few minutes and tell them how the English people feel about sterling.

B'worth: You mean the official people?

H.M.Jr: They and the people in private finance.

B'worth: I saw both Phillips and the people in the Treasury and Montagu Norman the day I left. I think they both feel that sterling has become for the moment a political currency and fluctuates with the exchange market's evaluation, whether it be right or wrong, of the prospects of the British Empire. They think that they have been going through a very difficult period, which can be compared in some respects to the exodus of funds in 1931, and that it's been conducted in a much more orderly fashion.

They believe that they are right in their tactics of giving way to pressure; and Montagu Norman, for instance, particularly insisted that he favored sudden quick and decisive movements to hurt the speculator, if possible, to keep him uncertain; that it would be impossible to peg sterling. He said to peg sterling would be sure death, and even to reach agreed limits within which one would let sterling fluctuate - sooner or later the market would find it out and would tend to increase operations.

And he went on, said how right they had been not to stabilize a couple of years ago; that they would have been lost if they had. He inveighed against the speculator a good deal and said he wanted to burn him whenever he could. And he also had some harsh things to say about the American brokerage houses in London who went around trumping up business.

H.M.Jr: Who's this?

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H'warth: Montagu Norman. He didn't feel - he said the amount of sterling in possession of British subjects that had gone over was infinitesimal, and Phillips confirmed that same view. And they neither one of them expected a large movement of British funds. They both emphasized how much the London money market was a foreigner's market and that they had to keep it open; that that was what gave life blood to it; the foreigner had put his money into London because he thought it was a safe repository, and now it was called into question because people began to believe that Munich was not a peace but a truce, and therefore they had a right to take it out. On the other hand, they wanted to check that movement as much as possible.

They had hopes that sterling in due course - that every tide recedes, but in the nature of tides that they have to come in again, and they had hopes that sterling would rise.

They both said that they welcomed any suggestions which we had to make and would be only too glad to consider them. And Phillips in particular referred to his talk with the Secretary and his statement at that time, in early August, that he felt that 4.80 would be a stopping point for sterling. He said he thought that was a reasonable prediction at that time, and then Munich had come and that had changed the whole picture. But he implied that he still thought 4.80 was not an unreasonable level.

As far as the City is concerned, they have been bears of sterling. There is a good deal of talk about balance of payments and about the export situation and increased taxation and rearmament and so on, but those aren't the dynamic factors. People talk about them, but they don't believe them. I mean that isn't the thing that breeds conviction; the thing that breeds conviction is the political situation, and they're all watching Hitler and all watching the so-called policy of appeasement. But you don't get the impression that the British national himself is so concerned about his country, about his currency, that he is on the point of flight.

Stewart: Any evidence that the dominions have shifted any funds?

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B'worth: I haven't seen any. You know the Irish during the crisis bought gold and sold their British securities and made a handsome loss on the transaction.

Williams: Any estimate of the amount of these funds - foreign funds in London that - how big the thing could be?

B'worth: No, but I gather that Bewley is going to give us some figures on Thursday or Friday.

There's one other point, if I'm not going on too long. I rather gather that for the five years when funds were coming into London - that about 40,000,000 pounds a year the British were getting in gold which they couldn't account for in terms of known potential liabilities. I think it arises out of the fact, we'll say, that a Frenchman who bought sterling - the Bank of France would really earmark so much gold for the benefit of the Bank of England; but if that French national left his funds in the Merchants Bank over the end of the month, that would be reported as a liability to the Bank of England; if the next day he bought International Nickel or South African gold shares, it might not be caught.

And my sense is that the British have no real long-range policy; that their policy consists of a series of daily improvisations, and that in many instances they haven't been as skillful as we have always been led to believe that they are; that there is a general jittery political atmosphere, and against that they have seen in this recent movement more gold moving out than there has been a corresponding reduction in their known liabilities.

And I think one day was awfully symptomatic, which was the day that Reynaud's decrees came out. They lost about eight or ten million pounds of gold to France. The dollar-sterling exchange was comparatively quiet, and yet it opened at 4.74 and closed at 4.70 3/8. And when I talked to Phillips about it, it was so obvious they were concerned about their loss of gold, and their concern about the loss of gold found expression in their letting the dollar grow strong by over three cents. And I have an idea when we see Bewley's figures, if they're up to date, we're going to find their gold losses perhaps heavier

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than we expect. I think they've been jittery about it.

H.M.Jr: It's true, isn't it, that the British Treasury or British - Bank of England, whichever way - the combination - they're getting a bad press, aren't they?

B'worth: Yes, I think so.

H.M.Jr: On letting the sterling slip.

B'worth: Yes, they are, and we're getting a bad press too.

H.M.Jr: Are we? How?

B'worth: And that's one of the things that I think we could do - is that a very - not infrequently after London has closed sterling has become even weaker in New York, because of the spread in the gold buying and selling price that the Bank gives Archie. Well, that creates the impression, you see - they say, "Well, obviously, America doesn't care about sterling depreciation, because they on a day when unusual conditions don't prevail, why, they're willing to let sterling, after the London control goes out - they're willing to let it slump off another cent." And I personally think that should be corrected and we should be able to narrow those limits that they give you so that you can operate.

Lochhead: Well, that was one of the things I pointed out to Bewley in those press comments yesterday, showing that the sterling had gone off in this market point by point. I drew his attention to the fact that this spread - you see, the Bank of England gives us a spread rate buying and selling, and what it works out is that generally sterling would have to go down a full - pretty nearly a cent from the fixing price before we would be in a position to go in the market and support it. And so if the market has been steady over in London and they turn it over at 12 o'clock, if the market goes down we have to watch it go down for a while. I mentioned that to Bewley; it was a question whether or not he should take it up with the Treasury. I didn't think when you were speaking in general broad terms - I thought that was

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a matter that should be corrected through the Bank of England and the Federal Reserve Bank.

