

November 28, 1938

Secretary Morgenthau

Mr. White

Subject: Agenda for Conference on the Sterling Situation,  
November 29, 1938.

1. 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.
2. Several days before the British trade agreement was signed, (it was signed on the 17th) the State Department communicated to the British Government the concern of our Government over the drop in sterling as related to the 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.

(On November 17, 1938 sterling was \$4.70.)

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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.

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.

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(1) 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. During that period sterling has dropped about twenty points or an average drop of one point for every \$10 million 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 1936, 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 defence 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.

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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 not, I believe, 50 percent of old par.)

(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.

We are concerned by the decline in sterling.

1. This decline if it should continue is likely to raise questions in this country concerning the meaning and usefulness of the Tripartite Accord.

2. Given a continuance of the present economic recovery and the increase in American commodity purchases abroad likely to accompany it, we do not at present find in the trade positions of the two countries any apparent fundamental reason for the appreciation of the dollar with reference to sterling. Moreover, it appears to us that there are substantial reasons why a decline of sterling may not be in the British interests.

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.

## RE STERLING EXCHANGE RATE

November 29, 1938.  
3:00 p.m.

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

H.M.Jr: Got everything solved, Archie, for you?

Lochhead: No, I don't think the thing is solved. What they've done is work out two things: One, that answer to - that letter on the embargo; and secondly, going over the various points raised in Harry White's memorandum. They have arranged them in the order that we think they are important.

H.M.Jr: Got something written, Harry, or ....

White: Why, no. John Williams dictated what he thought was the consensus of, or the opinion of many, which will be ready in about ten minutes and which will serve as a basis for discussion, because I don't think everybody here either heard what he said or saw the paper, so they may or may not agree with everything he stated, although it tended to carry out the general idea.

The revised letter, I take it, will also be ready.

Taylor: That's on its way in, or words to that effect.

H.M.Jr: Can you remember what you dictated?

Williams: We found ourselves this morning discussing a series of points, measures that might or might not be taken. We wound up with that at lunch-time, and sort of suggested we put them down. And I have done that and indicated the ones that seemed to me just in the discussion we were most interested in.

And those are two. One is the consideration of British gold policy, and that involves the question of how much gold they have and how much they're

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willing to give up and whether it's better to follow sterling down or pursue a more vigorous policy and keep it firm or even put it up. And the other measure we seemed to be principally interested in was the idea of operating an exchange fund for joint account. And I had included those two in the list of seven or eight points we had as the two principal ones, and said that if you were interested in those we'd spell them out more at length - those two.

H.M.Jr: One, exchange account?

Williams: First was the gold policy, their policy: Are they giving up enough gold, are they doing it in the right way, how much are they prepared to give up, and so on? And the other is the operation of a joint exchange account.

H.M.Jr: Well, as to one - I'm vitally interested as to the first thing.

Williams: I had these down. I can remember the other points I had. I might mention them.

White: This is the letter, which I take it you want to take up secondly.

H.M.Jr: Well, we could do the letter first if - we can do the letter first, work with what we've got.

"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

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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. 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."

Do you people feel that that is definitely so on silver? Is that unanimous?

- White: I think it's put there a little more strongly than it should be. I think they'd all agree that the short time we had to revise this letter consisted largely in pulling out sentences; so it would have to be reworked over and made a little smoother. That point might be open to some question - whether too much emphasis isn't being given there. But there certainly would be some of that.
- H.M.Jr: Well, it seems over-emphasized to me.
- Stewart: Well, I think if you were prepared to buy silver and not prepared to buy gold, there would be a market for silver which would buy up the world silver; as long as they could create dollars by selling silver, I think they would.
- White: They'd go out and buy silver instead of gold.
- H.M.Jr: I think that that part could be clearer, with something like this: "The potential purchaser of dollars, not being able to acquire them through gold, would be

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driven to do so through silver." I mean ....

Gold'r: That's right.

H.M.Jr: I mean sort of a transitional sentence there - Stewart - huh?

Gold'r: That's right. It would make your silver problem much bigger than it's ever been.

H.M.Jr: I think if you could explain it that way - what?

Gold'r: That's right. It could be strengthened.

H.M.Jr: "If we do not accept gold, smaller countries may likewise restrict the inflow of gold. 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 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."

Well, I think there is a lot of meat there, but I - it's got to be smoothed up.

White: Very definitely needs to be reworked.

H.M.Jr: It's not ready.

White: I take it they didn't think it was. It was merely a question of doing something in a short time.

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- H.M.Jr: I'd like to postpone discussing this.
- Could I just raise a question while we wait? Do the people who are doing the typing know that we're waiting?
- White: Yes. Don't they?
- H.M.Jr: Where is it being typed?
- Lochhead: Mr. Taylor's secretary is typing it. I'll check, see that it's coming in as soon as possible.
- H.M.Jr: While we're waiting... I just got this week's report on international capital transactions - the week ending November.. - it's the most recent that's come to my desk.
- White: What's the date?
- H.M.Jr: November 21.
- White: There should be another one out today; 28th - there should be another one out.
- H.M.Jr: (On phone) Ask Dr. White's office whether they have a more recent report on international capital transactions; my latest is dated November 21. If they have a more recent one, shoot it in here, please.
- This thing here seems to be definitely - looks as though at least for a week or two we were past the peak. And I never - there was a net outflow of capital for the week ending November 9 of 11 million dollars.
- White: Two weeks running, I think, there was an outflow; then there were inflows again, just judging from the New York banks. The New York figures, I think, are there on the later period.
- H.M.Jr: I'm just raising that. Are we in a period that there's going to be a net outflow again?
- Lochhead: I think the figures are going to show it comes up again, because I think the figures show Great Britain shipping gold heavily to meet December maturities. They'll sell the gold and that will

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show an increase here.

- Taylor: They went the other way the last week, last two weeks.
- H.M.Jr: October 1, '37, through to August, '38, capital - net movement of capital was out of the country.
- Gold'r: I think it would be very difficult, Mr. Secretary, to check that now.
- H.M.Jr: Well, I'm just raising it.
- Gold'r: Yes. I think the chances are that capital is going to move into the country for the next few months.
- H.M.Jr: Well, I just mean - I wondered whether this was a trend or whether that's too early.
- Gold'r: Well, in my opinion it's too early.
- H.M.Jr: O.K.
- Gold'r: Wouldn't you think so, Butterworth?
- B'worth: Breathing space.
- H.M.Jr: Well now, gentlemen - trying and see what we could do while we're waiting.
- Gold'r: May I make a suggestion? I think it would be a very desirable thing if you could have a little statement from Walter Stewart on the setting of this problem as he sees it. He gave it to us more or less, and I think it would be very advantageous if we could hear it here.
- H.M.Jr: Just a minute. I'd love to hear it.  
(On phone) Hello. - Thank you.  
November 21 was the last.
- White: Should be ready today.
- H.M.Jr: At your service.

Stewart:

Well, I don't know just what Mr. Goldenweiser has in mind. Really, what I have in mind saying would probably have been much more appropriate after you have this document of points before you.

The one observation that I'd like to make about the rather recurrent visits that I have made down here is not with reference to the particular points that we have discussed, but rather a question of the approach to make to a problem of this kind, where you're dealing with the dollar-sterling rate.

Frequently our discussion takes the form of activity in two centers, New York and London: What's the British Treasury doing about it, what are we doing about the dollar-sterling rate? That's such an over-simplification of the problem when you realize the extent to which all these problems come to focus in London, the great variety of questions that are raised by it, that even if we were to respond adequately to the particular points which you ask, which we're not going to do today, I would still feel that we hadn't adequately fulfilled our function as outsiders coming down; that you, in an executive position, have to deal with these problems as they come to you, day by day as they come to you; that as outsiders, not being confronted with that, the contribution we ought to make to you, it seems to me, is the attempt to get a sufficiently broad basis of approach so we understand the problem. And I am not confident that the approach we're making in these discussions is the most adequate approach for purposes of understanding.

We speak of the sterling bloc, talk about the policy of the Bank of England, what are they doing in the stabilization fund, what can we do, and so on; but the general problem of the whole sterling area, its balance of payments within itself, the relation of that to our dollar area, the common problem that we have... It isn't that I don't believe there are differences between ourselves and the British, points of divergence; just what they are and what their magnitudes are I don't know; but I also believe that we have more in common with them, in the sense that we also are concerned about the maintenance of a sterling position, the sterling area, the sterling

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currency.

And that's the long of what I had in mind; it was some such observation that Dr. Goldenweiser was referring to. I can illustrate it, perhaps, a little more concretely for you.

H.A.Jr: I wish you would.

Stewart: Concretely, I am thinking back on our today's discussion. My general approach to this, instead of responding to the particular points that are raised in this memorandum, would be to say, in what attitude am I going to greet this Britisher, say Mr. Bewley, when he comes over here? What's the next step in this program? Let's assume that on Thursday or Friday he comes in with the information which they say they're going to furnish. My inclination would be to say, "Well now, thanks for this information. We're sorry we haven't had it earlier. It would have been helpful to us. We're quite likely to want more information. We notice that within these last few days you have taken action in two or three different ways to affect the speculative position in sterling. Glad you did that. Are we right in assuming that you believe that was a favorable opportunity - the events evidently have shown that it was - in the sense that the rate goes higher? You may be a better judge of that particular rate than we are. It would have been our feeling over quite a long period that you might have done better to have used your gold more generously in supporting the rate."

A series of additional pressures, without any manifestation of an outward move on your part, but rather a rather steady series of pressures for more information, more action on their part, throwing the responsibility back there, for this reason: that as I review these various things that we consider doing, there aren't many things that we can do independently.

H.A.Jr: You're talking now for yourself.

Stewart: Yes. As I view this situation ....

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H.M.Jr: This isn't a rehearsal. That's what you really think.

Stewart: Yes. There aren't many things, as I see it, on the dollar - actions on the dollar-sterling rate that we have in our hands to do. There are certain extreme measures that one can take. Conceivably you could change the price of gold or end the tripartite agreement - such things as by their very nature are extreme moves and seem to me entirely inappropriate at this level to even be thinking of - that set of moves. The other things are things we wish they'd do, wish they'd volunteer; if they don't volunteer, perhaps we can induce them to do them. There are still a more limited list of things we would consider possibly doing jointly.

So my inclination is to say that, partly in the hope we may have passed the worst of this particular exchange movement, a series of constant pressures should be directed on them, very much in the direction that the pressures have been exerted since your recent meetings here. They now get some information; you want some more, you're rather sorry you haven't had it earlier. They've done something on short position; what next do they intend to do? A series of continuous or more or less continuous contacts, with continuous pressure.

H.M.Jr: Well, you started off and I thought you were going to give me a constructive criticism, and this is what I hoped that you were going to say: that we bring you down here and in a half a day or a day I expect you to advise the Treasury on this whole very difficult problem of international exchange, and "we can't advise you in one day"; and that I, as Secretary, look at the thing too much from day to day, hour to hour. And therefore I thought you might end up by suggesting sort of a standing advisory committee that would look at this thing.

Stewart: You didn't think any such thing.

H.M.Jr: Yes. And that "we don't only come down when you're in hot water, but that we want a continuous study, being thoroughly objective, so that when something

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does break we're au courant of what's going on, and that therefore we can really do a good job for you." But that's what I thought you were starting off to say.

I was going to say, "Well, I accept the criticism." And I think it would be justifiable, because this is one of very many very difficult problems that we have, and the day isn't long enough to give it the adequate study. And I thought that's what you were leading up to.

Stewart:

If you put the matter in that way, Mr. Secretary, I'd want to make another response. I'd say that no one could advise you adequately on day-to-day operations except those members of your staff that are in touch with the day-to-day information. Anybody that you call from the outside who doesn't have that day-to-day information is just as likely to give you the wrong advice as the right advice.

There is one thing that your inside staff can't do, because they too are executives, and that is to take a much more distant, objective view of the situation. Now, that can be done, a great deal of it, without knowing your particular problems so far as the British are concerned.

H.M.Jr:

Well, as to day-to-day advice, I think up to now the record shows that I've been getting as good advice as is available, because we have met with our share of success in holding up our end. I mean we have no particular - there's no particular criticism of the Treasury as far as I know, as to its operation. So I mean as to that I feel that I'm getting as good advice as I can get, and I'm not dissatisfied and have no reason to be dissatisfied, and there are no complaints before me, as to our day-to-day operations.

But I personally am dissatisfied with what I personally am trying to do on the - not day-to-day, but the trends of over a period of years, see? And that kind of thinking neither my staff nor myself have time to do, and that's the kind of advice that we need very, very badly, and that's the kind of advice that people who are not in the Treasury, but who are trained the way you people are, could give us; that's what I meant.

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Stewart: At least, some of us are supposed, by either experience or function, to wish to do it, but it's a far cry in this situation, with as many unknown factors as there are, with as many bewildering elements of a political kind and economic kind - all one can say is that one is interested in the problem, prepared to study it; but the amount of that that would be useful to you in the immediate situation is to my mind very doubtful.

H.S.Jr: Well, no one can tell.

I mean, as I was saying today, October 1 was a historical date in the world, but it didn't all happen on October 1. I mean the fall of prestige of the British Empire in the world - I date it from the time that Mr. John Simon didn't back up Mr. Stimson in Manchukuo. I think that from that day on the British Empire has been losing its influence in the world. What was that, '33?

H.Worth: '31.

H.S.Jr: '31. And then when they repudiated their debts - I mean it's been, in other words, an operation of seven years; and then suddenly it all comes to a head on October 1. Now, if I called you in on October 1 and said, "How should I treat with the British Empire as of this moment?" - well, there's a background of seven years which led up to the point that necessitated Mr. Chamberlain calling on Mr. Hitler. I mean it just didn't happen overnight or in a week, did it?

Now, the thing that I'm talking about here is that in this question of world exchanges and the position of the United States in world trade, the kind of advice that we want and I want desperately is on the trends. I mean: are we gradually slipping into a position that we found ourselves in in '31 and '32? If so, what can we do about it? I mean it isn't necessarily visible today. But we have all the funds necessary, for instance, to hire people outside, to put them at your disposal. I mean we have unlimited money but we have very limited brains.

Stewart: That's true the world over.

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H.M.Jr: What?

Stewart: That's true the world over.

H.M.Jr: Now, what I'm talking about - this help here is tremendously valuable - I mean as of today - but it's the long-time transactions... I'm very serious, never more serious, that I thought you were leading up to giving me a friendly criticism.

Stewart: Not a criticism, only a reservation about what we can accomplish any day that we come down, and the difference between the question that is presented, what's one going to do about the immediate situation, compared with the problem of how does one understand the problem of this kind in the longer view.

H.M.Jr: Well, in this particular case I don't - I'll go through the motions, putting increasing pressure on the British. I may get some results; I may not. I am very doubtful if I get any results. They happen to have a short position; we get a rise for a day of a couple cents, then it slips back; it's one step forward and two steps backward. And I think that the present day-to-day thing is relatively unimportant as to the position that the United States and the dollar bloc are gradually working themselves into. And that's something that somebody has to sit back that doesn't have the telephone ringing every minute, that doesn't have to be worrying about complaints, that doesn't have to be worrying about a Senate and Congress, and that thing, and this little thing, and political appointments and what not, and the hurly-burly of the thing. You just don't get time. Now, I - on a day like this I devote the day to it. I think I'm pretty good to be able to devote a day to it. Wednesday, Thursday and Friday I got my financing, and if Harry White comes in and talks about the pound I'm going to be very cross, because I've got to do my financing.

White: I think it might be said by way of explanation - possibly it is not necessary - that the material you see is only a small part of the material we prepare and analyze. It simply isn't brought before you.

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All this question of the balance of payments between the British Empire and the United States and the sterling countries - we have that and a lot of other material. So it may be quite true that you are not here long enough to see that. There is no attempt to present that to you, because of the lack of time. There is a great deal of that going on.

That's the 23th there, Mr. Secretary, if you .....

H.M.Jr:

Well, I have a very definite reason for doing this, and I just want to leave it with you people and let the three of you - and there's Hansen and Viner, who are up in Ottawa - I wish the five of you would think about what I've been saying and what you've been saying for the last ten or fifteen minutes. Because the difficulty that we find ourselves in, and I guess it's - you can't refer to any textbook, and when I ask the various fellows where there is some fellow that I can bring in here - where are they? - and the people that know this stuff are the people that really have seen the Treasury work from the inside. And outside of that most of it is guess work.

But I wish some of you would think about what I have been talking and the possibilities of forming a group to take the long distance view on this thing and not just come down when we're in trouble; because I don't know what position the United States is slipping into, and I can certainly say - in the world's market - and as far as I know there's nobody in Washington that knows.

Take Agriculture, for instance, with all their world market and their technical business; they have nobody over there who is an authority on what we're talking about here today. Is that right, Harry?

White:

I don't know what you mean by an authority.

H.M.Jr:

Well, who knows his stuff.

White:

It's a highly specialized field, and a man either has to be with it all the time in his work or in his academic work.

H.M.Jr:

Well, Williams and Warren and Stewart, will you think

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over what we've just been saying the last ten or fifteen minutes, huh?