I pointed out to Knoke a couple times that I don't want to be blamed for that, I'd like to draw their attention to that. He said, "They only lost two million pounds a day, so therefore it's bound to go down." He couldn't understand why Butterworth, coming back from the other side, would have the impression that we did it; the market ought to know that. I pointed out that all the newspapers and Butterworth and the people in the City don't know it, nobody has any conception of it.

H.M.Jr: Well, from now on we refer them to the article in Fortune. Have you (Stewart) seen it?

Stewart: No.

H.M.Jr: I'm going to - I think I could make money selling Fortune, if they give me 50 percent commission. What? Haven't you people seen it?

Warren: Mr. Butterworth, what weight do you give to the weakness of France? You said this was not British money that was coming out of London - presumably continental money.

B'worth: Yes.

Warren: And one of the - how much of it would you attribute to internal conflict in France, and the idea that a weak France has greater threat, let's say, to England than a strong Germany?

B'worth: I think I'd place a part - I shouldn't think it was by any means the only consideration. I mean basically it's very true. But they have now gotten in against that European background, which is one of alarm and nervousness; if Hitler makes a speech at Saarbrücken or Goebbels makes a speech and is answered by Winston Churchill, the market immediately reacts to it. Or if the riots in Palestine look as though they're getting out of control or the Japanese move down towards Hongkong, all those things immediately produce a reaction. But that the British are very concerned about the French situation - yes, quite true.

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White: Take the position that it is those very reactions - one might take the position that it has always been taken in technical literature in the past that those very reactions are the ones which the stabilisation fund is supposed to be employed for, to serve as a protective device between those political occurrences and the exchange rate.

I think there is - as one of the British writers put it, the equalization fund was, according to the British authorities, designed to iron out the fluctuations - "Well," they said, "the iron is badly in need of repair, because it isn't ironing out fluctuations." Or the mere fact you do have political occurrences and the repercussions are on the exchange rates merely indicates they are not operating to prevent it.

Williams: How big is the fund now?

White: That we don't know, but we don't think they have lost net in the last three months - our guess has been - we each arrived independently at approximately the same guess, at identically the same guess - two hundred million dollars in the last three months. Now, it may be ...

B'worth: Two hundred million dollars?

White: Two hundred million pounds. It may be that it would be more than that, but I am very, very doubtful about it. In fact, I should be inclined to say that's a conservative estimate.

Williams: How much they got left? About \$

White: About three and a half billion, three and a half to four billion.

Secness: That's not the fund, that's gold.

Williams: That's not the fund, that's the fund and the Bank.

White: That's the Bank of England and the fund, it's not the fund - which is important. It's the fund and the Bank. Of course, a good deal of that has gone

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into hoarding, how much I don't know; and whether you would want to consider gold that's been hoarded as gold lost to England - probably, but at least it's of a different order, that is, they might be able to secure control of a portion of it if they needed it.

B'worth: My impression is that there is as much, if not more, gold hoarded in London than at the time the tripartite was started.

White: One might hold that that is gold which constitutes a secondary line of reserves.

Williams: Question's how you get it. If you bid for it in the market, that's one thing; if you merely take it as a reserve, you're commandeering it.

White: I don't say they would, but they could.

Williams: If you did something to induce the holders of gold to sell that at a reduction of price, that would help.

White: I merely say that I don't know whether we're justified in treating gold going into hoards identically with gold that's left the country; there is a difference.

Stewart: Mr. Butterworth, among the Bank and Treasury people do you find more or less concern about the loss of gold compared with the weakness of sterling?

B'worth: Oh, it's the gold.

Stewart: It's the loss of gold.

B'worth: Oh yes.

Stewart: Which is the significant thing.

B'worth: And that's why I think their hand has shaken on occasion.

Stewart: Well then, now does the behavior of the dollar-sterling rate among these people as against the outside theoretical economist group - do you make anything out of their mind? You speak of the 4.80; but they see this downward drift. Would you say

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that it's a thing which they not only permitted but eased with reference to their own price situation, or anything like that? Can you read the position well enough?

B'worth: You're talking about the official mind.

Stewart: Yes, the official mind.

B'worth: I think they wanted to get it down to around 4.80 because they wanted to cut through the old lesions of the old parity, and they didn't want us or the market or anybody else to think that was a bottom, because for several years it had been a bottom, with 5.02 or 5.03 as a top. So I think they wanted that and would have liked the little advantage it might give them. But I don't think, don't believe that there is any general feeling among the officials that a depreciation of sterling below that point is going to give them any trade advantage that's worthwhile, or that it's going to solve their export problem and so on.

They are rather concerned, I feel, about the sterling area; it's gotten so big, it's become a double-edged sword, and it's a little bit unwieldy for them when you take in not only the British Empire, with the possible exception of Canada, which is midway between, but the Scandinavian countries and the Argentine, and France is now part of the sterling area, and Japan; and then the other - the Bank considers that Greece, for instance, and Finland and Latvia are part of the sterling area. And then, with the number of blocked currencies that there are, why, there isn't a great market for British goods which would benefit.

Stewart: But the sterling area is larger than the Empire and the fluctuation of sterling is an evidence of loss of political prestige and is moved by political considerations. Therefore, the currency bloc is affected by the political considerations of the Empire.

B'worth: That's right.

Warren: Is that also true of the City? In the summer there was some indication that the City was not unfriendly to a lower sterling.

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B'worth: I don't think they feel as strongly about it as that. I think a good many people hold to the official view of it. But a great many of them associate a lower sterling with certain advantages.

Warren: Is that a declining number or increasing number?

B'worth: I don't think it's increasing.

White: I feel that's a very strong understatement of the case - I mean a statement verging on the opposite side of what I should hold, for this reason: that either you have to take the position that they don't understand completely what they're talking about, which is probably true of a great many of them, or they do.

Now, if you say they understand what they're talking about, they frequently say that the fundamental economic factors do not warrant a rate of sterling at its present level. Now, if you push that statement back to its logical ingredients, break that up, that can mean only that their balance of payments is out of kilter - I mean from their point of view, that's what they're regarding. And a further examination of that would reduce it to a question of an alteration in their receipts and payments on current account. So that, though on the one hand they may not feel that there is too close a connection between the sterling rate and their ability to get export markets, on the other hand they speak of that factor which can be interpreted only in that light in exactly the same way that Bewley spoke of it. He said in the beginning of his statement that these are only psychological factors, can be largely interpreted in psychological terms, if I remember correctly; then later on, toward the end of his talk, he either forgot what he said, or didn't feel it was important, and he said, "This downward movement in sterling is a reflection of fundamental economic and political factors, and it cannot be checked by any technical devices."

Now, what do you mean by fundamental economic and political factors? As far as economic factors are concerned, very definitely it means balance of payments on current account.

B'worth: As I understood Bewley's statement, in the first part of it that you're talking about he was reading

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from the statement the British Treasury had authorized him to make; in the second part of it he was giving his own personal summary of it.

White: That's possible.

Taylor: That's right.

White: But he had notes; I don't know.

B'worth: And his own personal summary was probably acquired about three months ago when he was there, when there was a good deal of talk about our purchases having fallen off about a hundred million dollars a month for five or six months, and so on and so forth, and there were fundamental economic factors that seemed to them good reason for sterling going to the 4.30's. but as far as their balance of payments is concerned, I should think that they will be not less than 80 million pounds short this year and probably not more than 100.

H.S.Jr: Unfavorable?

B'worth: Unfavorable. They're getting ...

H.S.Jr: Excuse me - that's on a cash basis, has nothing to do with services?

B'worth: Oh yes, that's everything. Balance of payments - not trade, but payments.

White: That does not include - are you including capital?

B'worth: I was just coming to that. And besides that, they're getting repayments or amortizations, net repayments of about 70 million a year.

White: We estimate they're losing about 20 million dollars a month on current account; 25 would be a very, very conservative estimate; probably closer to 20 million a month on current account. So that from that point of view one would have to be stretching a good deal to say that there is a tremendous pressure against sterling on fundamental economic factors. Yet, you go through the press and time and again - not always,

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but time and again, there is a reference to "Of course, economic factors are such that any attempt to hold sterling at present levels would meet with failure." Well - I mean that's the

B'worth: Well now, I wasn't giving press opinion. I was asked - one - what was the official opinion of the non-economists, and secondly, what the people in the City felt - the partners and merchant banking and joint stocks - and that's what I was giving.

White: I see.

B'worth: Now, the press is a horse of another garage.

White: I was speaking of the press and of their explanations.

Warren: The expectation would be, following this statement of Bewley's that certainly it had been both under political and economic pressure, that the recent and prospective increase in our imports from the sterling area would take off part of the economic pressure. I notice that since July our imports have been rising rather as one would expect, and they might easily go to, I suppose, something nearer a balance next year on our end of it. Well, that would take off one pressure, wouldn't it?

Then that leaves the political, and probably it is an awfully unfair question, but do you see anything that would indicate that the political pressure on sterling might be reduced or that there is any prospect of an appreciation in British prestige?

B'worth: It is almost impossible to predict.

Warren: Of course, you couldn't predict it; it would be merely a guess.

B'worth: I think at the moment people in England are going through a strange psychological stage. They are much more jittery than the facts warrant. The main sources of fundamental friction between Germany and England have now been removed, from an immediate point of view. And if we stay in this high state of emotional tension, why, undoubtedly, they're going to create and accentuate the other issues which are below the surface.

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But I don't see any prospect of a war in Europe in the immediate future.

White: Could one ask this question possibly? Be significant. If the dominant cause of the outflow and the weakness in sterling is political, (a) would a reduction - would a level of 4.60 be any less likely to reduce significantly the outflows than would a level of 4.80? That's one question. If not - if, in other words, the political uncertainty will continue, the outward flows will continue, the downward pressure on sterling will continue, and if there is no near prospect of the political situation clearing up enough to settle that, may not England be confronted with a very difficult choice; may she not be confronted with the necessity for exercising some supervision over those outflows of capital?

B'worth: Yes, I think she may. I don't think you can - it's as simple as saying whether it's 4.80 or 4.60, because you not only have the movement of refugee funds but you likewise have the speculative element and your day-to-day operations have a very important effect on them.

White: That's very true.

B'worth: As regards control, I should think that they would move along the lines that they have just undertaken yesterday, with various rather minor devices. But that they're going to change the character of London as a money market, with all that that means in their services - I should think that it would be a long and difficult period that they'd have to go through with before they would move in that direction.

White: I quite agree, except with one important condition. I mean if they fall back always on the statement that it is not the economic pressure - I'm speaking of those in the know, those who have control, not the press now - if they say, "It's not the economic pressure, we can stand that; it's a loss of 20 million, 25 million a month, and that's perfectly all right; what disturbs us is the political situation, and the political situation is driving capital out" - now, if they say that's only a temporary situation, then there certainly is a lot of justification for them

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not to permit these fluctuations; if they feel it is something more than a temporary one, permanent in the sense that they don't see the near end of it, then they must have it in the back of their mind that they're going to give way to that pressure, a steadily declining sterling. And in this instance they have a definite responsibility to the world, because a decline in sterling has other repercussions than merely British considerations. So if they can envisage only a continuation for some time to come of a downward course in sterling, responding to the political pressure, may they not have to give more serious consideration, much as they dislike it, to taking the steps necessary to remove the spearhead of that downward pressure?