- Stewart: That's agreed mutually, to think about it, because your point is somewhat different from my point; but I think both points are good.
- H.M.Jr: That doesn't mean I don't want you to come down when I'm in hot water, but it does also mean that the United States Government would have a real asset if they had a group who was willing - thinking and meeting occasionally and discussing these things when there was no pressure.
- Stewart: I agree with you that there is a possibility of giving a group not in the Treasury, outside, a somewhat better basis for a continuation of a consideration of the problems in the broad way you're thinking about.
- H.M.Jr: It's just what I asked this morning. How many people in the United States foresaw the position we slid into in '31 and '32 and understood it? Huh? If there were some, they were very rare birds. Maybe the people - or maybe - I don't - as I say, maybe you people that are in the room did foresee it and are on record and all that, and most likely if there is anybody who foresaw it, they are here in the room now. But I wasn't here and I don't know.
- Gold'r: The fact is that at that time, Mr. Secretary, McMillen was about to come down, and Mr. Keynes was in this country, and they had just said that that problem was now over and "we've got to prepare for the next." The question of returning to the gold standard and staying on it was no longer in the picture. So the best British brains at that time missed their point completely.
- H.M.Jr: Well, as I say, I wasn't in the Treasury, I wasn't in this field in those days, so I don't know. But I'd feel lots more comfortable and happy if I knew that I had a group outside who were looking at it in terms of years and not in terms of hours.
- White: And if the results of their thought were collected, synthesized, and put on paper.

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H.M.Jr: And as I say, there is money available to provide you with a staff of people to do any work that you want, and I think you all know by this time that I'll listen and that my mind is open and that I want to listen. Will you think about it? You're (Warren) not going to be a professor after the first of January.

All right.

White: There was that November 28 statement, if it meant anything.

H.M.Jr: Oh. Report of International... - net inflow of capital, 21 million.

Williams: (Distributing copies of attached Memorandum to Secretary Morgenthau) This is a very short statement and pretty limited, but it pretty well indicates what we talked about, and I think it indicates where we came out.

(Group reads memorandum)

H.M.Jr: Who wants to talk to this memorandum?

Williams: Well, I don't - in the first place, I'm not sure - I wrote it up at the last minute - whether we all agree that that is where we felt the main emphasis to be. Some of these points we really didn't care for very much. For example, 1 under Roman numeral II, the loan of gold or dollars against gold, we all felt would be inadvisable, temporizing with the situation, and there is a rather bad history behind all that sort of thing anyway. I think we all felt that that wouldn't be advisable.

Then as to Roman numeral I, number 1, technical measures to curb speculation, perhaps Archie would know better than any of us whether it is possible to go much further along that line. They have done certain things yesterday and it seems to have had a salutary effect. But it's probably pretty limited, isn't it, in its effect?

Lochhead: Well, they haven't got the same legal powers, for instance, as we would have to deal with that. They probably could go further than they have now through certain other steps; probably could get the banks to

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cooperate. But after they get to a certain point, they will meet opposition that will defeat its own purpose.

Williams:

Then Roman numeral I, number 3, the suggestion of a committee to supervise capital exports, it seems to me is thoroughly in the tradition of the British. They can do things informally. And perhaps the fact that they are dealing with a smaller number of banks would suggest this type of thing. But I think Mr. Butterworth feels quite differently, that it wouldn't work, owing to the fact that these funds are non-British funds and it would be pretty difficult for the British to impose limitations on the outgo of that kind of money; and that seemed to me to have a good deal of force behind it. If we reached the point where British capital was taking flight, that would be another matter and I would think pretty favorably of this kind of thing before going into the more drastic and probably much more difficult controls of hot money, such as tax measures and so on, on which we have always had a lot of difficulty when we have talked about it. Perhaps the British could accomplish a good deal in this informal way. I recall that Fred Kent at one time was undertaking a somewhat similar function here; probably work better in the British market than in ours.

But the recommendation seems to me at any rate to come down to two main points. One is the gold export policy. Now, aren't we confronted by the fact that the British have taken in far more gold in connection with inflowing funds than they have yet been willing to give out? I hear statements now to the effect that the equalization fund's supply of gold is being exhausted, and you get the suggestion that the British either aren't able to go very much further or they don't feel that they should. It seems to me there is a subject that might well be explored.

There is a lot of technical ground to be covered: Just what is the best way to restrain the movement of the exchanges? Is it better to follow it little by little, or is it better to confront it boldly and spend a lot in a short period of time and give the impression of stability, or even put the exchange up somewhat, so that the psychology will be on your side rather than against you? It is, I think, a very fruitful

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field for discussion; it could be entirely sympathetic and we might all learn something by it, we as well as they.

And then the other main point, the main point under cooperation, seems to me to be the use of a fund for supporting the currency or even putting it up. Now, of course, that would have to be, I suppose, on the assumption that you were dealing with a very temporary situation. It would also have to recognize the possibilities of loss. There might be some political repercussions. On the other hand, if you put sterling up or interfered with its going lower, there might be a very favorable reaction to that, that something had been accomplished to overcome this fear that so many people now feel as a result of declining sterling - agricultural interests, for example, and so on. The amount of the loss, I think, would not be very great as measured against other sums that we have to spend in one way or another. I think the risk is really rather small and could be definitely limited.

But I think the chief feature of such a measure would be that it would bring cooperation out into the open. It implies a certain amount of obligation upon the British. It must be based upon an assumption that we both share that it is undesirable to see sterling going down and that there is no economic justification for it, and I think it would be very desirable to bring that out.

So that those seem to me to be the two points, and I think that's the right order for these two points, the gold policy coming first and this after.

Now, if they feel that - if they have good reasons for not letting gold go, if they think it would have bad effects, then there is this other. But it seemed to me that that gives you a definite program for discussion.

H. A. Jz:

well, I can see, if they're still taking more gold and they're losing it, their net position is still gaining, it's a good point to argue with them, and it might or might not have some effect. I mean say, "Well, what are you worrying about? Your net position is, you're still gaining."

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When it comes to joining them in buying paper currency, I'd be very reluctant to do that. I mean I - thank heavens - I had the job of liquidating what was left of the Farm Board; that left its mark on me forever. And I see this administration doing it now in so much a bigger way - I mean this loan - what we got, eight million bales of cotton now that we've got loans against?

Hanes: Ten million.

Taylor: Ten, yes.

H.M.Jr: Whatever it is, it's just a bottomless pit. And we once owned five million dollars worth of sterling and, believe me, it's a hard piece of merchandise to sell. It took us about a year to sell it. So I'd go into that very, very reluctantly, because I don't - well, it would be just putting a corn plaster over the wound, and I think the wound wouldn't heal or it wouldn't even help it heal.

Stewart: May I say, Mr. Secretary, I'm in complete agreement with you rather than with the advisers on that point; I had an exception on this. I agree completely with you. I wouldn't touch it. I wouldn't have any form of joint account on this basis, because I think even if you took the most favorable view, the magnitude of money that one would be prepared to risk is too small to have any effect; it therefore takes on the character of a gesture, the failure of which is serious to both parties.

H.M.Jr: I'm not afraid to lose money if it's worthwhile; but as I say, I saw what the Farm Board was, I've seen what agriculture is doing today with cotton, and I - I was only Governor of the Farm Board five weeks, I think, but that was enough. I mean my - everything - all my instincts rebel against dealing in paper currency.

White: I ....

H.M.Jr: Let me just finish. Now, after all, we get back - we believe that this money that's coming over here is not British capital, it's flight capital. And as I say, I'm willing to do all of these things - I

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mean as to talking to the British that they should be more aggressive and all that. We're doing that. I don't think over a long time it's going to do any good. I think the trend is against us, against them, against the pound. I may be wrong, but that's what I think.

But when we get through, as I see the thing, it's this flight of capital that's here, and I wonder if we can't go back and reexamine everything that we have studied in making it very unpleasant for that kind of money to be here, and just begin to pile on one kind of - if you talk of an incentive tax, if you can get the word for a penalizing tax, whatever - something to penalize these people that want to put their money here, make it just as unpleasant for them - just begin to pile one thing after another on these people that want to put their money here, and let them know in no uncertain terms, "As far as this refugee problem is concerned, you keep it at home." And I'd like to raise the point of reexamining that whole thing all over again to see what we can do to make it unpleasant for these people to keep their money here.

Now, that's the money that's bothering us; it's those people that are selling sterling and buying dollars and converting into gold and bringing it over here.

Lochhead: And selling the gold after it gets here.

H.A.Jr: And then selling the gold after they get it over here. And one suggestion I'd like to make is that we study that.

Gold'r: Well, I think, too, Mr. Secretary, that that's the most fruitful field for the immediate program.

H.M.Jr: Pardon?

Gold'r: I think, too, that that's the most fruitful field - thing that you can do. I agree entirely with Mr. Stewart about the futility of a joint account, and so does Butterworth.

H.A.Jr: Well, may I just say one thing a minute. It immediately puts me in the most embarrassing position that

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I'll do it for England but why won't I do it for France?

White:

There is a very excellent reason. I think there is something that should be presented on the other side, after it is made clear that those who felt there may be some advantage in considering that were divided among themselves. I think John was of the opinion, I know definitely I am of the opinion, that it should be undertaken only if the maximum loss was known ahead of time and determined ahead of time; and it could be determined ahead of time in a very different way than in any of the other enterprises that you happen to mention, so you would know what you were letting yourself in for at most to start with; and that a further preliminary condition of any such undertaking would be a complete satisfaction on your part that the English were desirous of maintaining that rate and were competent of maintaining that rate in the future during which this thing would last. It couldn't be a positive thing, but you could fairly well be certain. And the amount that you could set up, if you adopted the principal of having sort of stop-losses, if you like, could be very large and could be very effective.

Wayne Taylor believes that you couldn't go in with a stop-loss, have to put in as much as you decide and have to use it, all without that stop-loss. I think that's his position. But I think if there is a preliminary understanding that (a) they want to stop it - you have to be convinced of that - and (b) that there was some reasonably good possibility that they could; and (c) that there was a stop-loss arrangement, which can be quite simply arranged, I think that it has much to be said for it, if in addition to the other measures you have already suggested.

H.M.Jr:

Well, Harry, I'd put it at the end of the road, because in dealing with somebody - I mean every instinct I have rebels against it.

White:

I know it's a risk, it's an unpleasant alternative, but the alternatives might be worse.

H.M.Jr:

well, if you don't mind - I mean we're all human, we all have feelings, and what I say is take that thing and all I say is put it over here at the end of the

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desk and let's start with something else. I don't say knock it off the desk; just put it at the last.

White: I merely want to present that there was another side to it.

H.M.Jr: I know you can wrap it up with pink ribbons - "We're not buying their cotton, we're lending money against it" - but don't let's waste more time. All I'm saying - I'm not discarding it, but I would put it at the end of the road and see if we can't think of other things which would be more palatable to me.

White: Well, I think the suggestions which are being made are just exactly those which you are following and which have been recommended. That is, you are bringing mild pressure to bear and increasing its strength. That's going forward. If that is successful, why, obviously nothing more is required. When we get additional information, which you will get Thursday and Friday, as to the extent of their gold losses and their capital position and gold holdings, you'll be in a little better position to be able to discuss with them whether they feel they might lose more gold or whether you feel they have been doing as much as they can. That will cover that point. Then there is the third suggestion which was made, for a reexamination of hot money.

But that all leaves you with the position, supposing none of these are successful and still sterling continues to decline; because these things are going to take time. If it doesn't decline substantially, you have no problem; that's fine. But if it does decline sharply, then I think you are confronted with another problem, and that's the problem that the gentlemen here wish definitely to avoid considering, which I on the other hand feel would be well worth getting their opinion on, always with the understanding that it's an "if" you're confronted with that situation and that you don't intend to apply any of those drastic measures unless the situation is such that you feel it is called for.

But for them to go away - and that was the tenor of this morning's discussion; they did not want to consider any of these drastic measures on the ground

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they were not in order at present. That's completely granted, but I think you want to get ahead of it.

H.M.Jr: Well, let me ask these gentlemen this question now. We've taken a look at this thing as it is of today. We've brought you up to date. I'm always very hesitant about asking them to come down too frequently, because I know they've got lots of other responsibilities. If over the next week or so this thing again becomes very weak and we find ourselves not being able to talk the English into doing anything more, would you people be willing to come down again within a week or so? Do you see? And in the meantime we could dig out everything we've got on hot money and repolish it and take a look at it, and have it ready for you, do you see?

Williams: Were any of those measures, Mr. Secretary, of the kind that could be put into effect fairly promptly?

H.M.Jr: I think so.

Williams: I have ...

H.M.Jr: I think so.

Williams: I have long thought that that is the answer to the international problem. We used to think of it in trade terms, but it's become a short-term capital movement problem primarily; I've felt that for a long time, but I've never had any very clear idea of what could be done, and it never got beyond the stage of discussion before, as far as I know.

White: We spent about six months ...

H.M.Jr: Supposing we get it all out and repolish it and then if this thing gets steadily worse I get in touch with you people and ask you if you'd come down again, see. Be all right, Warren?

Warren: Yes, sir.

H.M.Jr: Would it ...

Stewart: (Nods yes)

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- H.M.Jr: And we'll follow these suggestions. I'd like a memorandum, Harry, that I could use the next time I see Bewley; or we can wait until it comes in - if we can show that their net gold position is still increasing, be a talking point.
- Taylor: Well, there's a misunderstanding about that.
- Williams: No, we didn't mean that.
- H.M.Jr: What's that, Wayne?
- Taylor: Said that during about a three-year period, or whatever it was, why, they gained a great deal of gold, and until they lost what they gained during that period.....
- H.M.Jr: well, certainly another week will show whether these two talks or three talks we've had are going to have any effect. He's going to bring back another answer Thursday or Friday.
- You have all the hot money stuff, have you?
- White: I'll put it together, bring it up to date, and we'll have something for a week or so which will be a summary of what was gone over. And it must be remembered that at that time there was no completely satisfactory conclusion arrived at, but we did a great deal of work on it.
- Taylor: And there was none that was even moderately satisfactory that did not require legislation.
- H.M.Jr: Well, Congress isn't so far off and ...
- Taylor: Yes.
- H.M.Jr: .. and if by next Monday or Tuesday the pound is very weakish, you might expect a telephone call and we'll take another look at it.
- Now, before we break up, let's go around. Wayne, do you want to say something? Want to leave it the way it is? What? Got anything?
- Taylor: (Nods nothing)

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H.M.Jr: Mr. Stewart?

Stewart: Nothing to add.

H.M.Jr: Goldenweiser?

Gold'r: There is just one thing I'd like to say, and that is - probably it is implied in some of the things that have been said, but I think that an important thing to find out definitely is where the British want the pound. Where do they want it? I think they ought to be able to give you a clearer indication of it than - maybe you have it, but I haven't got it from anything I have heard here. Are they satisfied to have it go down lower, or are they just as reluctant to have it decline as we are? I'm inclined to think that they don't want it to fall, but I think it would be a good thing to get as much commitment on that as you can. We feel - I think we all felt that for the short run the pound is now low, that there isn't any - need be no expectation of it going down in the short run, and that probably they don't want it to fall. But I would be awfully glad if that attitude of theirs was clarified further.

H.M.Jr: Well - and would you also, your own staff who have set in on that hot money thing, take a look at it?

Gold'r: Yes, sir, we'll do that.

H.M.Jr: Dig up the old hot money and take a look at it.

Gold'r: Yes, sir, we'll do that.

H.M.Jr: Maybe you could get in touch with White and compare notes.

Gold'r: Yes, sir, very glad to.

H.M.Jr: Would you do that? Because you people did a lot of work on hot money.

Gold'r: Yes, we'll be very happy to do that.

H.M.Jr: I just would like to speak of one thing that I would be very reluctant to do at this time - is to use that

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hundred percent reserve against foreign capital, because I think it would be a mistake at this time from the standpoint of the Fed to bring up the reserve question. I'm just throwing that - you may disagree with me, but I'd hate to see the reserve thing brought up at this time. Wouldn't you?

Gold'r: Well, if you mean at this time - you mean within the next few days?

H.M.Jr: Next month.

Gold'r: Within the next month. Yes.

H.M.Jr: I just - maybe I'm wrong, but I'm just - I mean that's a device that I haven't got very much confidence in. I mean it penalizes the banks and not the owners of the hot money.

Gold'r: It's not a very good device in the hot money scheme anyway, because all they need to do to escape that is to transfer their money to some other short-time stuff.

H.M.Jr: Well, transfer it to a private bank.

Gold'r: From a hot money point of view, there isn't much in it.

H.M.Jr: They could put it with J. P. Morgan.

Lockmead: They could buy Treasury currency and put it in the vaults.

Gold'r: It isn't a good hot money device.

H.M.Jr: All right. Anything else, Dr. Goldenweiser?

Gold'r: No, sir.

H.M.Jr: Butterworth?

B'worth: No, sir.

Williams: I have nothing at all.

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- White: I just have a memorandum here that - it's the summary of the London commercial attache's report on the effects of sterling depreciation on American export trade. They made a very lengthy study, and presumably very comprehensive.
- H.M.Jr: Have a copy made and send it to each one of these gentlemen, will you?
- White: Yes. It merely indicates varying levels of what they thought the loss in trade to American exports would be, and according to their estimates it's very substantial, if it should go down.
- H.M.Jr: Well, have copies made and mail them to each of these gentlemen.
- White: I'll do that.
- H.M.Jr: Anything else?  
Dr. Warren?
- Warren: Just one footnote to Mr. White's remark about the unwillingness of the group to discuss these very drastic proposals at this time. I think that was because they were drastic and because everyone felt that they would like to have a little more time to think about them, that there was not an immediate emergency and that I don't think very many of us felt prepared to offer an opinion on a drastic proposal immediately.
- H.M.Jr: You and I both. But I'm fearful that we're going - that the thing is going to get worse. I'm very discouraged, very discouraged. I mean I think the whole trend is against us.
- Warren: But it may not be as precipitous as it has been, let's say, for the last two weeks, which means that we do have perhaps a certain amount of time to think them over.
- H.M.Jr: I think that's right, but I - in these times...
- Warren: I hope it's right.

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H.M.Jr: I hope it's right too, but in these times - I mean for sterling to jump up and down two and a half cents a day is very unhealthy.

Anything else?

Warren: No, sir.

H.M.Jr: Thank you.

Archie?

Lochhead: I think we've gone as far as we can today.

H.M.Jr: Johnny?

Hanes: I have nothing.

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

Preliminary Draft of Proposed Letter to the President

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. 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.

If we do not accept gold, smaller countries may likewise restrict the inflow of gold. 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 agreements. The cushioning

- 2 -

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.

11/29/38

November 29, 1938.

MEMORANDUM

To: Secretary Morgenthau

In dealing with the problem of sterling there are three possible lines of action, independent British action, cooperation between the British and ourselves, and independent American action. We all feel that it would be premature to consider at this time any measures of independent American action. Such action, we feel, is bound to be drastic and to represent a virtual breakdown of attempts to deal with the problem in a sympathetic and cooperative spirit. This memorandum, therefore, deals only with measures that might be taken by the British independently or in cooperation with our Treasury.

The measures which are here suggested are based on the assumption that there is no economic reason for a further decline of sterling, and that with the continuance of our recovery, sterling should by next spring find support through a more favorable British trade position.

The following measures are listed merely as a basis for discussion. At a later point in the memorandum we will indicate those which impress us most favorably.

I. Independent British Action.

1. Technical measures to curb speculation, of the same general character as those taken November 28.
2. A more vigorous gold export policy by the British Equalization Fund.

We see no reason why this subject should not be discussed with

- 2 -

the British informally. It raises such questions as the amount of gold available, the amount which the British are willing to give up, whether it is better to follow sterling down gradually, or to attempt to keep it steady or even to raise it.

3. Informal supervision of short-term capital exports from London by a British committee on exchange.

This would involve informal cooperation between such committee and the English banks designed to favor trade transactions and to restrain short-term capital movements.

4. Other steps to control outgo of "hot" money.

II. Cooperation between the British and ourselves.

1. Loan of gold or dollars against gold.

2. Operation of exchange fund for joint account, without conversion into gold.

3. Exploration of possible joint action on "hot" money.

Of these various measures, the ones which find most favor among us are I - 2. The British gold export policy, and II-2. Exchange operations for joint account. We feel that these two should be made the subject of a more extensive memorandum.

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CA

Gray

PARIS

Dated November 29, 1938

Rec d 7:17 p.m.

Secretary of State

Washington

2016, November 29, 7 p.m.

FOR THE TREASURY

Confidence that the Government will maintain the upper hand in the general strike called for tomorrow was again manifest today in the strength of the franc on the exchange market and in the good undertone of the security market. Sterling opened on the unofficial market this morning at 178.58 and gradually receded to 178.54. It opened at this rate on the official market and is now 178.48. The dollar is at 38.35, after 38.48. The fund has been able to acquire very substantial amounts of sterling. The forward rate for one month sterling fell to 30 centimes and to 1.75 centimes for three months.

On the security market all Government securities were in demand and rentes gained from 30 to 60 centimes. Other French securities were firm.

The Parise Bourse and all banks will be open for business tomorrow as usual.

The press today publishes a semi-official statement  
denying

CA

--2--2016 from Paris

denying rumors that gold shipments were made on Saturday last. It is stated that on the contrary entries of gold continued at a satisfactory rate.

END SECTION ONE

WILSON

EMB NPL

CA

Gray

PARIS

Dated November 29, 1938

Rec'd 7:32 p.m.

Secretary of State

Washington

2016, November 29, 7 p.m. (SECTION TWO)

The impression seems to prevail in many quarters here that the Anglo-American commercial agreement contains a secret clause providing for a lower rate for the pound and that this accounts in large measure for the continuation of pressure on sterling. Many financial writers contend that if this impression was dissipated the rate would immediately move upwards.

Financial quarters are closely following reports of steps that might be taken at Washington to halt the flow of capital from Europe and it is thought that new fiscal measures are being considered in this connection or that the Government may propose modification or cancellation of the Johnson Act.

AGENCE ECONOMIQUE this morning carries a telegram from its New York correspondent to the effect that Secretary Morgenthau refused to discuss rumors that the authorities at Washington were studying the possibility of a further devaluation of the dollar. This paper also published a story quoted from the International News Service that the Washington Government is  
actually

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--2--2016 from Paris Section 2...

actually considering a new devaluation of the dollar. The statement appears that "In reliable quarters it is believed that the Government has instructed its experts to study the possibility of an increase in the price of gold to 41.34 dollars per ounce."

Such rumors are being considered with caution and reserve here. JOURNÉE INDUSTRIELLE observes in this connection that Paris is becoming accustomed to devaluation reports from the United States and suggests that they are now regarded as "instruments of pressure, in one direction or another, and very useful under certain circumstances."

(END SECTION TWO)

WILSON

HTM NPL

HRE

GRAY

PARIS

Dated November 29, 1938

Rec'd 7:06 p.m.

Secretary of State

Washington

2016, November 29, 7 p.m. (SECTION THREE)

The account of interviews given to the editor of the LONDON FINANCIAL TIMES by Paul Reynaud and Blum published today is being given some notice. The Minister is quoted as expressing the belief that as far as his measures of financial construction were concerned no other workable alternative could be produced. Blum is quoted as having insisted upon the necessity of exchange control in France.

Statistics were published today regarding the project of the 1939 budget. Appropriations of the ordinary budget total about 66,317,000,000 francs and estimated revenue about 66,345,000,000. The special armament and public works budget totals 28,400,000,000 francs of which 25,551,000,000 are earmarked for armament. It will be recalled that resources for this special budget are provided almost entirely by loan issues. The memorandum of the Government which accompanies the budgetary project is mainly a repetition of the general report which was attached to the recent decree laws. A comprehensive summary of this general report was

embodied

HRE

2-#2016 From Paris Nov 29, 7 p.m. (Sec 3)

embodied in the Embassy's despatch 3272 of November  
15, 1938.

(END MESSAGE)

WILSON

NPL:ROW

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: November 29, 1938, 6 p.m.

NO.: 1370

FOR TREASURY.

One. In reply to a question in Parliament this afternoon Sir John Simon announced that the Government would bring in legislation next year to provide for additional borrowing for defense. He said that the problem was not immediate because pounds 220,000,000 of the pounds 500,000,000 provided for in the Defense Loans Act would still be available after the end of present fiscal year March 31st and that he could not anticipate the budget or mention figures but that he made this announcement to remove uncertainty as soon as possible. Incidentally, there have been many suggestions in the press from the TIMES to the HERALD and in the financial dailies that the budget should be anticipated to the extent of a general statement by the Government on the policy for financing the armament program because uncertainties breed hesitancy in home business and foreign mistrust of sterling. The statement was received with cheers and some home industrial securities gained in the street market as a result.

Two. The dollar opened at 4.65-1/4 bid and after going quickly to 64-7/8 jumped to 66. It was later bid from New York and the market detected sales of dollars by the New York authorities at 65-1/8. It is the belief of one exchange

- 2 -

exchange source that this morning dollars were bought by the British fund at 4.66 to 4.66-1/4 in a roundabout way. A number of other dealers believe this also, but it has not been possible to trace or confirm this. The rate now stands at about 65-1/2.

Three. 361 bars of gold were sold at the fixing at 149 shillings 3 pence giving a premium of one penny at 4.66; 65 bars were married the remainder being provided by the British fund.

Four. The franc has been strong all day with the Bank of France buying sterling heavily at 178.55 and later at 48 and the three months' forward rate was bid up to one and three-quarters.

KENNEDY.

EA:LWW

Kunming, Yunnan,

29th November, 1938.

The Honorable

Secretary Henry Morgenthau, Jr.,

Treasury Department,

Washington, D.C.

Dear Mr. Secretary,

I enclose reports typed from notes just received from Dr. Buck.

Respectfully,

*Enid Saunders*

Enid Saunders  
Secretary to Dr. Buck

DVII  
RECEIVED VS  
RECEIVED VS CONFERENCE DIVISION

RECEIVED

DEC 28 1938

TREASURY DEPARTMENT  
Office of the Secretary  
Technical Assistant to the Secretary.

## I N D E X

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Lanchow, November 12th, 1938

To Secretary Morgenthau

From J. Lossing Buck

RUSSIAN INFLUENCE IN NORTHWEST CHINA

It has been difficult to ascertain the character of the Sino-Russian relationships in Northwest China because it is veiled everywhere with so much secrecy. Until yesterday I failed, in spite of many attempts, to obtain the number of Russians in Lanchow. Fortunately at a dinner in my honor by University of Nanking alumni I met the Commissioner of Foreign Affairs, who offered to explain everything to me on the basis that so much secrecy has led both Chinese and foreigners to exaggerate Russian help and influence; he stated that in reality Russian help has not been very much.

I am also wiring you through Campbell the following statement, which is a general summary:

November 14th, 1938

Foreign and Chinese visitors to Northwestern provinces only allowed by official permission as Russians desire secrecy and Chinese also interested controlling extension Chinese Soviet influence. Chinese official attitude here welcome Russian assistance but not their political faith and precautions taken by keeping Russian aviation corps in supervised guest houses. Russian official attitude is China not giving enough in return. Average number of Russians Lanchow one hundred forty, size of guest houses gives credence to this number. Russians only permitted by Chinese to trade with Chinese government, otherwise they curry favor by offering favorable prices purchased products.

Kuomintang three months political schools Kansu have trained 2500 teachers students. Generalissimo's so-called Blue Shirts organization very active here. Kansu is a battlefield of political faiths with Kuomintang apparently well in the lead.

Commissioner Kansu foreign affairs states British former plottings turned Governor of Sinkiang to favor Russians. Russian influence Sinkiang apparently great. Governor of Sinkiang permits no foreign or Chinese visitors with exception of Chen, the Kansu Commissioner Reconstruction Bureau, who visits Sinkiang often and who negotiated Sino-Russian barter agreement. Chen urging Chinese government build railroad Russia to Lanchow and possibly Szechuen and Paochi terminus Lunghai railway. Distance Russia railroad to Paochi two thousand seventy miles. Chen's suggestion China supply labor, Russia materials and United States equipment as credit to Russia. Mine concessions possible. Commissioner Foreign Affairs also desires American investment Northwest China to balance influence and states Russians are not in position to oppose.

I have been warmly welcomed and was only foreigner present and on platform at ceremony Sun Yat Sen's birthday, November 12th. I am favorably impressed with new Kansu officials, all from South.

Central Government control silver gold collection and prices evident here.

J.L.B.

Lanchow, November 15th, 1938

To Secretary Morgenthau

From J. Lossing Buck

UNOFFICIAL INTERVIEW WITH COMMISSIONER FOREIGN AFFAIRS

In addition to the items contained in the above cable, some further details of the interview will be of interest. The Chinese complain of the suspicious attitude of the Russians, but the Chinese are also suspicious. My informant stated: "The Chinese Reds strongly demanded extension their territory to Lanchow, but were met with flat refusal. At present they are trying to extend their influence westward into eastern Kansu, but the effectiveness of the cooperation of the Farmers' Bank has won the farmers to the Kansu government rather than to the Communists.

"The Chinese Reds are doing all they can to strengthen themselves and to extend their influence. They are not doing much fighting now. There was an attempt on the part of the Russians to supply arms directly to the Eighth Route Red Army, but this was prevented, and the Russians were told that all arms must go to the Central Government for distribution.

"We are very vigilant in preventing sales of communistic literature, and the New Life Book Company, which publishes such books, has stated that Kansu is the most reactionary of all provinces.

"Six Germans have just come to Lanchow. We know the Russians don't like it, but we feel that if we keep people out it will only create more suspicion of the extent of Russian influence.

"There are several military and political training schools in Kansu, under the Whampoa cadet influence - the C.C. corps - in other words, under the Generalissimo. The so-called Blue Shirt organization, which in reality is not Blue Shirt, as named by certain foreign writers, is strong here. It is true that it is the Generalissimo's organization. It is not a fascist organization.

"The Russians here are permitted to go to the shops to make purchases. They are especially fond of buying watches and leather goods, as their government permits them, as volunteers, to bring them back into Russia. The shop keepers have been informed that they are only to talk business with the Russians, and since they are here to help China, not to ask a higher price because they are foreigners." (During the seven days here I have seen about thirty Russians in all on the streets, or in motor cars. J.L.B.)

"The Mohammedan generals are a problem. Their forces are not very strong and even fear a Japanese attack via Ninghsia to Lanchow. However, the relationship with the Mohammedans is improving. The 191st Division of Central Government troops is being sent to Ninghsia, and as the General happens to be a Mohammedan, the Mohammedans will accept him. The 87th Division of Central troops is being sent to east Kansu. Some of the old Kansu generals in charge of divisions are being promoted so as to give an opportunity for the Generalissimo's men to train and control the divisions."

Lanchow, November 9th, 1936

To Secretary Morgenthau

From J. Lossing Buck

INTERVIEW WITH CHEN TE-CHENG, COMMISSION OF RECONSTRUCTION

Mr. Chen was formerly in charge of the Division of Roads of the National Economic Council. He received his training in America, and had practical experience with the American Bridge Company. He did commendable work in the road development of China.

The most important point is Chen's interest in building a railroad connecting Lanchow with the Russian railroad, and his suggestion that the equipment be from the United States on credit to Russia. Chen would like to see such a railroad extended into Szechuen. American participation would help to prevent exclusive Russian influence and would be welcomed by the Chinese. It is a proposition worthy of consideration. Chen suggests mine concessions in Sinkiang if necessary, and is interested in the development of such mines.

In Kansu he has macadamized the Lanchow-Sian road to Pingliang on the Lanchow side - about one half the distance. He has also been in charge of the new road west of Lanchow through Sinkiang. Not more than one-tenth of this road is macadamized. It is entirely an earth road through Sinkiang. He describes the road as "passable". This I judge is a good description, as one-half the distance from Lanchow to Liangchow is still an old cart road, and it takes two days to travel the distance of 160 miles. From Lanchow to

Sinwingsis is a distance of 711 miles. Sinsingsia is a border town of Kansu and Sinkiang, and is the place where the Russians take delivery of the Chinese wool. It is apparently the border for Russian entry into China.

At Harmi over the border in Sinkiang is a big assembly aircraft plant and also a training center for Chinese pilots.

Chen is building a new road along the Yellow River to Sining, the capital of Tsinghai, which will shorten the time by one day over the present road. Another road is nearing completion to connect with the road from Sian to Chengtu. This road is via Tienshui, and meets the Chengtu road near Paochi. Chen is interested in a direct road to Chengtu from Lanchow, but it must pass a difficult mountain.

Chen states only handicrafts and small scale industry can be developed in Kansu under present conditions, and some effort is being made in that direction.

Lanchow, November 10th, 1938

To Secretary Morgenthau

From J. Lossing Buck

#### THE KANSU MINT

The Kansu Provincial Mint was closed by the order of the Central Government when the managed currency system was adopted. It has now been reopened for the minting of the national one cent copper coins. The machinery is antiquated, but by ingenuity a coordinated plant is now in operation with a production of 150,000 coins per day. I attended the inspection of its first day of operation at the invitation of the Commissioner of Finance. About fifty people were invited, and the Governor also attended. This is another instance where the Chinese have done the best possible thing with the means at hand. The crucibles are of American manufacture, and more are needed.

Lanchow, November 10th, 1938

To Secretary Morgenthau

From J. Lossing Buck

#### WOOL WAREHOUSE

Today I visited the wool warehouses of the Foreign Trade Commission. New warehouses of economical but good construction have been erected on the edge of the Yellow River, where much of the wool is delivered in rafts of bullock skins with wool packed tightly inside. The wool is dried in the sun on the bank of the river, and then carried to the warehouse. I saw thirty men packing sacks of wool to be carried by camels. A bunch of sacks was packed ready for shipment, and just before I left the camels came up for loading. I also met there the Russian wool expert who inspects the shipments. The sacks are made up at the warehouse from sacking imported from Russia.

I was favorably impressed with the outfit. I expect to be able to send photos later.

Lanchow, November 11th, 1938

To Secretary Morgenthau

From J. Lossing Buck

WOOL FACTORY

Today I visited a wool factory operated by the military for woollen blankets for soldiers. The factory has been out of operation for ten years. Most of the machinery is 62 years old, partly German. The output is eighty blankets per day. The quality and colour are good. The significant thing is that the factory has been put into operation under great difficulties, as some of the machinery had been removed.

Lanchow, November 12th, 1938.

To Secretary Morgenthau

From J. Lossing Buck

INTERVIEW WITH MR. KU, PRESIDENT OF THE KANSU PROVINCIAL BANK AND OF THE FARMERS' BANK, AND WITH SEVEN OTHERS IN CHARGE OF COOPERATIVE LOANS TO FARMERS

Mr. Swen, graduate of the two year agricultural course of the University of Nanking, did excellent work for the University in organizing 2,000 farmers into farmers' unions and in organizing cooperatives at Wukiang, 110 miles from Nanking. He uses his farmers' organization to obtain or preserve the rights of farmers, and he had opposition from the Wukiang magistrate but won out with the backing of the farmers in threatening the magistrate with a lawsuit.

Mr. Swen has even increased his energy in Kansu, and with Mr. Ku's cooperation 5,600,000 yuan have been loaned to Kansu cooperatives during the past year. He states loans are being returned on time, and both Swen and Ku feel cooperative work is feasible and successful in Kansu. A good crop this year facilitates such refunding. Farmers in Kansu hitherto have only known officials who have "milked them dry" so they are surprised that any government would help them. This cooperative work is checking the spread of Communism in eastern Kansu, and Communists themselves state they have never heard of Kuomintang people working so hard. Cooperative organizers walk instead of riding horses, so that they can be one with the farmers. Communist organizers ride horses. These cooperative loans appear to be a definite method of forestalling Kansu going Red.

The head office of the Farmers' Bank feel that Ku and Swen are proceeding too rapidly, and fear the loans will not be repaid. Swen and Ku out of experience have no fear in this respect, and are chafing because of the checks from the head office. Swen is a remarkable man, and very energetic.