B'worth: As I said before, I'm not sure they have really thought it through, but that would be my feeling.

White: I'm inclined to doubt that, because they've got some pretty smart boys in the Treasury, they know what it's all about.

Williams: Aren't there some questions that come ahead of any possible exchange control, possibly an informal exchange control?

White: Oh sure.

Williams: But before that, what interests me is the extent to which the situation is cumulative; that is, you might say that because sterling is going down, it's going down.

White: I agree with you.

Williams: If that is the case, it might be interesting to see how the market would act if instead of going down it went up; and it would be really very simple to put that market up temporarily.

White: That's the position Archie and I have taken for some time here, that there's been no real attempt to see how much gold would hold it. Montagu Norman's statement that they couldn't possibly peg sterling is something I would very seriously question. What significant information does he have that would lead him to a definite conclusion of that kind?

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- B'worth: I think the French experience is the one ...
- White: I don't think it is at all comparable. There are points of similarity, but I ...
- Williams: The French experience, though, ...
- Lochhead: If you continue on the French way ...
- Williams: ... you run a losing battle. If, instead of doing that, you hold sterling firm, or as I would prefer, put it up, what with the large speculative position that now exists there might be a very different view of the situation in a short time.
- B'worth: But potentially it is technically strong....
- Lochhead: If I were the British, I would rather lose a hundred million dollars in one day pushing sterling up than losing it in three days letting it slide. I'd rather try it. That's all against their policy. They say they're following a trend. In other words, they're following the market, not leading it. As long as that's the policy, you can't get anything else.
- Warren: That would be the policy only up to a point, at which they would consider the trend was showing signs of exhaustion, or something like that.
- Lochhead: Well, they say - but they say - that's the explanation each time, that the fund is there to iron out fluctuations.
- Williams: Even assuming that that might be a good policy for a period as a way to begin, aren't you then counting on a building up of a speculative position that would make it easier to turn the market around? Doesn't that technique assume that at some point ...
- Lochhead: But they let the market determine that point, not the fund.
- Warren: well, taking it as it is, certainly in the last week in New York there has been quite a change in attitude as to the market's idea of the trend.
- White: The market's idea of what?

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- Warren: The market's idea of the trend.
- Lochhead: You'll notice it happens this way. You got those comments after sterling went up a point; as long as sterling goes down a point, every newspaper will tell you why sterling is weak. They don't tell you, when it is down the day before, it should be stronger that day, but after sterling goes up a point.
- Warren: And when it goes up two days ...
- Lochhead: ... all the more. That's the same in any market.
- White: I wonder whether we aren't making any ...
- H.M.Jr: Excuse me - do you mind, Harry, if you read this memorandum?
- White: All right.
- H.M.Jr: What? Do you mind? I mean I'd like to read this memorandum, see what's here. I'll read it out loud.
- White: I have some copies.
- H.M.Jr: What?
- White: I have some copies.
- H.M.Jr: Good, distribute them.
- White: This, of course, is merely for the basis of discussion. I'm afraid we'll have to do some doubling up here.
- H.M.Jr: I'll read it out loud anyway. I haven't seen this yet.

"It was decided at the last conference on November 14, 1938, that a statement indicating our growing concern over the decline of sterling should be presented to Mr. Bewley for transmission to the British Treasury. On that day sterling was \$4.74. A draft of the proposed statement is appended.

"Several days before the British trade agreement was signed, the State Department communicated to the British Government the concern of our Government over the drop in sterling as related to the

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proposed trade agreement. The concern expressed by the State Department did not, however, originate with that Department.) On November 17, 1938, the British Government replied in a note to the State Department. The note, which was given to the Secretary, made the following points:

- "(a) The British Government had for many months made strong effort to support exchange by the use of gold reserves and that they had every intention of continuing to do so.
- "(b) That weakness in sterling was due chiefly to the withdrawal of sterling balances by non-British subjects.
- "(c) That were the British Government to attempt to peg sterling its loss of gold might become too great in view of the large foreign balances held in England.
- "(d) That the fall in sterling had been relatively slight and was far less than would have been the case had they not supported it lavishly.
- "(e) That they saw no reason why sterling should not improve when there was a recovery of confidence.

"3. On Tuesday, November 22, 1938, the Secretary presented to Mr. Bewley a statement which included four paragraphs selected from the proposed draft with some explanatory oral comments. A copy of the statement is appended. The Secretary requested an answer to his communication as soon as possible. On November 21, sterling closed at \$4.70.

"4. On November 28, 1938, Mr. Bewley orally conveyed the response of the British Treasury to the statement the Secretary had given him on November 22. The gist of Mr. Bewley's oral message was:

- "(a) The British Treasury was glad to furnish us with information with regard to the gold and capital position. The material would be available Thursday or Friday of this week.
- "(b) The decline in sterling was due to basic economic and political factors and (in Bewley's opinion) no technical devices could serve to check the decline.

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"The Secretary asked Mr. Bewley to convey to the British Treasury the following observations:

"(a) He was very concerned about the continued decline of sterling and did not feel that either he or the American public could watch sterling continue to decline without doing something to attempt to check it.

"(b) He wanted to know whether the British Treasury expected to let events take their course without attempting to do more than they were doing to check the decline. He asked whether the British Treasury had any suggestions whatsoever as to what steps could be taken by them or by the United States Treasury or jointly to help check the decline.

"5. The questions before us for consideration today are:

"What more can the British do to prevent further sterling declines in the near future?

"Is there anything we can do in cooperation with the British to strengthen sterling?

"Should sterling continue to decline, what independent action could we take to protect the dollar position?