Lanchow, November 12th, 1938

To Secretary Morgenthau

From J. Lossing Buck

CELEBRATION OF SUN YAT-SEN'S BIRTHDAY

I was invited by the Commissioner of Foreign Affairs to attend the ceremony for Sun Yat-sen's birthday. The affair was held on a drill ground. About 18,000 people, representing various groups, were present. These varied from monks to sing-song girls who are receiving nurses' training, and were present in this latter capacity. I was invited to the platform with the other officials. I was the only foreigner there. No Russians were present, and the official of the Central Bank who accompanied me remarked: "No Russians would be invited, they belong to another political faith than the Kuomintang." This perhaps best expresses the attitude of many Chinese toward these Russians. They are tolerated for the assistance they give, but their political faith is not welcomed.

The invitation to me to attend this service is an evidence of the cordiality of the Chinese towards Americans. This has also been evidenced by the number of dinner invitations various officials have extended, including the first invitation by the Governor himself. There is every evidence of a friendly feeling.

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Lanchow, November 14th, 1938

To Secretary Morgenthau

From J. Lossing Buck

## GOVERNMENT PURCHASE OF GRAIN

The Central Government is purchasing 2,000,000 yuan of grain from the farmers to prevent falling prices, to accumulate stocks for military purposes, and to absorb surplus resulting from abolition of opium growing.

Lanchow, November 14th, 1938

To Secretary Morgenthau

From J. Lossing Buck

SILVER AND GOLD

Mr. Ku of the Provincial Bank states that silver reserves are about 25 million yuan, but that it would be easy to collect six million yuan from the people. He states that the Central Government price of gold is so much lower than the market price that the price must be raised before it can be collected.

Placer gold is found in most stream beds of west Kansu and Tsinghai. Present methods, as the saying goes, "can keep gold sand washers from starving". There is some feeling that with encouragement the production of gold could be greatly increased.

Lanchow, November 14th, 1938

To Secretary Morgenthau

From J. Lossing Buck

KANSU REVENUES

The Commissioner of Finance states that 70 per cent of Kansu's revenues are from land taxes, and the chief other source is likin taxes which have never been abolished in this province. Land revenues have decreased because there is no good system of land registration here, and now there are 15 million mow of land less paying taxes than formerly. An attempt will be made to remedy this, but registration of land in western Kansu, which is controlled by General Ma, is not feasible, as Ma bleeds the farmers so that they leave the land and seek new lands in Mongolia.

Lanchow, November 15th, 1938

To Secretary Morgenthau

From J. Lossing Buck

LANCHOW

Lanchow is a city of 90,000, at an elevation of some 5,000 feet, and situated in a valley about two miles wide and ten miles long. Surrounding it are barren loess mountains. This part of the province is a mass of loess hills, absolutely barren this time of the year, but mostly cultivated. One sees nothing but gray or yellowish earth everywhere. It is the spring wheat area of China, and now that opium is suppressed, wool, a small quantity of skins and fur, and some tobacco, are the chief exports.

The population of Lanchow has increased from 90 to 120 thousand since the beginning of the war. Prices are high and houses difficult to rent. This is the time of the year when the sun shines every day, so it is favorable for aviation practice.

17

Lanchow, November 15th, 1938

To Secretary Morgenthau

From J. Lossing Buck

## AIR RAID ALARM

This morning I arose at 4:30 AM to take the Eurasia plane to Chengtu. After reaching the airport I was asked to wait. It was still twilight, but I found a surprising amount of activity. After five minutes I was asked to hurry into the bus to go to the plane on the field. The field is a military one. The airport officials asked the driver to hurry, and then I saw the plane taking off. The driver continued driving straight across the field, past training and military planes, and into a gully between the loess hills. I asked what it was all about, and the reply was, "an air alarm". Military trucks and airport guards were going in the same direction. Guards dotted the hillsides. We stopped by a dugout of the aviation company in the loess hills. The hills were full of dugouts and guard stations were along the road. These loess hills afford an excellent protection.

I had a good view of the planes going up, of their smoke screens and their manoeuvres. The largest number of planes which could be seen at any one time was twenty-four. The release alarm did not sound until about two hours later. On my way back I saw thirty planes on the ground, mostly of the training type, and if the edge of the field for its entire length were equally populated with planes the number would run into the hundreds. I think, however, that there is a concentration of planes at that end of the field. As we approached one big plane with a Russian and several Chinese pilots by its side,

one of the airport officials asked the chauffeur to drive faster so that the Russian would not see the foreigner in the car. This is another of several direct evidences I have had that Russians object to the presence of foreigners.

The explanation for the departure of my plane is the air alarm, and the pilot would not even wait for the passengers to reach the plane. I think there was some inefficiency in the office, as the airport officials knew nothing of the raid until one of them was told by the pilot. Apparently a servant had been notified by phone, and when we arrived at the airport he assumed that the airport officials who had come from the city in the same bus also knew. At least I got an impression of the air activities, and now hope there will be a plane tomorrow.

OCT 12 1940

PROSECUTOR GENERAL  
U.S. DEPARTMENT OF JUSTICE

November 29, 1938

My dear Mr. President:

At the request of Dr. Isaiah Bowman, I am sending to you herewith his memorandum, addressed to you, on the subject of Costa Rica. The map, referred to, is being mailed to you, under separate cover.

Sincerely,

(Signed) D. W. Brown

The President,  
Warm Springs, Georgia.

November 29, 1938

My dear Mr. President:

At the request of Dr. Isaiah Bowman, I am sending to you herewith his memorandum, addressed to you, on the subject of Costa Rica. The map, referred to, is being mailed to you, under separate cover.

Sincerely,

*Isiah Bowman*

The President,  
Warm Springs, Georgia.

THE JOHNS HOPKINS UNIVERSITY  
BALTIMORE, MARYLAND

OFFICE OF THE PRESIDENT

November 25, 1938

My dear Mr. Secretary:

Here is a letter and a map<sup>2</sup> for the President.  
You may want to be informed of the one and make a copy  
of the other.

Dr. Pelzer has arrived and is hard at work.  
Within ten days, we shall have a first statement on Africa.

Sincerely yours,

Isaiah Bowman

<sup>2</sup> Map under separate cover

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

COPYTHE JOHNS HOPKINS UNIVERSITY  
BALTIMORE, MARYLAND

Office of the President

November 25, 1938

My dear Mr. President:

I have pleasure in handing you herewith a map consisting of two sheets of the Millionth Map of Hispanic America pasted together to show the whole of Costa Rica and parts of adjacent states. The map should be examined in the light of McBride's telegram and my earlier comment of which copies have been sent you.

The area between 3,000 and 5,000 feet above the sea is marked off by heavy inked lines where the two sheets join. If we include country above 1,500 feet this area would be doubled; and if above 1,000 feet it would be trebled. Settlement would have to be adjusted to all of the elements of the environment and not to elevation only, since some of the higher land on the eastern side of the mountains is too wet and too heavily forested to permit agriculture.

One may get a clear idea of possibilities by looking at the inset in the middle bottom of the map, called the San Jose-Cartago region which is one of the most densely populated areas in Latin America. One observes villages crowded together all the way up to 3,000 feet and down to 400 feet and less. Given an adequate water supply the soil of central and western Costa Rica is highly productive.

I have not spoken of the political difficulties which a large foreign immigrant group would create if planted in this small Latin American country, assuming that Costa Rica is willing to receive them. The effect of such a group upon the state, and the possibility that through the presence of the group we might become seriously involved in European quarrels, are matters upon which reflection is needed. My own feeling is that we keep our position uncompromised in the Western Hemisphere only so long as we do not interest ourselves directly in the importation of European population elements. The moment we do so we are likely to be charged with the importation of an European quarrel into America.

President Roosevelt: 2

November 25, 1938

Even if we are right about such importation from the humanitarian standpoint, we thereby give the other fellow a chance to claim that we are wrong. Do we want to run that risk? Do we wish to confuse our position and dilute our argument respecting the Monroe Doctrine?

Why not keep the European elements within the framework of the Old World? Even if we do not favor migration to Latin America, but allow it, difficulties will arise. If we both favor it and allow it, we commit ourselves to the consequences. These consequences will surely involve us in the rightness or wrongness of acts of the governments of the states of Central Europe.

All this is gratuitous advice. I am forwarding my letter through Secretary Morgenthau, together with the map in question, so that he may make his own independent comment on the contents of this letter.

The African material is now in course of rapid compilation and will be sent the moment it is ready. It will be illustrated with clarifying maps.

Sincerely yours,

/s/ Isaiah Bowman

President Franklin D. Roosevelt  
The White House  
Washington, D. C.

JR

*Confidential*

Tokyo

Dated November 29, 1938

Rec'd 7:10 a.m.

Secretary of State,  
Washington.

755, November 29, 5 p.m.

One. The following statement was issued last night by the Cabinet: "The Cabinet this afternoon decided on its fundamental policy for regulating Sino-Japanese relations in connection with the construction of a new order in East Asia which the Five Minister Conference has been considering."

Two. We have been unable to obtain any authoritative or otherwise reliable indication of the nature of this "fundamental policy", and as we understand that general indications of the character of this policy are to be given out in the next few days, we believe that an appraisal of various conjectures now current would not (repeat not) be helpful to the Department. We learn, however, from a reliable source that the policy is to be discussed in a conference to be held shortly in the presence of the Emperor which if true is an indication of the significance of the policy (SEE our 28, January 14, 5 p.m.).

Repeated to Shanghai for Chungking.

TWC:HPD

GREW

JR

Nanking via N. R.

Dated November 29, 1938

Rec'd 4:56 p.m.

Secretary of State,  
Washington.

189, November 29, 3 p.m.

The opening ceremonies of the "National Peoples Party Congress" were held in Nanking yesterday, with 427 delegates present, chiefly from Kiangsu, Chekiang and Anhwei; the purpose of the Congress was stated to be to work for the establishment of a Central Government for China. Japanese Special Service Section officials were present, reportedly as "visitors".

Following the opening ceremonies Liang Hung Chih delivered a speech; after the usual denunciation of Chiang Kai Shek and Communism he stated that China must join hands with Japan so that peace might be established in Eastern Asia, and that the Yellow Race must unite to resist the aggression of the White Race. He said that there now existed a Reformed Government here and a Provisional Government in the north but that a Central Government for China should be established; he added that the Congress was meeting to exchange views and study the matter so that a Central Government might be established at an early date.

The

-2- #189, November 29, 3 p.m., from Nanking via N. R.

The Congress is meeting again today and the final session will be held tomorrow, when a manifesto and circular telegrams will be issued.

Sent to Shanghai and Peiping.

SMYTH

RR:DDM

REB

PLAIN

Chungking via N. R.

Dated November 29, 1938

Rec'd 7:49 p.m.

Secretary of State,  
Washington.

570, November 29, 11 a. m.

Following is Embassy translation of a leaflet reliably reported to have been dropped at Chungking by Japanese planes during air raid early November:

"Declaration of the Imperial Japanese Government.

The Imperial Army and Navy, manifesting His Imperial Majesty's awe and dignity, have attacked and occupied Kwangtung and the three Wuhan cities to the end that the important sections of China might be pacified. The national Government has fallen and become a local regime. If that Government continues to persist in its anti-Japanese and pro-Communist policy, then the Empire must punish it through armed force, with a view to its destruction. The Empire's desire is to establish a new order with a view to the definite preservation of the perpetual tranquility of East Asia; this is also the final aim of the present expedition.

The creation of the new order, by means of mutual cooperation among Japan, Manchukuo and China, will be based upon

upon

REB

2-#570, From Chungking, Nov. 29, 11a.m

upon the establishment of mutually helpful and inter-related relations along political, economic and cultural lines, with a view to stabilizing international justice in East Asia and to attaining a joint defense against Communism, the building up of a new civilization and the materialization of an integrated economy. This is really an excellent policy for the stabilization of East Asia and an admirable method for the advancement of the civilization of the world.

The Empire entertains the hope that China will also share the work of establishing a new order in East Asia. It is hoped that the Chinese people will realize the true intentions of the Empire, which especially hopes that they will jointly participate in the Empire's efforts. If the National Government abandons its traditional policy, changes its personnel, reforms its character and participates in the establishment of a new order, the Imperial Government will not dare to reject it.

The Empire is confident that various world powers realize the true intentions of the Empire and that they should put into effect the most suitable policy in regard to the new conditions in East Asia. It is especially grateful

REB

3-#570, From Chungking, Nov. 29, 11a.m.

grateful to the allied powers for their cooperative assistance.

But the great work of establishing a new order in East Asia originates in the spirit of the Empire's development in the Far East. To accomplish this task is really the most important and glorious duty of the present day Japanese people. The Empire should decisively make domestic efforts in order to improve its national strength, overcome all difficulties and make rapid progress so that the task may be accomplished. This is the Empire's immutable policy and firm decision. This declaration is firmly made."

Repeated to Shanghai, for Tokyo by mail.

JOHNSON

NPL

B

## GROUP MEETING

November 29, 1938.  
9:35 A. M.

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

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

McReynolds: I have nothing.

H.M.Jr: How do you do, Mr. Bell.

Bell: Good morning.

H.M.Jr: How is everything with you?

Bell: Rushing.

H.M.Jr: Ah -

McReynolds: Dan is still walking with a cane.

H.M.Jr: Why?

Bell: Oh, I sprained my back a little Saturday. It's pretty good this morning.

H.M.Jr: Putting?

Bell: I'm afraid not; if it were that I wouldn't care.

H.M.Jr: When are you and I going to have a little talk before we see this group tomorrow?

Bell: Any time you say; this morning if you want to.

- 2 -

H.M.Jr: No thank you.

George, that's Seltzer - tell Seltzer he's been sending me some good stuff - see?

Haas: O. K. Do you want to see these daily things?

H.M.Jr: Supposing we call the experts at ten thirty tomorrow. That - Mr. Bell, you are a bond expert; you (Mr. Lochhead); Johnny, you want to sit in?

Hanes: (Nods "Yes.")

H.M.Jr: Taylor; George, you bring your boys in.

If the group - you are all so secretive around here - hasn't seen this memorandum of Harris' to me yesterday, and Larry Seltzer's stuff, you ought to circulate that stuff before tomorrow. I have done my home work; I read them all this morning. You be here?

Bell: Yes sir.

H.M.Jr: There are two good memoranda; one is from Larry Seltzer and one from Harris. And - well that's .... (Nods to Mr. Gibbons.)

Gibbons: I have nothing.

Bell: I'd like to talk to you sometime about this proposed advertising scheme that someone sent in, and you asked Mr. Taylor and Mr. Hanes to look it over.

H.M.Jr: All right.

Bell: We can do it this issue?

H.M.Jr: No; they haven't made me a good offer yet, either.

Bell: The letter ought to be answered.

H.M.Jr: All right; tell them, "Thank you."

Gaston: Is that the Albert Frank-Gunther Law?

Bell: Yes.

Gaston: It isn't necessary to answer it; I talked to Howard Allen about it when he was in.

H.M.Jr: What else?

Bell: That's all.

H.M.Jr: You all right?

Gibbons: (Nods "Yes.")

Lochhead: Nothing to add to the early reports; sterling touched a higher level - 4.66; it went down to 4.65½; holding about that level. There seems to be again a considerable amount of sterling in the London market.

H.M.Jr: All right.  
You (Mr. White) won't be ready until ten fifteen?

White: Approximately.

H.M.Jr: All right.

White: There is—the Trade Agreement Committee considered the grant of two concessions, on tobacco and on sugar, to Cuba, and the motion included the statement that the negotiations with Cuba shall be reopened with a view toward modifying the trade agreement if Secretary Hull will agree on these two concessions - sugar to Cuba. And our representatives asked that it be amended. Secretary Hull and Secretary Morgenthau agree, touching particularly on sugar revenue, and that motion passed. Now the question is up. It is as to whether or not you would consider a reduction on the duty of Cuban sugar. The quota is not going to be increased, so that the economics to it is rather simple; it is a reduction in revenue of about six million dollars.

H.M.Jr: Fifteen per cent.

White: And it is an increase of receipts on Cuban sugar in that amount. The only question might be raised in addition to policy, and that's whether there are any legal difficulties in the light of the

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purposes of the Act. That is something that Oliphant's shop might want to clear up.

- H.M.Jr: Did he name any good sugar companies to look into it?
- White: American Sugar Company is the biggest, I think.
- H.M.Jr: London and New York Stock Exchange. (To Reporter:) Put after this that I am joking, please. (Laughter)
- White: We'll make - ...
- McReynolds: It won't be necessary, before you give your decision, for you to ask us all to sell the stocks we have in sugar.
- H.M.Jr: I don't know whether the market could take it. Listen, unless somebody objects, this is one of the times I want to play ball with Sumner Welles, see? And unless somebody's got some awfully good reason, I want to let them know before noon today the answer is "Yes," unless somebody wants to argue about it now.
- White: If the legal Department wants to make an objection ....
- H.M.Jr: They've got till one minute of twelve. If you don't hear from them before one minute of twelve you call them and say, "Yes." We sit around and say, "Let's do something for Central and South America," and Welles says this is terrifically important and he wants to do this. Unless somebody's got some awfully good reason, I want to play ball with them. He says it's a straight grant.
- Oliphant: To whom?
- H.M.Jr: Batista.
- White: Maybe.
- H.M.Jr: I am not - I am not looking behind the scenes; Welles wants to do this, and he wants to do it very, very badly, and he is charged with the responsibility. Unless there is some reason -

this is his show, and this is what he wants.

Oliphant: Either do it, or fire Welles; that's the idea.

H.M.Jr: That's the idea. I don't see why we should fire Welles. If you don't hear by one minute of twelve, you call him up and say, "Yes." This is his show, and you call him and do it. In return for that he's approved the Chinese loan. As Mr. Hanes puts it, he says Mr. Hull, when he hears it, he will have several Peruvians .....

Klotz: Several what?

H.M.Jr: Peruvians. Incidentally, he's coming over at three thirty tomorrow, so you Chinese babies put down three thirty, will you? The President cleared it yesterday.

And will you (Mrs. Klotz) find out whether Jesse Jones is in town? I'd like him here.

Klotz: Three thirty - Chinese.

H.M.Jr: Call his office; get word to him. And tell Mr. Welles' secretary that I am inviting Mr. Jesse Jones to be here at three thirty. So I think that that is - ....

Oliphant: Well, I think we are taking this news so casually.

H.M.Jr: I'll tell you exactly what happened. Welles called me up yesterday, and had three things he wanted me to do for Cuba, and I think we'll be able to do all three. When he got through I told him the story about China; I told him about the President having given his word, and got a satisfactory answer, and Mr. Hull objected, and so forth, and so on. He said, what are we going to do; the President passed his word. The President said if he got a satisfactory answer he'd act. He said, "He got an answer; what are we going to do about it?" He said, "I am going to talk to the President within half an hour, and I'll ask him." He called me back at six o'clock, and the President said, "Go ahead."

He said, "There are a couple questions I'd like to ask, and I'd like to come over and see you

so we fixed it up for tomorrow. But I don't want to say anything about it until I get it. I want something in writing from the President, and I want something in writing from Mr. Welles, but they want to go to town on it. So that's that.

Gibbons: Will it be worthwhile? Will it help the Chinese materially?

H.M.Jr: Oh, it isn't the amount of money, Steve; it's the fact that there is no country in the world today, with the exception of Russia, that is doing anything, and we all sit by here, and we are just driving them in the hands of Russia. We are just driving them in the hands of Russia. There isn't another country that is just lifting them up, and if they say they've got this credit - it is a credit - then they go to England, and the chances are two out of three they'll get something out of England. It will stiffen up the French, and they will be encouraged. What we are doing - what the world is doing, is driving them in the hands of Russia. Everybody is excited about communism; they all sit back and won't help a country that is communistic. The only people giving them any assistance is Russia, and, in turn, they will get plenty. And here we are, building battle ship after battle ship that costs them a hundred eighty million dollars.

I told Welles yesterday somebody's got one chance in ten of never getting paid back; I want you to understand, it is one chance in ten. The situation is, no country in the world is giving them any help except Russia, and in return for that, Russia is just sending their people in and taking control of everything. Is it good business, or anything?

Gibbons: Oh certainly.

H.M.Jr: I am doing it with my eyes open; I am doing it directly. I think if we go ahead, fifty years from now we may be very happy. We have wasted just about a year; we have been talking about this for a year, but all of this talking that's going on in this country about communism and Russia..... This is a concrete example - most of them are fairy tales.

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Incidentally, I want you to send a letter to the Secretary of War and the Secretary of the Navy, including everything - for my signature - that we sent to the President on China; and I want to send one to Sumner Welles, and include everything except their munition needs. You see?

Lochhead: Send everything to Welles except that.

H.M.Jr: Except that; but to the Secretary of War and the Secretary of the Navy, a complete duplicate of what we sent to the President. In the case of the State Department, everything except their munition needs.

(Mr. Taylor)

I spoke to Taylor; Welles said he/wants more information on China, and, he said, from now on we will get a daily report on what they have on China; he said they have been negligent, and have not sent us the stuff; from now on they'll send us everything they have.

White: There is a munitions control board meeting tomorrow. They called me up about it and wanted me to remind you that they want somebody there.

H.M.Jr: Well, I'd like to know what's in that; I'd like Mr. Oliphant to go over it with a fine tooth comb. I will not go to the meeting.

Oliphant: Taylor brought it to my attention yesterday, and I am working on it.

H.M.Jr: If it is all right .....

Taylor: One is tin plate, and the other is helium for Poland, for an experimental flight.

White: There is also a general report that will be brought to your attention.

Oliphant: What is that? Isn't that tomorrow's meeting a third item?

White: No.

H.M.Jr: I want Oliphant to go over it first, and then you represent me.

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Taylor: I gave the stuff to him yesterday.

H.M.Jr: Anything else, Harry?

White: One other thing.

H.M.Jr: Believe me, before we do anything on helium, for Poland, let's see where we are on the last helium deal. I don't see how else they can do the one without doing the other.

Taylor: An individual, scientific flight, this is.

Oliphant: You remember that Board - one of my boys raised a meaty question yesterday that if I were consulted on it, I mean if I were advising you on the legal side of your duties, as a member of that Board, I would say that preshipments to Germany are in violation of that law.

H.M.Jr: Well, anyway .....

Oliphant: I assumed we didn't want to raise that question until the boys could get it this time.

H.M.Jr: Well, I am not going to sign anything that is illegal, with my eyes open.

Herman?

Oliphant: I'll talk it over with White, and Taylor.

H.M.Jr: I won't sign anything illegal, with my eyes open.

White: That report hasn't been prepared yet, but it will be prepared and distributed, possibly, at this meeting, so there will be time to go over those details.

H.M.Jr: If you want to get something ready for that ten thirty meeting, you may be excused. And tell Mr. Kieley there is Goldenweiser, Walter Stewart, and who else? and Warren - we'll be a few minutes late. Ask them if they can wait in Mr. Hanes' room, although they are all right outside; they are all right outside.

Wayne?

Taylor: We've got a problem in connection with the R. F. C. that I wanted to - no immediate hurry about it. It's placing around two million dollars in notes that they want to sell to the Receiver for the Central Republic Bank.

H.M.Jr: Is that an American bank?

Taylor: Yes.

H.M.Jr: Couldn't you clear it through the Banking Committee first?

Taylor: I don't think it - I don't think it had anything to do with the Banking Committee.

Bell: It's financing.

Taylor: Straight financing.

Bell: It's part of the financing - straight issue you got out in November.

H.M.Jr: Could you take it up tomorrow? I mean, I am crowded now. Can you take it up at ten thirty tomorrow? We have thirty minutes. George is going to give us a lecture. Huh?

Taylor: That is O. K.

H.M.Jr: Will you do it then, Wayne?

Taylor: (Nods "Yes.")

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

Duffield: I have nothing.

H.M.Jr: Have you (Mr. Hanes) told Duffield about your conversation with Douglas?

Hanes: No. No.

H.M.Jr: Will you?

Hanes: I didn't have it until last night.

H.M.Jr: Will you?

Hanes: (Nods "Yes.")

Haas: I have nothing this morning.

H.M.Jr: You don't look very well, George, are you all right?

Haas: I've got kind of a half cold.

H.M.Jr: If you don't feel right, take care of it.

Haas: Fine; I will.

H.M.Jr: Why don't you go home today, and be here tomorrow?

Haas: I'll see how I feel at noon.

H.M.Jr: I know how you feel; you'd better go home today, and be here tomorrow.

Haas: All right.

H.M.Jr: My mother used to say, "You look chesty."

Haas: I feel worse than that.

H.M.Jr: Herbert, somebody has been slipping back on us - this story about Chinese going home, and all the rest of it. I told them yesterday .....

Gaston: Sandy Kline called me last night, and I warned him he was likely to make a mistake. I told him I thought this was all wrong.

H.M.Jr: Well, you want to wait?

Gaston: Archie was trying to dig up some of the Chinese today, and I thought perhaps we could stimulate them to put out something.

H.M.Jr: Will you do something about it, because that will hurt them. You get hold of Chen, will you?

Gaston: O. K. Yes.

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

Oliphant: Nothing.

RE DECEMBER 15 FINANCING

November 30, 1938.  
10:30 A. M.

Present: Mr. Bell  
Mr. Harris  
Mr. Hadley  
Mr. Haas  
Mr. Lochhead  
Mr. Seltzer  
Mr. Taylor  
Mr. Hanes

H.M.Jr: All right, gentlemen. Mr. Bell, will you start in?

Bell: I think in this statement I have assumed the least - the maximum financing in December is possible, the minimum, March and June, and that is eight hundred million dollars in December, cash, and five hundred .....

H.M.Jr: How much?

Bell: Eight hundred million in cash. You add the nine forty-two million dollars due in March; you get a total financing of one billion seven; and then five hundred million in each period of March and June. That gives you a balance going out of November with a billion seven eleven; December, two billion four; January two billion one; February a billion nine; March two billion one eighty-eight; April one billion six eighty; May one billion three ninety-seven; and June one billion three ninety-six.

H.M.Jr: Little heavy, Dan.

Bell: I think so.

H.M.Jr: Little rich. I read a memorandum - Incidentally, I want to compliment you, Larry, on those couple memoranda you sent through.

Seltzer: Thank you.

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H.M.Jr: They were good, particularly the one in which you pointed out - I don't know whether these other gentlemen have seen it - the amount of Governments in the open market has been coming - is less, even though our debt is increasing, which I think is very important. Thank you.

Then somebody wrote me a memo that we have still ~~got~~ - Government bonds are sold at least a year or year and a half ....

Bell: That's right.

H.M.Jr: ... on the credit basis, which we haven't used up. Who wrote that?

Bell: That's Larry's memo.

H.M.Jr: How far back does that go?

Seltzer: June - '38.

H.M.Jr: June - '38. We've used it - we haven't sold the money; is that right?

Seltzer: That is right. You still have eighty-one million from December, '37.

Bell: You still have some Treasury bills you sold, but I don't think that that is important, because what you've done is used the cash in the subsequent issues that have been paid in. Now, if you'd drawn from the banks, that earlier issue, the subsequent issues would have been paid for by credit. All you are doing is substituting one credit for another. I don't think that is important.

H.M.Jr: No, but I think, Dan, if we had an objective going out on the first of July, next year, with a balance of a billion, I think that is plenty.

Bell: Well, that all depends on the program. If you are going to run July and August with heavy deficits, then a billion dollar balance will go down pretty low by September 15.

H.M.Jr: Well, yes, true, but you could ....

Bell: If you have a two hundred fifty million dollar deficit in each of the months of July and August, then your balance drops to five hundred million. That is all right, I think, as a matter of policy, but we haven't been doing that.

H.M.Jr: How much are you figuring Hopkins is going to get for the balance of this year - eight or nine hundred million dollars more?

Bell: He probably ought to have around eight or nine hundred million. He will probably spend seven, seven fifty of it.

H.M.Jr: Is that all included in that?

Bell: Yes sir; we have kept the emergency expenditures up pretty well.

H.M.Jr: Well, on the other hand, the market is as good now. Where is my chart on today's Governments? Where is that one - the one you wanted today for me?

Haas: It should be in here.

H.M.Jr: No, that is - that ....

Haas: Six thirty. (Over telephone:) Miss Lundy, there's two charts on the Government bond market to come in to the Secretary every morning; did they come in this morning? I see; all right.

Bell: I am in favor of the eight.

H.M.Jr: Eight.

Bell: I'd be willing to come down to seven; I'm in favor of the eight though.

Lochhead: Stick to the eight in the beginning, Dan, and he'll wear you down.

H.M.Jr: How do you feel, Wayne?

Taylor: I certainly am anticipating we may want to skip a cash offering in March.

Bell: There is a possibility of that.

Taylor: That you pick up your Junes in March, and maybe don't do any cash at that time. I don't say that that will be the thing to do, but I think we ought to always have that thing in mind, so that when we talk about dividing it into three pieces we may very well find we won't be able to do that. That will give you a comparatively big issue in June, which ought to be all right. You can either step up your bills a little bit in March, or sometime during that period, if you want to do it, but I don't think we ought to count, let's say, on half a million - half a billion new money in March in the form of a public issue, which would ....

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

Taylor: No. ... which would lead me to think that you ought to go a little high in cash now.

H.M.Jr: Name a figure.

Taylor: Eight hundred.

H.M.Jr: Of course. Am I right, boys, that since this sterling thing has improved the last day or two, the bond market improved too?

Harris: Yes.

Lochhead: I think you will find a generally better tone around; you can't transmit it to anything else except better sterling, and it makes people feel better. It is transmitted into the market.

H.M.Jr: It made a difference; I mean, the weakness in sterling had a very bad effect.

Lochhead: The disturbing effect was that people don't know what it means, and that makes it disturbing.

Bell: We had a peak balance on September 21 - and, that is, following the September financing. It shows we had six hundred seventeen million, I think, in the Federal Reserve Banks, and that has been reduced to four hundred thirty-five, which is a reduction of three hundred eighty-two million dollars.

We have used a hundred ninety-three million dollars in gold, and the Special Depositories have paid in, in their discretion, fifty-five million dollars. The balance has been reduced by six hundred thirty. If you hadn't had your gold, if you hadn't had your Federal Reserve balances, made largely by reasons of your balances in September, you would have used that Special Depository money which was deposited there last year. And you had a similar situation in June. Of course, in the June financing, you had the large deposit of gold.

H.M.Jr: Do you want to get in on this at this stage, John, or not?

Hanes: I'd rather listen; I am so ignorant about it.

H.M.Jr: You'd like to go through one and just listen?

Hanes: (Nods "Yes.")

H.M.Jr: Any time you've got an idea, will you talk up?

Hanes: Yes, I will.

H.M.Jr: You will certainly have something to say - something.

Larry, what figure would you think, to go after this time?

Seltzer: Five hundred. I think those balances Dan read were too high - those cash balances. I don't think you need that much money. I'd like to see you use some bills, after the turn of the year, to raise a little money. I think the money market needs some bills, and I don't like to pay two and three/quarters interest for idle money that we are not actually going to need. And I think that I can go along with Wayne on skipping a cash financing in March - raise money through bills before then, and then get a lot of cash, say another six hundred or so, in June. With your present big balance, I think that would see you out very comfortably.

H.M.Jr: Well, Larry, let me just tell you how I feel. That doesn't say I won't change, but how I feel.

I don't want to increase our bills over a billion three, because I have always felt that that is a reserve in time of danger. See? I mean, something goes very sour, and, say sterling continued to drop for another Wednesday, we'd have had plenty of trouble. In fact, that is one reason I have been so fussy with sterling - I wouldn't say this outside the Treasury - because I wanted to get that straightened out before our financing. We'd have been in a mess, and we'd have had to skip it entirely if sterling continued to drop all week. It's getting to be headline news; everybody writing it up - didn't know a damned thing about it, but making it quite a thing. I don't think Taylor and I agree on that - this, and somebody else - oh, yes, he (Mr. Bell); he's the bill man - he's been taking you. I don't say I won't change, but it's a comfortable feeling to know I can go out any time and borrow a hundred billion - a hundred billion dollars worth of bills, and I hate to use that thing up. He was the fellow that talked; Dan there is the fellow that talked about it.

Taylor: As you know, I am a bill man. That isn't why I was making the comments that I was making at this time.

H.M.Jr: I just want to let the people that haven't been with me before on this thing know how I feel about bills. I mean, because .....

Seltzer: The only difficulty with the situation is the Fed itself needs about half your present bill volume to move around.

H.M.Jr: Please don't have me crying for the Feds, please.

Seltzer: That means very little for the banks.

H.M.Jr: I know. It's just too damn bad.

Seltzer: I am not weakening to the Fed, you know. I am indicating why I think your bill is too heavy.

Taylor: That June maturity is the thing I think all of us have been looking at the last six or more months.

- Bell: The what, Wayne?
- Taylor: The June maturities, and if we can get that out of the way in March then we can take quite a long breath, but if we try to raise some cash also in March, I'd be a little scared about it. You may find that the market can do both, but I'd be a little scared of Dan's bills in March.
- H.M.Jr: George?
- Haas: I would say that the main consideration - I am inclined to think in terms of five hundred. At the time the memorandum was written - it was Friday - and the market, if anything is better than it was then. The main consideration I had in mind at that time was that if you might overload the market, particularly on that end, and I'd say, if the market would take it, I'd be inclined to take it with a great degree of surety, I wouldn't mind going more than five hundred.
- H.M.Jr: You would or wouldn't?
- Haas: Wouldn't; but I think it would be in terms of what the market was.
- H.M.Jr: The trouble with five hundred is, it's awfully difficult to offer two different kinds of pieces of paper.
- Bell: Yeah.
- Haas: I think it mainly depends on developments in the market. Of course, these other considerations - I agree with Larry about the bills. They - (pause)
- H.M.Jr: Go ahead, George.
- Haas: It is a compromise between your consideration and this other one.
- H.M.Jr: As to paying two and three/quarters for idle money. The two-and-three/quarters money is the money we are using; the other money is the decimal two, thirty-seven (.237).
- Seltzer: That's where you - a nice way to kid yourself.

- H.M.Jr: The billion three we are borrowing, costs the country less than four hundred thousand a year, is that right?
- Seltzer: Yeah.
- H.M.Jr: Less than four hundred thousand a year, and that is the idle money; the two and three/quarters is in our daily turnover. I am not kidding myself much, but .... (laughs). I've got an answer, anyway.
- Bell: Little - while you feel good.
- H.M.Jr: That billion three doesn't cost us over four hundred thousand dollars. I think that what we'll do is this: unless somebody - I think - to go into the meeting with the Fed at eleven, let's talk eight hundred million and see what they do to us, huh? What do you think, boys?
- Lochhead: I'd rather - I think we ought to take as much as we can from the market. The maximum figure they are talking is eight hundred; we'll agree to no more than that.
- Taylor: They are talking eight hundred.
- Bell: Let's talk seven.
- Lochhead: You're going to have to compromise, somewhere between. If you start with eight hundred, ....
- H.M.Jr: Let's talk eight hundred when we see them. It's really eight eighty.
- Seltzer: You mean eight eighty when you say eight hundred.
- Bell: It might be nine.
- H.M.Jr: Dan always squeezes out the last drop.
- Lochhead: Some of us feel in that case it should be loaded more with notes than with long-term bonds.
- Harris: I think a lot depends on how you borrow eight hundred million.