"Examination of the proposed draft of a letter to the President commenting on a proposal to impose an embargo on gold imports."

Incidentally, when you're through with this stuff, if you'd give it back, please, to White.

And that reference there - I don't know, somebody's been seeing the President, recommending that we place an embargo on gold. I don't know where it comes from, but somebody suggested that to him.

Gold'r: Mr. Cox, isn't it?

H.M.Jr: Who?

Gold'r: Mr. Cox, isn't it? The chap that has that gold barometer.

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White: That's right, that fellow that sent those five or six letters, and I don't - I know we got a couple back from the President, for your information.

H.M.Jr: And he said he was talking to Mr. Eccles about it when he was down there, or would talk to him about it. But I just - it's all indicative. Of course, everything we say here is in the room and - but it's all indicative of what our problem is and why I'd like to continue to be sensible about this thing.

"What more can the British do to prevent further sterling declines in the near future?"

"(a) The only thing that England has done to date to support sterling has been sales of moderate amounts of gold

"We estimate that during the past three months the gold reserves of the British Treasury and the Bank of England have declined roughly about \$200 million." Is that ...

White: That should be pounds.

Taylor: That's a bum figure.

White: Very rough figure. It's really a guess rather than an estimate.

H.M.Jr: "... 200 million pounds. During that period sterling has dropped about twenty points or an average drop of one point for every 10 million pounds lost."

Taylor: "e've got a six montas figure from them, and that was before ...

White: Yes, but the heaviest portion has been ...

Taylor: But you had, let's say, two weeks of heavy withdrawals included in that figure.

White: March?

H.M.Jr: All right for me to go ahead?

Taylor: Yes, sure.

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H.M.Jr:

I mean you're

"During that period sterling has dropped about twenty points or an average drop of one point for every 10 million pounds lost.

"In this connection, it should be pointed out (a) that England still has over \$4 billion worth of gold, (b) she acquired half of this gold in the last few years through capital inflows, (c) that the loss of gold in the past six months has been primarily due to capital outflows (her loss on current account is less than \$25 million per month and is now running no higher and probably less than it was last year), and (d) from July 1935 to 1938, during which time the British Treasury gained about \$2½ billion, the average monthly sterling rate varied between 490 and 505.

"It should also be noted that the British Treasury has done nothing to counteract the innumerable press statements claiming that sterling was overvalued, and frequently expressing both the hope and expectation of a lower sterling rate.

"(b) To strengthen sterling the British Treasury (a) can use more gold in defense of the rate; (b) can indicate in an effective manner that, in its opinion, sterling is no longer overvalued at current levels, and that the British Treasury means to use all appropriate measures to keep sterling up; and (c) can ask for cooperation from the American Treasury.

"(c) How can we cooperate with the British Treasury to strengthen sterling?

"1. If the British Treasury gives us adequate assurance that it really means to do its utmost to prevent further declines in sterling, we might consider the possibility of employing a portion of our stabilization fund (possibly \$200 million) to support sterling on the condition that (a) England will expend a similar or larger amount in defense of the rate, and (b) that any loss we would sustain from the transaction be limited in amount by British guarantee to supply gold to us at a pre-agreed upon rate."

This is where I take a deep breath and cough twice.

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White: Well, these are just possibilities for discussion.

H.M.J.: I understand, I understand. I got a weak stomach today, so I ...

"2. We might reexamine the 'hot money' question with a view to assisting countries losing funds rather than safeguarding ourselves against continued acquisitions.

"3. We can consult with England with the specific objective of securing an informal agreement to stabilize the sterling dollar rate. Stabilization of the dollar sterling rate by agreement does not, of course, mean any formal arrangement of rigid adherence to the agreed upon rate. It means simply arrangements similar to that which both England and the United States have made in the past with France. Possibly the move can be accompanied by a formal revaluation of British gold. Possibly the agreement can be broadened to include measures to control unwanted capital flows or to provide for the exchange of information which will facilitate such control.

"(2) If sterling continues to decline, what independent action can we take to help check it?

"(a) Inform the British Treasury that unless sterling decline is checked you propose to publicly announce dissatisfaction with the course of sterling on the grounds that either the British seem to be unable to hold the rate within a reasonable limit or are seeking a competitive advantage contrary to the terms of the Tripartite Accord.

"(b) If that threat fails to induce the British Treasury to hold sterling, the issue of a public statement by you that the British Treasury has violated the Tripartite Accord and that the United States considers itself free to take whatever action is necessary to defend the dollar position.

"(c) Raise the price of gold by successive amounts necessary to keep the dollar sterling rate within what we regard as a reasonable relationship. (The legal limit for your operation is now, I believe, 50 percent of old par.)

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"(d) Publicly invoke the exchange clause in our commercial treaty with Great Britain.

"(e) Take measures to force the repatriation of portion of the foreign short-term funds held here."

Now, what's this?

White: Oh, that's the draft of the statement that ...

Taylor: ... that you gave him the other day.

White: Some time ago. Don't know that you'd necessarily read that.

H.M.Jr: That sounds like a New York law firm.

Taylor: Couldn't be as bad as that.

White: You might want to read the four questions that you gave. Have a copy of it there. It follows. The questions that you selected.

H.M.Jr: Oh. What I selected?

White: Yes.

H.M.Jr: well, they can read it; we'll come to it in a minute.

White: They haven't got copies of it. I can give it to them in a

H.M.Jr: what I gave them:

"We are concerned about the decline in sterling" for the following reasons.

"1. This decline if it should continue is likely to raise questions in this country concerning the meaning and usefulness of the Tripartite Accord."

I mean this is what went to England.

"2. 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

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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.

"3. 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.

"4. 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."