- H.M.Jr: The trouble is this, Harris; if you make it five hundred notes and at least one or two hundred conversion, you get a seven hundred million dollar note issue, see, which is too damned big. I mean, I just - I hate these; I won't be here, but I hate these things for the fellow that follows me, and to give him a seven, eight hundred million dollar note issue - that is what I'm going up against, now, in March, on a fixed date.
- Harris: These recent note issues have been awfully small, and I know the market really needs it.
- H.M.Jr: What would you make it, five and three?
- Harris: If you are going to borrow eight million, I'd prefer to see that, because the turnover is going to be on the bonds. You get too heavy a bond issue for the market to absorb.
- Bell: Make it four and four.
- H.M.Jr: That is what I had in mind - four and four.
- Taylor: That's what I'd start talking.
- Harris: If you can assume four hundred million dollars will be turned in for the bond.
- H.M.Jr: It looks like hell if the Secretary of the Treasury said eight hundred million; five hundred notes, three hundred bonds. It looks as though I didn't have any confidence in the bond market. If I make it even it's all right. "What's the matter? Afraid he's not going to get a subscription to the bonds? He's cutting down the bonds; wants more notes."
- Harris: Well, you couldn't take just seven hundred million dollars in a lot, so you could get eight hundred million.
- H.M.Jr: I think we will talk to the crowd when they come in, fifty-fifty; four hundred of each, huh? And see what they do to it. They have had their experts running all over the country. What do you think, Wayne? Fifty-fifty?
- Taylor: Fifty-fifty, four hundred of each, and see what they do to it.

H.M.Jr: We'll see what happens.

Taylor: You probably know they are going to talk.....

H.M.Jr: I don't know what they are going to talk. Do you?

Taylor: I think so.

H.M.Jr: What?

Taylor: They are going to talk a three-way job.

H.M.Jr: (To messenger:) Another twelve chairs.

Harris: They are going to say, exceeding an eight hundred million won't be taken by the market.

H.M.Jr: Randolph Burgess has convinced me you can't have three balls in the air at the same time, and I think he's right.

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(Open Market meeting immediately followed.)

OPEN MARKET MEETING

NOVEMBER 30, 1938.  
11:00 A. M.

Present: Mr. Taylor  
Mr. Bell  
Mr. Haas  
Mr. Seltzer  
Mr. Lochhead  
Mr. Hanes  
Mr. Harris  
Mr. Hadley  
Mr. Eccles  
Mr. Harrison  
Mr. Sproul  
Mr. Sinclair  
Mr. Goldenweiser  
Mr. Williams  
Mr. Piser

H.M.Jr: Shall we start in the usual way and, ah, and have Bell tell us what's what? Go ahead, Dan.

Bell: These estimates of the capitalization of November 20 to June, are based on the assumption that we will borrow eight hundred million dollars in cash in December; five hundred million dollars in March, and five hundred million in June. And in that picture there is three hundred twenty-five million dollars of maturities for Home Owners' Loan, June 1, 1939. By that time that organization will have built up about a hundred fifty million dollars cash, which will be used to pay off the three hundred twenty-five, and I have assumed the balance will be refunded and will not call upon the Treasury for additional cash.

That gives us balances at the end of November of a billion seven eleven; December, two billion four; June, two billion zero ninety (2,090,000); February, one billion nine fifteen; March, two billion one eighty-eight; April, one billion six eighty-two; May, one billion three ninety-seven; and June, one billion three ninety-six.

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If we exchange the nine hundred forty-two million dollars, maturing in March, in connection with the December financing, of course, that would make a total financing of one billion seven hundred forty-two million.

That completes it.

- Eccles: What does that - what does that estimate the net expenditures would be in excess of receipts?
- Bell: Well, this follows very closely the Budget picture, with an addition of about five hundred million for Hopkins.
- Eccles: For the last five months?
- Bell: (Nods "Yes.")
- Eccles: Do you - do you - do you feel that - that is an accurate - an accurate picture, or is it based on estimates you think are excessive in relationship to expenditures? For instance, R. F. C. and P. W. A.?
- Bell: I shouldn't have said that; I should have said it's seven fifty for Hopkins. It's two hundred fifty million dollars, about, in addition to the five hundred million in the Budget's estimates.
- Eccles: This contemplates seven fifty for Hopkins....
- Williams: Mr. Bell, does that include the Commodity Credit and R. F. C., or are they excluded?
- Bell: It excludes those two organizations so far as they have cash balances in the Treasury. Anything in addition to that I am assuming they will finance their own obligations.
- Eccles: Does this contemplate any reimbursement to the Treasury from the R. F. C.'s independent financing?
- Bell: It does not, no.
- Eccles: There was the three hundred and - what was that?
- Bell: Three hundred million dollars.

- Eccles: That they could put out any time between now and then and reimburse the Treasury.
- H.M.Jr: Five?
- Bell: A little more than that.
- H.M.Jr: There is another five to go.
- Eccles: That includes the five fifty. You don't mean five outside the five fifty? Five all together.
- H.M.Jr: Sometime, I am under obligation to sell for Jones another five hundred million of R. F. C. notes to the public.
- Eccles: But the maturities a while ago that was taken up by the Treasury.
- Taylor: No.
- Piser: They refunded that? Oh yes, I remember now.
- H.M.Jr: If we got five hundred from the R. F. C. it would mean we got five hundred million less from the Treasury.
- Eccles: Or your balance is five hundred more.
- H.M.Jr: Greater. O. K.
- Eccles: Or to the extent that these other estimates may be excessive, of course, it would have that same effect. The estimates, I assume, are liberal; I mean, if anything, it would be a question of whether that amount of money would go out.
- Bell: I think that is a fair statement. I think the estimates are liberal, probably on both sides.
- Eccles: They have been in the past. You usually figure they are going to spend more than they usually do.
- Bell: But we do finance on those estimates. We cut those down materially.
- Eccles: Yes.

- H.M.Jr: Well, if Bell's estimates are all, they are on the liberal side, but not too much. Right, Dan?
- Bell: Yes, not too much. I don't think the expenditure estimates are far out of line.
- Eccles: I don't understand where this Home Owner's Loan fits in here. The Treasury, of course, won't - won't advance them any money; they have this maturity which they will be prepared to pay a hundred fifty million, and the balance they would refund, which is completely outside the Budget. It would only be the question of the money market taking care of the refunding of a hundred seventy-five million, but it would get over a hundred fifty million.
- Bell: That's right. The Home Owner's Loan has its cash with the Treasury. It accumulates month by month and we are using this cash.
- Eccles: But this cash will be drawn out?
- Bell: We'll pay a hundred fifty million in cash on June 1 to retire those bonds.
- H.M.Jr: Anybody want to ask any more question of Bell? You got the picture?
- Well, then, the next thing will be to hear from Mr. Sproul, to what he knows, or he's learned as to what kind of merchandise the market would like to have.
- Sproul: Well, we have made a canvass of the New York market and insofar as it represents the markets for the rest of the country, on the assumption of an exchange of the March notes, up to about eight hundred million of new money being acquired December fifteenth.
- H.M.Jr: You have been talking eight hundred?
- Sproul: We have said anything up to eight hundred million. And the market, I think, is prepared to receive anything up to eight hundred million, and if it were less than eight hundred million it would be, perhaps, agreeably surprised. The various combinations which we discussed with the markets, to

do a financing job of about that magnitude, have been a note and a long bond; a note and an intermediate bond; a short and a long bond; a note, a short bond, a long bond; a note, intermediate bond, and a long bond.

The general attitude of the market was, under present conditions, that anyone of those combinations could be sold and it was just a question of how you wanted to meet the various investment movements of the market; how well you wanted to satisfy their demands as to how you would submit your offerings. Gauging the market, it was estimated that the banks hold up to about eighty per cent of the rights of the maturing issue and they would have to be depended upon to do - in addition to their own investments - to do a large underwriting job on an issue of that size, and that, in the present state of world affairs, and in prospect of continued deficit financing here for some time, it would be desirable to meet market requirements as nearly as might be possible.

A note and a long bond was not considered by the markets to fit that picture adequately for two principal and related reasons: One, that it was considered that with a note and a long bond you, perhaps, get out something like a billion of long bonds and that would be more than the market could comfortably carry as an investment market, and as an underwriting market; and, second, that the premium on the long bond would probably be considerably fatter than the premium on the notes, and you would have your exchanges into the long bonds to take advantage of that situation, giving you a secondary market with a lot of nervous holders who, with any blow-up here or abroad - any sudden blow-up here or abroad - would create a problem which would be of particular concern to us.

The note and the intermediate bond was considered to be perhaps the safest thing that could be put out, but as not being wholly satisfactory because it doesn't tap that long term investment market which actually exists at the present time, and which is estimated to be any way from two hundred million to four hundred million for immediate investment.

A short and long bond also was considered safe, and undoubtedly successful, but it cuts out the possibility of reducing the average cost of the borrowing with the note, and it's running counter to what has been the practice of giving existing note holders an opportunity to exchange into a new note.

So that the market, as we canvassed it, came down to a comparable consideration of a three-way offering, either of a note, a short bond, a long bond, or a note, intermediate bond, and long bond, and there, perhaps, was a note, short bond, and long bond because they felt the two bond issues should not be too competitive, either in yield or maturities; that the intermediate bonds and long bonds would bump into one another, and there was some insurance companies and some banks which ordinarily would take the long - particularly some insurance companies, which ordinarily would take the long bonds, but which might be taken into the intermediate bond market if you offered two bonds too closely together. They thought the note, short bond, and long bond would fit all sections of the market. The short bond would be particularly desirable from the standpoint of the banks, which would get a maturity, a yield greater than the notes which are now pretty slim. The insurance companies and other long bond investors would get a long bond offering out. Around sixty-sixty-five they would like, and the notes which would be something of a gesture under these circumstances, would take care of a possible demand for notes and give holders of maturing notes an opportunity to exchange for notes, if they wished.

The market division of such an offering, as was suggested, an offering of cash and equal - probably equal amounts in the short and long bonds, and exchange offering for all three, and they thought that with such an offering you'd get out perhaps seven hundred fifty million of the long bonds, which is about all they thought the market could comfortably carry. They'd get out, perhaps, seven hundred fifty or eight hundred million of the short bonds and fifty to a hundred million of the notes, which in those circumstances, probably would best be added to an existing issue rather than a new note.

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It could be added to the one and one/eighths which are now selling at about a hundred, one/sixteenth. If that sort of an offering were considered not desirable or too cumbersome, and a note and long bond were considered, then the market's feeling was that the notes should be sweetened up and made so that the exchange would not go too heavily for the long bonds and overload that section of the market.

If the note and an intermediate bond were offered, that sweetening process wouldn't be necessary and it would be a very safe offering, but it would be a compromise offering, which wouldn't entirely satisfy either the banks or the long-term investors, and would put another issue in the area of the market which is now getting pretty crowded with issues and where the pressure has been greatest, perhaps, in recent months.

- H.M.Jr: What is that?
- Sproul: In the 52-54 area.
- Bell: You mean you want to avoid that?
- Sproul: No, I don't think you need to avoid it; I think it would be a safe one for you to offer, but it adds a large bond which has a crowded area already.
- Bell: In discussing your three-way proposition, did anybody suggest that you might have Septembers reopened, and just for exchange only?
- Sproul: Which?
- Harrison: The December.
- Bell: The December bonds, intermediates - fifty---fifty-two.
- Sproul: Fifty---fifty-two? Yes, that is a possibility, but it doesn't meet the desire for a short maturity on the part of the bank.
- Bell: They wanted an intermediate bond?

- Sproul: Something that gives them more yield than a note but doesn't carry them out on that yield of maturities. They are a little sick of note yields, but they don't like to go out that far if they can help it, to get the bonds.
- H.M.Jr: What is this March issue? How much does the Fed own?
- Sproul: Eighty-three million.
- H.M.Jr: Eighty-three million of the March?
- Sproul: Yes.
- Piser: Mr. Secretary, the Board has made a survey of the ten districts outside of New York and Philadelphia and I was wondering if you'd be interested in hearing the results of that.
- H.M.Jr: Very much.
- Piser: What we discovered was that the majority of the commercial banks seemed to prefer an option between the note and the bond - a five-year note and a bond. As far as the bond is concerned, the majority of them would prefer a two and a half. And a substantial minority of the banks, ah, would prefer a shorter bond; and comparatively few of them would be interested in a two and three quarter permanent holding, although they would subscribe and sell shortly afterward.
- Among the savings banks and insurance companies too the preference seemed to run to a two and a half. But their second choice is a two and three quarter bond, and a substantial minority of those institutions seem to want the two and three quarter. The ones that we surveyed seem generally to have no interest in a short bond.
- I think that is about a summary of the survey we made of those ten districts.
- Goldenweiser: An estimate of about thirty-nine banks.
- H.M.Jr: Haas and Seltzer made a very interesting study as to which bonds sell off the least or the most.

Give them a summary of that, George, and the amount. You got it in your mind?

Haas: Yes.

H.M.Jr: I thought that was novel to me, because .....

Haas: Well, we made an analysis of the recent declines in the bond market and found out there was the section of the bond market that seemed to be the weakest was a medium-term bond market rather than a longer term bond. And we've got the results of it charted here somewhere. Isn't one of those charts there that show that, Harry?

That was the main part, Mr. Secretary.

Eccles: We had that here, that the intermediates had gone off about twenty, twenty-two, and the longest bonds had gone off from seventeen to twenty/thirty-seconds.

H.M.Jr: But in a break, the long ones seem to hold up the better?

Eccles: Well, they have - this has been a sorted - I wouldn't call it a break - this slow decline - the long ones have gone off just about the same as the intermediate ones, but you'd expect them to go off a little more - but they haven't.

Piser: Those figures are from the middle of October.

H.M.Jr: And the other thing, George, if you and Seltzer would tell them the figures - amounts of Treasury bonds in the hands of the public over the last seven or eight months. That - you've got that?

Haas: I'll see if I can recall the figures. Have you (Seltzer) got the figures there?

Seltzer: Why, we took the total outstanding Treasury bonds and subtracted the amounts held by trust funds, and the United States Savings bonds, and found that for the last two years there has been very little increase in the amount of the public debt held in the market; that if you were to chart it you'd find that it ran like that blank space (indicating chart) underneath the lowest line there.

That is virtually all. The increase in the debt has been absorbed by trust funds and savings bonds, and that fact probably explains - has contributed to the underlying strength of the market during the last two years.

Eccles: You take into account, however, the big decline in the bills that are outstanding, which were held entirely by the banks, and the banks have made up to a very large extent in the purchase of notes and bonds, the amount of the decline in bills.

Seltzer: Even there you don't get very satisfying figures. For example, from the end of December '36 to June 30, for all banks the total increase in bond holdings was something like a hundred ninety-two millions whereas they suffered declines in loans, of better than a billion, and decrease in Governments better than a billion, so that - and this net increase of a hundred ninety-two millions included some seventy or eighty millions of savings bonds.

H.M.Jr: I suggest, George, you send that over to Chairman Eccles - that study; I think it is very interesting.

Haas: The bonds outstanding in the public?

H.M.Jr: Yes. Also the one on fluctuations between the different kinds of bonds and the recent breaks.

Sproul: I don't think you can place entire reliance on those fluctuations in that intermediate area as an area with a lot of high premium bonds where the holders, as far as the bank is concerned, have considerable profits and when they come to sell they are apt to take the profit out, but it wouldn't carry along indefinitely as a market factor.

H.M.Jr: Well, I'll tell you what we intend to do first. It will help clear me if each figure - if you will each take a piece of paper and tell me how much cash we should borrow.

Eccles: The difficulty with me on that is, it would depend on what the offering is.

- Sproul: It's the other way around; the offering would depend on how much cash you're going to borrow.
- H.M.Jr: Well, take in the March ....
- Eccles: Take in the March?
- H.M.Jr: This is new money, plus calling the March in.
- Eccles: Yes, the total - I know.
- H.M.Jr: How much new cash?...
- Eccles: Well, as I say, it would depend on what you are going to offer, whether it's going to be two bonds or a note and a bond.
- H.M.Jr: To help me, Marriner, I'd like to decide the cash first. I mean that, we'll do it another way; if you don't mind my going around and getting advice this way; I mean, how much cash? Then, if we have that, then I'd like to talk about what kind of merchandise it will be, but I'd like to know how much it is going to be. You don't mind my doing it this way?
- Eccles: No, no. But it is difficult for me to say the amount.
- Sinclair: This is not a secret ballot is it?
- H.M.Jr: Oh no.
- (Ballots taken up and given to H.M.Jr.)
- H.M.Jr: What's this, two initials on one piece of paper. Is that the way we balance the budget?
- Eccles: Sign your name on this.
- Taylor: I was going to have to borrow his (Mr. Bell's) pencil; I looked over his shoulder and saw what he had written down, so thought I'd save a little time.
- H.M.Jr: Got everybody?
- Hadley: One more to come.

H.M.Jr: Put me down for eight.

Sproul: Are we to have tellers now?

H.M.Jr: Yeah. Bell is the teller. We all need civil service employees when it comes to tellers. Did you get in that corner there?

Taylor: There is a fellow who wouldn't sign his name.

Harrison: He's a banker, I'll bet.

Seltzer: Oh, that's mine.

H.M.Jr: Come on, you banker. Did you get the wisecrack - "He's a banker."

All right. I see we've got one fellow that works for Macy's - Harrison.

Bell: Well, we have three for five hundred million cash; we have one for five hundred fifty million cash; we have two ....

H.M.Jr: You have been associating with Ruml.

Bell: We have two for six hundred million cash; we have one, seven hundred fifty million cash; and we have one, two, three, four, five, for eight hundred million cash.

Taylor: Wait a minute; you didn't count those.

Bell: Seven. There's three on one piece.

H.M.Jr: Do it again, Dan.

Bell: Seven, eight hundred million cash; one, seven hundred fifty million cash; two, six hundred million cash; one, five fifty; and three, five hundred.

H.M.Jr: Read off the name of everybody and it will make it a little bit different.

Bell: Haas, Bell Taylor, Secretary, J. P. ....

Sinclair: Who is that? That's mine.

H.M.Jr: Eight hundred.

Bell: These are eight hundred. J. H. W. - Williams.  
And Lochhead, ~~eight~~ hundred; Seltzer, five hundred;  
Piser is five hundred,

Goldenweiser: I think that is mine.

Bell: Goldenweiser, five hundred; Eccles, five fifty;  
and Harris and Harrison, six hundred; and Sproul  
seven fifty.

H.M.Jr: What did Hanes have? Didn't play?

Hanes: I didn't put in one.

Bell: He's observing.

H.M.Jr: All right. Sproul, how much?

Bell: Seven fifty.

Sproul: Seven fifty.

Eccles: I'll give you my my fifty and you can go out, and  
I'll go back to five, Allan.

H.M.Jr: What did George have?

Harrison: Six hundred, and that is the right figure.

(Hearty laughter.)

H.M.Jr: Did you level that down? Oh, George, that's  
wonderful.

Harrison: It is well under the maximum which the market  
expects, which is good. It is about a third of  
which you estimate your requirements to be, and  
it is conservative because you don't know what is  
ahead in world conditions, and in the interpreta-  
tion of continued deficit financing. Five hundred,  
I think, is not much better than six hundred, and  
it is going below your average requirements.

H.M.Jr: Well.....

Harrison: And I agree with the Chairman, by the way, that  
the amount will depend a little bit on the ticket

you write, but assuming the ticket is right for the figure, I think six hundred is better.

H.M.Jr: Well, at this end of the room, I think - I don't think we can figure the ticket until we have the amount.

Harrison: That is right; you can fit your ticket to the amount.

Eccles: It is like which is first, the hen or the egg, here.

H.M.Jr: We ought to be scientific now - find out what our needs are and make the market come our way, like we always do.

Eccles: Are you fortunate in having room for flexibility? It isn't a thing you've got to have, so you've got some room.

H.M.Jr: You could do without any.

Eccles: That is right; I say you could have flexibility.

H.M.Jr: Does anybody else feel as convinced as Mr. George Harrison does?

Piser: In defense of the five hundred, I'd like to say, since the market has eased off half or three-quarters, during the last month, I think it might be desirable to cut it down to a minimum amount and that was my reason for suggesting the five hundred.

Sinclair: I think, in defense of the eight hundred, I'd take as much as you can get this time and keep in mind next spring, not know what is going to happen. I think the market, from the publicity that's been going around in newspapers and journals, certainly expects in the neighborhood of eight hundred, and expects to take it - the reason I'd be inclined to take up to the maximum of eight hundred.

H.M.Jr: Of course, you people know we are talking eight hundred; it really means eight eighty, so ....

Sinclair: Well, a hundred million, one way or the other - I am not concerned much about it.

- Harrison: As long as it doesn't mean nine twenty.
- H.M.Jr: You can do that too.
- Taylor: Not again, that quickly. (Laughter.)
- H.M.Jr: Anybody else want to - I wish somebody would tell me what Congress is going to do.
- Eccles: You are going to discuss the type of issue.
- H.M.Jr: Well, I'd just kind of like to discuss this a couple minutes more, Marriner. I'd like to do this a couple minutes more.
- Eccles: The reason I say five fifty, I was thinking of a billion and a half. I agree with Piser that there is no point in pushing the market at this time, and I don't agree with John Sinclair in that it is necessary to try to get all you can get now because, in the first place, you have a very, very small amount of bills out; you've got that three or four billion dollars in any amount, almost, you want in that field, as emergency. You have also got, if you do your March financing - at this time you've got a spot there that you won't have any refunding that you'd have to do. You have some that you are - you've got some preparation there for any emergency situation.
- You also have, and would have, with five hundred million, a large enough cash balance to carry us, so you've got, it seems to me, plenty of ammunition with the short market, that is, the bill market, unused with the excess reserve picture as it is.
- With no maturities on March 15, and with a large cash balance, and with a weak market today - not weak, but at least a market that isn't too strong - I see no occasion to in any way, take a chance or to push it at all.
- That is the way I feel about it.
- H.M.Jr: Well, in order to make progress, supposing we say this: Till we get our issue we say we will take at least seven hundred and not more than eight hundred. Does anybody argue very hard about that -

against billing it, oh, say, between seven and eight hundred.

Eccles: That is, base your calculations on that?

H.M.Jr: Yes, say take between seven and eight hundred. I'd like to take at least seven, and I'd argue for eight, but at least let's use that as an assumption. And Chairman Eccles says it makes a difference to him as to what kind, so we'll make a little progress, but we can come back again. Let's say we'll have something - take between seven and eight hundred and see what we have. Would that be agreeable, Marriner?

Eccles: Yes, fine.

H.M.Jr: Anybody disagree on that? Then let's say we are talking in terms of between seven and eight hundred million dollars. Who - who's got - George, you've got some very good ideas as to how you'd do it if it were between seven and eight hundred.

Harrison: I agree with Mr. Sproul that you can probably, at the proper price, adopt any one of the various combinations that have been discussed. I think with conditions as they are, however, realizing that the world is still in a turmoil, realizing that you are still in the midst of deficit financing, and that you (words misunderstood) the Congressional session. I think you've got to try to do the best you can, as you have always tried, to suit the market. I can best express what I have in mind by trying to eliminate a proposal that has been made. I think the worst thing you can probably do in view of present circumstances, is to offer a note and a long bond, and by a long bond, I mean two and three-quarters, for exchange.

Eccles: You think that would be the worst?

Harrison: I think that would be the worst for this reason. Inasmuch as our estimates show banks own seventy per cent of the rights, and most banks do not want a long bond, you are forcing them to take the long bond because of the premium you put on it, unless you make the note so rich you'd probably

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throw the whole note structure out of line. Now, if that is true, and you force bonds to banks, to take the better part of the exchange in the long bond, you create for yourself a secondary market which may be very good, in which event no damage would be done; but it also may not be so good, in which event damage would be done, and you are taking an unnecessary risk.

Now, that being so, what - what - what should you do on the exchange? To suit the better part of the holders of the rights, I should think that a short bond would best answer the purpose, and by that I mean, say a two or at the most, two and a quarter per cent bond, at whatever maturity it would be called for. And I don't think the note issue makes an awfully much difference because with the premium on the bond you'd get - I think you'd have very few exchanges, to the notes anyway.

There are some indications on the bonds you'd give holders rights to subscribe to notes; I'd open up the notes to satisfy that expectation there will be some notes. Now I don't expect you'd get much on the exchange.

Note holders would expect, and would take long bonds. Insurance companies hold five, ten, fifteen million dollars of the rights, and they may be disappointed and a little sore, and you haven't done anything to suit them. The difficulty, I recognize, is that it makes it a little cumbersome, and it might be a little confusing, but I don't see why that should be a real deterrent. You have done it once before, but it didn't work very well, but circumstances then were very different - in 1931 - when the three-way offering was all for cash.

H.M.Jr: What was that?

Eccles: The Mellon issue - '31.

Harrison: It did not work well, but conditions were very, very different from what they are now. You didn't have the excess reserves you've got now, buried in pessimism and a declining market anyway. The conditions changed between the date of the offering and closing of the offering.

- Piser: May I interrupt at that point. I think one of the difficulties of that particular offering was the pricing difficulty because on the basis of the current market at the time of the announcement, I think two of the issues could be figured at a much higher premium than the third issue, and it was this third issue which was relatively unsuccessful at that time.
- Sproul: I think that is right; they had to call up the banks and ask them to go into the issue.
- H.M.Jr: What year was that?
- Piser: '31.
- H.M.Jr: I just didn't want to make any mistake.
- Williams: Am I right; you said they wanted a five-year note and a long two and three/quarters?
- Piser: Two and a half.
- Eccles: And that is all the districts?
- Harrison: If, for practical reasons, you don't want to do the three-way offering on exchange, I think my preference would be to make the notes - I don't know how many would be taken - and a two and a half per cent intermediate bond.
- H.M.Jr: Well, I can clear the atmosphere. Under the tutelage of one Randolph Burgess, he convinced me, for the last five years, I should never do a three-way offering, and I don't want to seem as though I am discourteous to Randolph.
- Harrison: He's admitted already - whether he's changed his status, I don't know - as a banker he looks on the three-way offering with favor.
- H.M.Jr: I don't want Randolph to think: "No sooner am I out than he turns me down." Again, to make headway, I don't want to do a three-way.
- Harrison: Well, I assumed you wouldn't. Then, if that is true, in my judgment, rather than make it notes and long bonds which, which has, I think, greater risk in it, I would make it the note and intermediate bond.

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H.M.Jr:

I definitely don't want to do three things. I don't know how the Chairman feels on three.

Eccles:

Well, I - we discussed that this morning and I raised that same point; it is confusing. It might indicate weakness, and the suggestion I made, if you were going to consider three at all, I wouldn't do it in the way George suggests. I would do it in this way: I wouldn't give the real short bonds at all. Give a two and a half bond and the note; give an option on them, for the conversion, and then if you are going to raise cash and you've got a minority - but a substantial part of the investment communities who want the two and three-quarters, and they hold very few of the notes - then you could give them - this would be a three-way but it wouldn't be a three-way all the way through. I mean, that is if you were going to do that, I would prefer that to George's method because the banks own most of the notes; therefore, give them the shorter bonds and the notes go to the market for cash. Give the note and the long bond.

Now, I recognize, as you do, there is some difficulty to the three-way option. It may be interpreted as weakness and it may be confusing, and I would, therefore, prefer to, if you are going to get the seven hundred to the eight hundred million, and I understand that is what we are talking about, then a two and a half bond and a note - five-year note - dividing, in the case of - for the cash, you want to get - dividing it on a basis of possibly fifty-fifty. If you were going to do the five hundred, if you want the two and three-quarter bond, then I would cut to five hundred million for new financing and make the option two and three-quarters, because there is a large minority who want the two and three-quarter, and I would be afraid of a two and three-quarter bond for seven or eight hundred million when that is the only bond that is offered.

And I think you may take a chance on having a difficulty in a secondary market.

Harrison:

May I ask, Marriner, did you say in the exchange there you would have a note and a short bond or a note and an intermediate bond?

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- Eccles: Note and intermediate bond; and for cash, a note and intermediate bond. You'd have the same, that is, if you go between seven and eight hundred million.
- Harrison: That is my second choice.
- Eccles: Now if you want the two and three/quarter bad enough to drop down to five hundred million, then I think you could put it over.
- H.M.Jr: Well, as to the kind of bond, I haven't looked over it to decide. All I hoped to get was just begin to get in touch with the market.
- Harrison: Mr. Secretary, you wouldn't consider, if you are opposed, and I see a great deal of reason for opposing the three-way thing - you wouldn't consider making an exchange just a short while and leave the note out of the thing entirely?
- H.M.Jr: When we come to what we are going to do, my mind is completely open, see? I mean, I'll - I'll - I'll sit down and trade with you.
- Harrison: You don't feel committed, necessarily, to offer a note.
- H.M.Jr: I am not committed to anything; from our standpoint, we need so much money to get us by till the first of July. What is a good amount, and so forth and so on. Then when it comes down to bond or note or bill or anything else, why, from now until Saturday noon, my mind is completely open; I've got no -- completely open, and I don't expect to decide at this meeting today what - what it will be. I do want to decide the amount of money so we can let the Street know - give them that much preparation for adjusting themselves for the amount of cash. I would very much like to decide that this morning, and I want to say that, that here in the Treasury we feel much more comfortable in the last two days with sterling at 4.67, and going up, rather than sterling at 4.63 with no bottom.
- Lochhead: 4.67 3/4.

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- H.M.Jr: I think the market and newspapers are sterling conscious - very sterling conscious.
- Sproul: They have been for a week or more.
- H.B.Jr: It has been front page stuff a couple days. Temporarily...
- Harrison: Very. It improves your position.
- H.M.Jr: Very much. If the thing had gotten steadily worse, I don't know what we'd done in the way of financing, but with that up and with the business indexes continuing to rise, and everything else, I think before the end of the week, if the sterling thing continues, I think you will find a much better tone in the market. It is already there; it is up a point and a half; stocks are up; today commodities are up, and everything else. I mean, we didn't know. But they were very conscious of that sterling, weren't they?
- Sproul: Very.
- H.M.Jr: God knows, I was.
- Harrison: You had bad markets everywhere. You may find the situation more different by Saturday.
- H.M.Jr: As to the kind, but as to the amount of money, I'd - I'd like to get that out to the Street right after this meeting, so they could prepare this thing.
- Harrison: I don't think it's awfully important, really. Going back to my six hundred, I said that because I had the feeling that you were very apt to choose in the exchange, a note and long bond, which I think is so bad I'd rather have a smaller amount for cash.
- H.M.Jr: You mean, if the medicine isn't going to taste good, you'd rather have less of it.
- Harrison: Yes.
- H.M.Jr: If you don't take a full dose, George, it doesn't work, you know.

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- Eccles: I don't think you will have a problem of getting seven hundred million or eight hundred - maybe more; I don't think that is the problem. If the offering fits the situation. That is the real problem.
- H.M.Jr: That is the job of all of us.
- Eccles: You can get most any amount you want. After all, there is the investment funds, excess reserves, in the banking systems. It is just a question of fitting it to the market.
- H.M.Jr: Well, my thinking is clear, absolutely, as to the money, and after talking, I think I'd say seven hundred. That really means seven seventy.
- Harrison: No reason you shouldn't do that if you want to.
- H.M.Jr: Let's just go around.
- Sinclair: I think that's all right.
- Seltzer: Little high for me.
- Goldenweiser: I have no objection.
- Piser: Little high for me; I think the market might sell off some.
- Williams: It's all right.
- H.M.Jr: You're an eight-hundred man, aren't you? You'll take seven hundred?
- Williams: Yes. I don't know as there is any great significance attaching to these differences. My reason for choosing a larger figure was, briefly, this: First, the reason given of prudence of taking it when you can get it; perhaps you could get it, however, at any time, and I rather think you could, but it seems to me, as recovery goes on, it must be said, the tapering off, not only of the budgetary deficit but your ..... (speaking very low) there is always the possibility you would be competing with private capital markets and that gets more true as the recovery goes on. If you can take funds now, without taking money rates, without

affecting excess reserves in any material way,.....  
(speaking low) I say the balance of the advantage  
is to do it.

H.M.Jr: You know you are the first man that's mentioned  
excess reserves today.

Harrison: I mentioned it.

Eccles: So did I, twice.

Taylor: You just don't listen when Marriner says it.

H.M.Jr: Very good. Well, maybe he doesn't say it with  
as much conviction as he used to.

Eccles: Well, the problem is still there - won't change  
it any.

Williams: It's all right.

Lochhead: Seven hundred is agreeable.

Harrison: I think I would prefer the six hundred, but  
there's not much difference. You multiply your  
estimate of what you're going to need, and when  
you take three times seven seventy, it gets a  
little high, and my inclination is, it doesn't  
make an awful lot of difference to be too choosy  
about the six hundred, but I agree, you can raise  
seven hundred perfectly well, provided you suit  
the ticket.

H.M.Jr: You do?

Harrison: Yes.

H.M.Jr: Well, now, the market was sort of - what did they  
think we were going to do?

Harrison: They have been talking five to eight hundred  
million - practically the same as we have here.  
Those are the limits.

H.M.Jr: Seven would be .... ?

Harrison: Under what they expect.

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- H.M.Jr: That's good.
- Harrison: And there would be an advantage in that over the eight hundred, in my judgment.
- Sproul: I agree with that, that the seven hundred would be under their anticipation, and would be good from any standpoint. If it were mine, I'd use seven hundred million with a note and intermediate bond, with a three-way offering. With a note and bond, I'd go down to six hundred million, to make the burden on the market that much less, and reduction that much greater.
- H.M.Jr: What did you say on your slip?
- Sproul: Seven fifty, and I had in mind the over-subscription.
- H.M.Jr: You really were in the seven hundred class.
- Sproul: That's right.
- H.M.Jr: I take it this is what you want?
- Sproul: That's all right with me.
- H.M.Jr: You've got from now until five minutes of twelve to argue about that, on Saturday. My mind is entirely open on that.
- George?
- Haas: Seven hundred is satisfactory.
- Eccles: I don't think it makes any difference whether it's five or seven or eight, if you fit the - if you are going to put a note and a long bond on, then no, I'd say five; if you are going to fit the thing to the market, then seven or eight doesn't make any difference.
- H.M.Jr: Harris?
- Harris: My concern isn't how much you borrow; it's how you borrow it. I recommended six hundred million because I recommended a program of a long bond and a note.

H.M.Jr: You (Mr. Hanes) want to be skipped?

Hanes: Yes. I haven't anything to add.

H.M.Jr: Wayne?

Taylor: Seven is all right with me; if you want me to average down for anybody, I'll say seven.

Bell: Seven is all right with me.

H.M.Jr: Let's make it seven. I think the sooner we tell the Street, I think the better.

Sproul: I think so.

H.M.Jr: Now, I -

Harrison: You are going to say, "Refunding the Marches?"

H.M.Jr: Yes. Yes. And what I'll do - (To Mr. Kieley) Mr. Gaston, please.

Then, we start in at nine fifteen tomorrow and then, Marriner, maybe Friday, if you felt like it, you might come over and we could talk some more.

Eccles: Gosh, I can't be here Friday. I'll be in New York; I'll be there until late Friday night, and I'll be .....

H.M.Jr: Will you be here Saturday?

Eccles: I could. Or, could I talk to you by phone Saturday?

H.M.Jr: All right; O. K.

Where are you going to be, Sproul?

Sproul: I'll be there; I'll be there Friday and Saturday.