I selected those because they were the simplest. There were some other things in there which I'd like to do, but I didn't have a chance to do my homework. I felt that these were innocuous, so I let them go, just to start the ball rolling.

"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."

That's already happened. The New York Tribune gave us a nice little dirty dig.

White: Those are the group from which you selected the four (handing paper to H.M.Jr).

H.M.Jr: Oh.

White: I thought they might want the original. That's all there is.

H.M.Jr: Oh. Now, what's this in here?

White: That table indicates the currencies which decline with sterling and show that the problem is not a

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dollar-sterling one, but a dollar-versus-the-world one. Just shows you the extent of the decline.

H.M.Jr: All right.

Now, read this out loud. My throat is going back on me. Read it out loud, will you, Harry.

White: This preliminary draft?

H.M.Jr: Yes. This is a letter - proposed letter to the President, isn't it?

White: If that's - I don't know.

H.M.Jr: It might be.

White: "One of the measures proposed to protect the position of the dollar against further depreciation of the sterling currencies is to impose an embargo on the imports of gold into the United States. In my opinion, such a step would tend not only to have the opposite effect of the one intended but would also have consequences which would raise serious problems for the United States.

"During the past year the demand for dollar exchange has exceeded the supply of dollar exchange by almost \$110 million a month. About \$1,400 million worth of gold has been shipped to the United States so far this year in order to supply the additional dollars to the foreign exchange market. If under such conditions an embargo were imposed on the importation of gold, the demand for dollars could not be met and the dollars which are available in the foreign exchange market would become more valuable. In other words, other currencies, particularly the sterling group, would depreciate still further vis-a-vis the dollar. Thus an embargo on imports of gold would be a step in the direction of aggravating the very condition we are seeking to alleviate.

"Furthermore, the declaration of an embargo on gold imports would be a very disturbing factor in international economic relations, the full consequences of which cannot be entirely foreseen. It would probably cause gold mining stocks, particularly of foreign gold mines, to tumble, and there would be adverse

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repercussions on leading stock exchanges which would precipitate a major crisis in South Africa and a minor crisis in Canada. There would be an attempt by foreigners to acquire dollars by selling silver to the United States and we would be confronted with the necessity of acquiring more foreign silver or permit the price to fall sharply. Instability in exchange rates would be greatly intensified, with wide repercussions on the economic system of all countries. The Tripartite Agreement would, of course, be automatically terminated.

"No monetary step that we could take would be more calculated to assist Germany and Italy." Not Japan. "They are the very countries which have the smallest reserves and are at a serious disadvantage compared with their possible opponents in the event of war -- England, France, the small democratic countries -- and Russia. One of the important advantages these latter countries have over Germany and Italy is their large reserves of gold which they regard as a 'war chest.'

"If we do not accept gold, smaller countries may likewise restrict the inflow of gold. The result will be that the purchasing power of the gold-holding and gold-producing countries will be curtailed. Germany and Italy would be made stronger by virtue of the reduced strength of their probable opponents. It is quite possible that they would become even more aggressive than they are now and thus the outbreak of war might possibly even be hastened.

"Most important, however, would be the blow to the prestige of gold as an international medium of exchange. We have too much interest in the future of gold to seriously endanger its use as a medium of exchange among nations. We must not forget we have almost half the world's monetary gold stock and are the world's third largest gold producer.

"We would by curtailing the possibility of employing gold in its role as a compensatory mechanism in the settlement of international transactions be promoting widespread reliance on exchange controls and clearing

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agreements. The cushioning effect that gold movements exert on exchange rates would be removed and other countries would thus be induced to adopt exchange controls for the purpose of introducing some stability in exchange rates. New obstacles to international trade would thus be created. Our action would violate the spirit of our trade agreement program and run counter to its objectives.

"The domestic political repercussions might well be serious: (a) there would be strenuous opposition from groups who are interested in facilitating foreign trade; (b) the action might be interpreted as an attack by the Administration on democratic countries; (c) the paradoxical spectacle of an administration which has increased the price of gold and accumulated a large quantity, taking a measure which threatens the prestige of gold, would prove a potent source of criticism in the hands of opponents of the Administration. No matter how justifiable the action of the Administration might be in view of the altered international situation, the public might see only the superficial aspects of the policy. The step might be publicized as a measure diabolically calculated to destroy the confidence of the business men in the prospects of recovery.

"Refusal to buy gold by the United States makes our security market more vulnerable. If gold cannot be sent to the United States to acquire dollars, there will be a greater incentive to acquire dollars through the sale of American securities held by foreigners."

I might say by way of extenuation that this was hurriedly written and there was no intent that any final copy would include a lot of this stuff.

"An embargo on gold imports might be useful in one sense, however. England would be so strongly opposed to such a step that the mere intimation on your part that such a move is being contemplated might constitute in your hands a most powerful bargaining weapon.

"If, instead of prohibiting the importation of gold, steps were taken to reduce the demand for dollars (or increase the supply, or both) we would be

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achieving three desired objectives:"

Stewart: I didn't - read the beginning of that paragraph again; I missed that.

White: "If, instead of prohibiting the importation of gold, steps were taken to reduce the demand for dollars (or increase the supply, or both) we would be achieving three desired objectives:

"(1) Reducing the inflow of gold into the United States;

"(2) Reducing the upward pressure on the dollar;

"(3) Help other countries to maintain their gold reserves.

"There are numerous ways of reducing the demand for dollars and foreign exchange (relatively to the supply) without adversely affecting commercial transactions. Some of these methods are:

"(1) Reducing the flow of short-term capital into the United States;

"(2) Encouraging or forcing a partial repatriation of foreign funds now in the United States.

"(3) Cooperating with the British Equalization Account to check further declines in sterling.

"(4) Attempt to obtain an agreement among the signatory powers to broaden the present stabilization agreement by calling for the exchange of information which might be used to reduce the unwanted flow of capital among countries."

That's just the body

Williams: I don't think the order of those things that we could do is quite right, is it - I mean in order of their fundamental character, severity, whatever it is.

H. J. Jr: Well, I want to say for White that he hasn't had a chance to polish this. He only got a few hours' notice.

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- Williams: I didn't say that critically, but just in passing - that perhaps number three should come first.
- White: Yes - oh, I would agree with you, yes. I mean the order of this
- H.M.Jr: Which is three?
- White: "Cooperating with the British Equalization Account to check further declines in sterling."
- Williams: That would be the one to come first. There are numerous possibilities of checking the demand for dollars in other ways. I think the important thing, if it's the President that is interested, is that it's the demand for dollars, not the gold, that he wants to strike at.
- H.M.Jr: I just want to say this - we'll have a seventh inning for a few moments - I don't know whether I want to send it to the President, but if you gentlemen can help me clarify my own thinking on the Treasury's position.... But somebody has been feeding this stuff to the President, and I consider it serious enough that I am thinking of putting our position down in a letter as to why the gold embargo is, I would say, about the worst device that we could use. I mean I'm bothered enough about it that I think that if we can do something and then - that would - in preparing a letter for him, we'd have to come to a decision as to what the policy of the Treasury would be if we have such a thing.
- Williams: The only thing I myself can see along the lines of trying to do something directly to gold would be to confine our imports of gold to the tripartite countries and to their monetary authorities. Now, I don't know what the effects of that would be. I'm scared even of that.
- White: That's an interesting question which we considered at some length a year ago. It has some advantages and has some disadvantages.
- Williams: Yes. It might have the advantage of forcing sales of gold abroad and so reducing the price of gold, which undoubtedly would strengthen sterling.

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H.M.Jr: I like - we discussed that, and in an emergency the banks won't handle the gold anyway; we found that out a number of times. You know, they got worried; they won't handle it.

After all, when we come to selling it, we won't sell it to anybody - I mean we'll only sell to a government or its agency - and that to get these countries - say, "All right, we'll deal only amongst the tripartite countries, we'll only do business through governments or their fiscal agency" -

White: Practically recommended that a good number of times.

H.M.Jr: What?

White: We had that up two years ago.

H.M.Jr: Then it's up to each country to say to us what gold should come out, see? I mean that would immediately put the responsibility on them. (Leaves room)

White: Furthermore, that's an essential preliminary step to what we may be confronted with some time in the future, of curtailing the newly-mined - the source of newly-mined gold, making a distinction between monetary and non-monetary gold.

Williams: I feel now we're not playing the game on the same rules. On the other side in London it is still possible for anybody to express all the doubts and fears he wants in the purchase and sale of gold, and it just raises hob with the exchanges. Now, is there some way, short of doing away with a free market, that would somehow - well, canalize this thing through the official channels and make gold serve its purpose of an international stabilizer rather than of an international unstabilizer.

White: You put your finger on the nub of the problem. To get her acquiescence is to ask her to reverse a policy that traditionally she would be very reluctant to alter. As a consequence of pressure, she might consider that, but I am very skeptical about her acquiescing to that under present circumstances.

Williams: Well, it would be some steps short - I don't think

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it really involves doing away with a free market, because anybody who's got gold - he can sell it to his own fund, his own treasury.

But you're not letting them take advantage of these arbitrage possibilities that you get, don't you know.

White: Well, the - I wonder, if you say you're going to - if I understand the last one, which I'm not sure that I do, if what you're going to do is to control purchases and sales of exchange, speculative purchases and sales of exchange, that's a very different thing; if that's what you have in mind, that involves a supervision over short-term capital movements.

Williams: I didn't mean to go as far as that, but just remove one element in the instability - not remove but reduce it. What would be the effect on a fellow who's been buying gold over there, whether from fear or speculatively in anticipation of a higher price, if he were told that in the future the only gold we'd accept would be that that came to us from monetary authorities in this group of countries? He might say, "Well, under these conditions I don't know that gold is such a good buy."

White: He might.

Williams: Might be apt to sell some, so you'd get

White: If he thought he couldn't sell it on the free market, you would be introducing some doubt. He might say, "This is the first step," or might say, "This will affect the market" - make him a little more reluctant.

Stewart: Follow that through, John. After you've used up whatever supply of private hoards there might be, then what's your position?

Williams: I don't know. I haven't thought it through. It would take care of this immediate situation, or would help to.

Gold'r: John, if you limit that suggestion to saying that the gold should be bought only from official sources, I think a good deal could be said in its favor; but I

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thought that you coupled that with limiting it to the group of countries

Lochhead: Can't be done.

Gold'r: I think that would be fatal.

White: It couldn't be effective.

Gold'r: That would destroy

Lochhead: You might find a situation where you'd be depressing the price of gold on one side, just throwing a monopoly into the hands of central banks or stabilization funds; you could see what a squeezing they could give the gold producers. The average man would have to take \$34 for his gold, if that's the price they said they're going to pay for it.

White: Wouldn't it be a simple way to express it by saying you'd like to see the other members of the club, so to speak, adopt the same procedure with respect to gold - not with respect to price, but with respect to buying and selling - as we have?

Williams: That's what's in my mind: as we have. Perhaps you couldn't get them to go that far; perhaps it isn't necessary. And I also would perhaps be willing to drop this suggestion that we confine it to the club. But as it is now, people feel that they can get any amount of gold they want, so gold is going not only through international channels to steady exchanges but it is also going into private hoards and it's become speculative.

White: And it limits the control of the funds over the rate to some degree, too. They would have more control if they had the same control over the gold that we have over the gold in the United States.

(Secretary returns)

H.M.Jr: Well now, what I thought we might do is check off some of these things. They're divided into two things. One is independent action, one is joint action. Should we do - if you don't mind, I'd like to do the independent action first, because I

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think it is the more difficult one in the sense that at least we must decide it if we do anything.

- White: except as it is understood, Mr. Secretary, that that independent action presupposes that there couldn't be some satisfactory cooperative action.
- H.A.Jr: True. I'll do both. But I'm - I mean I'm not - I mean the decision as to the independent action is a more difficult one.
- Gold'r: You want to decide what you - to look at your hand and see what you have in the way of cards.
- H.A.Jr: That's right. I just want to raise this point. I don't know how successful the Swiss were when they tried to put a special tax or penalty on foreign capital. Have we explored that - I mean as to charging the people rental, so to speak, for keeping their money here for them? Has that been explored?
- Taylor: Certain aspects of it have been.
- Locknead: Under the not money we explored that.
- H.A.Jr: That we'd charge them rental for the safe-keeping.
- White: The Swiss thing, you say, or ours?
- H.A.Jr: No, the Swiss went through that at one time. Couldn't - would that - is there something to that? Do you know?
- Gold'r: I think there is.
- H.A.Jr: What could we do - I mean I'm putting it that way - to charge these people rental for keeping their money for them?
- Locknead: Do you mean direct rental, Mr. Secretary? There was one question as to the tax. Of course, the indirect way was the kind of way that you could make banks hold hundred percent reserves against foreign deposits. That would be indirect taxation.
- H.A.Jr: I mean there are two philosophies. Up to now we've been following the philosophy "We'll pay \$35 an ounce for gold until hell freezes" - and always down in small type: "24 hours." Now - and "we want to be the

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monetary center and all the rest of that stuff." Well, it's worked pretty well for four years. Now, as we have sucked gold out of France until it's an empty shell - and it doesn't do us any good, certainly is a great injury to France - is there some way that we could discourage any more money coming here and possibly encourage some of the money to go back?

White: Mr. Secretary, we did an awful lot of work with that about two years ago, or a year and a half, and we've got a lot of material on that. We can give you the gist of some of the conclusions now.

H.M.Jr: At that time it was in connection with their excess reserves.

White: No, that was another problem. There were two.

Taylor: Hot money in general. Both flow this way. Pretty much the same problem.

H.M.Jr: How about reexamining that whole question of hot money? Just as to what we have, without needing additional legislation.

Lochhead: At the time we examined it, we did it from our own point of view - of the United States only, our interests. At that time I think some of the objections were that we couldn't get any cooperation from the foreign countries; in fact, that they would rather object, because it would broaden the question of taxation of their nationals. I presume in the interval of a year and a half that there might be more receptive consideration given to that by some of the countries. You think so, Williams?

Gold'r: Well, I should like to say that the French financial attache, Leroy Beaulieu, just before he went over to see Reynaud, told me he was going to suggest to them that it would be a very desirable thing if some measures were taken by this country to discourage the movement of capital to this country. A very definite change in attitude from about two years ago.

Lochhead: I might also say that the time before they said it was our baby. I said it was a joint baby just now.

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They said, did that mean we were no longer interested? I said, naturally, we were always interested, but we thought other people ought to be interested in addition to ourselves.

White: I can give you a good memorandum right on this point right now; have it ready.

H.A.Jr: Just a second, Harry.

would you people who are visiting here today and have been kind enough to come down take this memorandum and go over it and pick out the things that you think - and if there is anything that isn't here, put in your own ideas, to give me something, say, by three o'clock - that we could meet again and say to me, "Well, here are some of the things we think that you should consider through joint action; here are some of the things that you can do independently. Now, we've been over this thing and this is what we'd like to bring to your attention."

Now, don't you think we've gone far enough, and you can come back at three and go over it again.

Have you got enough time, Stewart?

Stewart: Yes.

H.A.Jr: How about you, Williams?

Williams: It's all right with me. Staying over anyway.

H.A.Jr: What? And the usual conference room is available. But then I'd like to have that, because - to get the benefit. Then if you people come back at three, you will have had time to go over this thing and give me the best you've got. How would that be?

Stewart: Good arrangement.

H.A.Jr: What?

Stewart: It's a good arrangement.

White: Do you want us to attempt to work over that letter, or let that drop?

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H.M.Jr: No, I'm worried - I mean out of this thing - no, I wouldn't drop that letter.

White: Then that letter will be part of it.

H.M.Jr: The letter might take the form of this:

"My dear Mr. President:

"We have been considering this whole question, and here are some of the things that we think might be done." And if these gentlemen ... "But the thing that we want to do last, if at all, would be an embargo on gold" - if that's what they think, see?

In other words, the letter to him might very well be a statement of what the Treasury policy is in view of the present situation. But it doesn't mean that the letter has to go, because that's pretty formal stuff, but ... I don't know how the British feel. I do know that the French would welcome, I think, any move on our part to not only discourage French capital from coming here, but also to encourage it to go home.

And I go back to that Swiss banker who was here, who pointed out the fact that up to now no British capital has left London, to speak of, but if ever the British citizens should lose confidence, begin to move their capital here, then there would be just no bottom. I don't think, do you think, Butterworth, that Swiss - French - English capital has come here?

B'worth: I believe the statements that they make, that as far as they know the amount has been extremely small.

Gold'r: Wouldn't you say that there was practically no flight of capital? There is a certain amount of investment by the investment trusts, but it isn't flight of capital.

White: There isn't very much of that either.

Gold'r: Isn't much of that just now. But I mean from time to time they invest, but it isn't - they always have for 150 years - but it isn't flight of capital.

H.M.Jr: Well, if you gentlemen would be back here at three, why, I'll be available.