H.M.Jr: Will Ronald be around?

Eccles: He'll be here. .... Banking group Thursday night; that's the reason.

H.M.Jr: Well, we'll do some more work; and thank you all very much.

November 29, 1938.  
11:52 a.m.

HMJr: Hello.

Operator: Senator McAdoo. Go ahead.

HMJr: Hello.

Senator  
McAdoo; Hello, Mr. Secretary.

HMJr: How are you?

M: Very good thanks.

HMJr: Fine.

M: I wanted to talk to you a moment about the shipments of  
bullion which are being made from time to time from  
some of these Asiatic ports.

HMJr: Yes.

M: Now I took - I took the chairmanship of the Board of  
this Dollar line, both because the President wanted me  
to and the shipping board did.

HMJr: Yes.

M: I wasn't looking for a job because I had hoped I'd get  
back in law practice where I could make a living again.

HMJr: Yes.

M: Nevertheless having assumed this burden, and I tell you  
it's some baby, it hasn't got any clothes on it at all.

HMJr: Yes.

M: We are trying our best now to do two things, first, to  
get the Government agencies to specify wherever possible  
that American bottom shall be used for making  
shipments of imports to this country.

HMJr: Well, where we control it we always do that.

M: Yes. Well that's good. Now -

HMJr: Always.

M: Yes, well that's fine. Now on the question of bullion

- 2 -

shipments I don't - well now, here's a pending case. Siam is going to ship some gold bullion I think from America to Siam.

HMJr: Yes.

M: I'm not told this, I don't know whether it's correct or not, but if it is I wondered if you wouldn't do what you can to influence its shipment in American bottoms and especially if you can in the bottoms of the American President's line, that's the name of the Dollar Company now.

HMJr: Well of course -

M: They're running now, we've resumed the world - around world -

HMJr: Well I'll look into it Senator. I don't know if there's anything I can do or not. It belongs to them until we pay it, pay them for it -

M: Yes.

HMJr: At San Francisco.

M: Yes.

HMJr: But I'll look into it and if there is anything that we can do we'll try to get it under American flag ships, that's about as far as we can go.

M: Yes, I know that. Well I'll be very much obliged if you'll do that. Now we're - of course we're subsidizing this line you know and we've got to get our people, our big shippers and all, and I made considerable progress in that direction on some of our biggest shipments to specify American flag ships in - wherever they can control the shipments.

HMJr: Yes.

M: Now, I imagine that if the Treasury would be willing to suggest to Siam if you let them have this bullion that you'd like to have it shipped in American bottoms well they've no shipping - I mean they've no shipping - I mean they have no maritime ships of their own, commercial ships.

HMJr: Well -

- 3 -

M: Any other kind. I imagine they'd be perfectly willing to favor us if - I mean favor our ships if you should suggest that you'd be glad to have that done if possible.

HMMJr: Well, I'll certainly make the effort.

M: All right, fine.

HMMJr: Thank you.

M: Goodbye.

November 29, 1938.  
12:03 p.m.

HMJr: Hello.

Operator: Sumner Welles.

HMJr: Hello.

Sumner  
Welles: Hello. Goodmorning.

HMJr: How are you?

W: I hope your A. D. economists didn't keep you up too long.

HMJr: Well they gave me something to think about, and I had another group of economists in here for two hours. They just left.

W: I called to find out if you could give me that favorable reply which I hope for, in regard to the Cuban trade agreement.

HMJr: Well I told them that if no one said no by one minute of twelve the answer was yes. I haven't heard anything, so I'd say yes.

W: Thank you very much. It's now one minute past twelve. That's very helpful indeed. I'll tell them then to go ahead.

HMJr: Yes, you tell them to go ahead.

W: Very much obliged to you.

HMJr: Now Sumner would it be agreeable to you if we could have Jesse Jones here tomorrow at three-thirty?

W: Absolutely.

HMJr: Because I'd like to carry/along on this at the same time.

W: Very much so.

HMJr: Fine. Then I think I'll have him here.

W: All right.

HMJr: What else do you know?

W: Nothing this morning.

HMJr: Fair enough. I'll see you tomorrow.

W: All right. Thanks. Goodbye.

November 29, 1938.  
2:19 p.m.

HMJr: Hello.  
Alan Sproul: Hello Mr. Secretary.  
HMJr: How are you?  
S: I've been lining up these people for Thursday.  
HMJr: For Thursday.  
S: Yes.  
HMJr: Well, let's see what you've got.  
S: What's that?  
HMJr: What have you got?  
S: The tentative out - schedule I have is nine-fifteen Mr. Levy of Solomons -  
HMJr: Just a minute - Levy.  
S: Ten o'clock with Mr. Aldridge.  
HMJr: Ten o'clock - Aldridge.  
S: Eleven o'clock, Mr. Garner, Guaranty.  
HMJr: Yes.  
S: One o'clock Mr. Burgess, if you won't care to have him for lunch.  
HMJr: Yes, that'll be fine.  
S: Mr. Rentschler has been ill and is still laid up so he won't be able to come down.  
HMJr: That's all right.  
S: But Burgess at one for lunch.  
HMJr: Burgess and yourself.  
S: Yes.  
HMJr: Right.

S: At two o'clock Devine.

HMJr: Yes.

S: And three o'clock Mills and from the Discount Corporation.

HMJr: Well now, let's just change that a little bit see?

S: All right.

HMJr: Let's make it three o'clock Devine.

S: Yes.

HMJr: And four o'clock, what's the other fellows names?

S: Mills and

HMJr: Yes, Mills.

S: Yes.

HMJr: That gives me Levy at nine-fifteen, Aldridge at ten, Garner at eleven, Burgess and yourself at one, Devine at three and Mills at four.

S: Right.

HMJr: How's that?

S: That's fine.

HMJr: Yes, let's do it that way.

S: All right, I'll confirm all those appointments then with these people and be sure that they're there.

HMJr: That's fine.

S: All right.

HMJr: Thank you very much.

S: Thank you.

Spring to San Domingo  
New York  
Mr Houston

New York, November 30, 1938

Memorandum of Activities of Refugee  
Economic Corporation in Costa Rica.

The Refugee Economic Corporation is a Delaware corporation with headquarters at 570 Lexington Avenue, New York City, and has as its primary object the economic reconstruction and settlement of refugees, mostly of the Jewish faith, from Germany and other countries wherever it may be possible to settle them.

In the year 1938 the attention of the Refugee Economic Corporation (hereinafter referred to as the Corporation) was invited to the possibility of settling in the Republic of Costa Rica about 400 families of refugees through the purchase of a farm of about 50,000 acres of land, called "Tenorio", located in the Province of Guanacaste and owned at that time by the Banco de Costa Rica, of San Jose.

Before giving the acquisition of this farm serious consideration, the Corporation approached the Government of Costa Rica, and after unfolding its entire plan requested it to state whether it had any objection to the carrying out of said plan. The Government replied through a letter from the President that there was no objection and that the Corporation could safely proceed with its plan.

The Corporation then had the Tenorio farm examined, and after brief negotiations with the Banco de Costa Rica

it agreed to purchase it at a price of \$55,000. Power of attorney was sent by the Corporation to Don Luis Castro Urena, a prominent Costa Rican attorney of San Jose, to take title to the farm in the name of the Corporation. The transfer deed was signed on August 3, 1937, and the total purchase price paid on the same date.

The Corporation considered itself the owner of the farm, took possession of it, and started developing it so as to make it available for the settlement of refugees. At the same time, the Corporation presented the deed of transfer to the Registrar of Real Property for recording. In order to effect this recording, it is necessary according to the laws of Costa Rica to offer for recording not only the power of attorney of the person who signed the deed on behalf of the Corporation, but also a certified copy of the Certificate of Incorporation of the Corporation, and a Certificate of the Costa Rican Consul in New York that the Corporation is duly constituted according to the laws of the State of Delaware and is actually doing business. All these documents, properly authenticated, were furnished. However, the Registrar of Real Property objected to them and refused to record the deed of transfer of the Tenorio farm, not for any reason against the form or authenticity of the documents, but on the grounds that the purposes of the Corporation were undesirable under the laws, or incompatible with the sovereignty of the Republic of Costa Rica.

The Corporation believes the objections to the recording were the result of a press campaign organized and fostered by German

and Nazi sympathizers against the settlement in Costa Rica of German refugees, especially of the Jewish faith.

As the Registrar remained obdurate, notwithstanding all the arguments and reasons advanced by the attorney for the Corporation, Don Luis Castro Urena, in an effort to overcome his objections, the matter had to be taken to the courts.

In October, 1937, the matter was decided by the Court of Appeals and, by a vote of 2 against 1, the Registrar was ordered to accept the documents presented by the Corporation and to record its deed to the Tenorio farm.

The Registrar appealed to the Supreme Court (Corte de Casacion) which is the highest court in Costa Rica. In December, 1937, said court rendered a unanimous decision reversing the Court of Appeals and supporting the refusal of the Registrar to accept and record the documents offered by the Corporation, but on grounds different from those urged by the Registrar. While the opinion of the court is supported by some legal reasoning, a reading of it creates the impression that the decision was reached first and then legal grounds were found to support it.

In the meantime, the Corporation remained in undisturbed possession of the Tenorio farm, but under an unrecorded title.

In June 1938, and when the press campaign mentioned above had subsided, the Corporation sent its representative to Costa Rica to see how the problem of its title to the Tenorio farm could be satisfactorily solved. This representative had an interview with the President of Costa Rica in which it was agreed that the Government would present no objection to the recording

of the title to the Tenorio farm provided same was vested in a Costarican corporation especially organized for that purpose, and with a Board of Directors composed almost entirely of Costa Ricans. As regards the settlement of refugees on the farm, that question was left in abeyance for discussion after the question of the title to the farm has been settled.

In pursuance of the foregoing agreement, a Costa Rican farming corporation was organized in October 1938 under the name of "COMPANIA AGRICOLA COSTARRICENSE" with a capital of 500,000 Colones (about \$90,000.-) and a Board of Directors of seven prominent, influential and highly respected Costa Ricans. The Tenorio farm was transferred to this Costa Rican corporation, and the transfer recorded so that title now vests in said corporation, which is, of course, fully owned and controlled by Refugee Economic Corporation.

A few days after the news about the organization of the Costa Rican corporation became public through the filing in the public register of all the incorporation and transfer papers, the newspapers of San Jose started another campaign against the settlement of Jewish refugees in Costa Rica. Numerous newspaper clippings just received, some of them dated as late as November 13, 1938, show that while this campaign is not particularly violent, yet, it is far from friendly, and shows that any attempt actually to settle a substantial number of Jewish refugees on the Tenorio farm would only tend to increase the intensity of said campaign.

Whether the attitude of the press faithfully reflects

popular sentiment, it is difficult to determine. According to the best information available, it appears that although those opposed to the settlement of Jewish refugees in Costa Rica do not constitute a majority of the people, they form, at least, a percentage sufficiently large to cause the Government to give their views careful consideration. The Government and the higher type of Costa Ricans are in favor of selected Jewish immigration for agriculture, but commerce is generally opposed to it for fear the refugees may in a comparatively short time drift from the farms into the cities in order to engage in trade. This fear is based on the unfair competition they are experiencing from a large number of Polish Jews of the peddler type who entered Costa Rica during the last few years, and most of whom are now established in various small, but ever growing businesses. The people at large who, on account of their meagre education, are unable to form an independent opinion, are largely influenced by the newspapers.

It is hoped that ultimately it will be possible to carry out the plan of settling refugees on the Tenorio farm; meanwhile the farm is being operated by working such lands as are apt for cultivation, and preparing others for future cultivation, and by doing other work that tends to prepare the farm for the settlement of refugees.

November 30, 1938

To: The Secretary

From: Mr. Hanes

On November 29th, 5:00 P.M., I spent an hour with Senator Harrison in his office in the Senate Office Building. The Senator discussed at great length the oncoming tax legislation and expressed the hope, which he said represented the majority of opinion of his committee, that there would be no increase in the general taxes at this time. He was hopeful that they could get by with an extension of the excise taxes and a renewal of certain other corporation taxes. He is anxious and willing to put through any administrative changes which we might suggest. He is also anxious wherever possible to ease the burden placed upon taxpayers in the mechanical work of supplying data to the Bureau of Internal Revenue. He was very positive in his statement to the effect that he sincerely hoped the Administration would not bring to the Congress any suggestion for change either in the capital gains tax or in the undistributed profits tax. He expressed himself as being opposed to the highest surtax rates now existing in the 1938 law and said positively that he would favor a reduction of the high income surtax rate to the maximum of 40 percent.

He discussed at length his hope for peace in the Democratic Party and said that he would go to any length to bring about harmonious relations between his faction and the Administration. His last words on this subject were to this effect - "You and Henry are the only two men in the New Deal who can bring this about."

JR

*confidential*

Tokyo

Dated November 30, 1938

Rec'd 7:08 a.m.

Secretary of State,  
Washington.

756, November 30, noon.

Our 755, November 29, 5 p.m., last sentence.

Statements of new Japanese policy.

The "reliable source" mentioned informed us today that it has been decided that conference before the Emperor is not (repeat not) to take place.

Repeated to Shanghai for Chungking.

GREV

DDM

*Material referred to in file 15-  
11/22/38, date it was sent to President*

November 30, 1938

My dear Mr. Secretary:

I am sending you herewith, for your confidential information, copies of various memoranda and maps which have been furnished me by Mr. K. P. Chen, of the Chinese Financial Mission now in Washington:

1. Memorandum on Yunnan-Burma Road
2. Memorandum on North-western Highway
3. Memorandum on South-western Transportation Routes
4. Map of North-western and South-western Trunk Roads
5. Memorandum on Highway Administration in China

Sincerely,

The Honorable

The Secretary of State.

November 30, 1938

My dear Mr. Secretary:

I am sending you herewith, for your confidential information, copies of various memoranda and maps which have been furnished me by Mr. K. P. Chen, of the Chinese Financial Mission now in Washington:

1. Memorandum on Yunnan-Berma Road
2. Memorandum on North-western Highway
3. Memorandum on South-western Transportation Routes
4. Map of North-western and South-western Trunk Roads
5. Memorandum on Highway Administration in China
6. Memorandum on Purchases of Equipment and Supplies.

Sincerely,

The Honorable  
The Secretary of War.

November 30, 1938

My dear Mr. Secretary:

I am sending you herewith, for your confidential information, copies of various memoranda and maps which have been furnished me by Mr. K. P. Chen, of the Chinese Financial Mission now in Washington:

1. Memorandum on Yunnan-Burma Road
2. Memorandum on North-western Highway
3. Memorandum on South-western Transportation Routes
4. Map of North-western and South-western Trunk Roads
5. Memorandum on Highway Administration in China
6. Memorandum on Purchases of Equipment and Supplies.

Sincerely,

The Honorable

The Secretary of the Navy.

# TREASURY DEPARTMENT

360

## INTER OFFICE COMMUNICATION

DATE November 30, 1938.

TO Secretary Morgenthau  
 FROM Mr. Taylor



Arakawa and Ukawa called this afternoon at four o'clock. Arakawa said that he was making one of his periodic visits to this country and he had expected to come here last summer but that the European crisis had caused him to remain in London. First, he said he wished to thank us and the Federal Reserve Bank of New York for our many courtesies in connection with the gold shipments which his government had made during the past year. He then went on to say that he had found that a great deal of misunderstanding existed in London as well as in New York of the financial position of the Japanese Government. Therefore he wished to mention several points which he thought might be of interest.

First he stated that the actual cost of the war from July up to <sup>1937</sup> the present time amounted to approximately \$1 billion, that this expense had been met by borrowing, of which over eighty per cent had been placed in private hands. He then mentioned that he understood that the fortnight of crisis in London had cost the British treasury \$250,000. I gathered that he was using this figure to show that the Japs could prepare and fight much more cheaply than the British. In explanation of the low cost of the war, he said that the soldiers receive very low wages and that the cost of feeding them was extremely small as they lived mostly on rice. Next he stated that as far as food supplies went that Japan was entirely self-sufficient - in fact there was a surplus of both rice and fish at the present time. He included in all his calculations Korea and Formosa and

stated that Korea and Formosa alone could produce sufficient rice to feed the entire population of Japan itself as well as being able to take care of the army in the field and their own needs.

He then mentioned the very low requirements of their foreign debt service and stated that the annual charges amounted to approximately \$30 million; that this included both the government and private indebtedness. He added that at least 50 per cent of the external indebtedness was held by Japanese subjects and that therefore you could consider that the actual debt service was half of the \$30 million which he indicated.

He next turned to Japanese gold production, which he said was increasing and could be increased still further. For the calendar year 1938 the new production of Japan, Korea and Formosa would be approximately \$70 million, which represented an increase of approximately \$12 million during the past year. He said that in addition they could call on the gold production of Manchukuo, which for the present calendar year amounted to approximately \$10 million, but which in turn could be materially increased.

At the end of our conversation he asked me what the reaction of the investment market would be towards the Far East after hostilities had ceased. He said that he was curious as he had not been able to get a very definite impression in either London or New York. I took this latter opportunity to give him both barrels on the attitude of the American public towards the situation in the Far East and said that whereas no one could answer his question at this time, that it was my impression that the natural hesitation which would attend investment in any country after a war would be materially increased in this case;

that until the attitude of his government was clarified and understood by the American people that investment capital would be extremely reluctant to flow towards the Far East and even if the situation were completely understood there would be far more hesitation than existed after similar disasters.

He wanted very much to see you tomorrow and I explained to him how busy you were and that I would pass on to you full details of his conversation but that I was not very hopeful about your being able to find time to see him as a result of the completely scheduled day.

*W. J.*

Confidential

P A R A P H R A S E

A strictly confidential telegram (No. 757) of November 30, 1938, from the American Ambassador at Tokyo reads substantially as follows:

A telephone message has just been received from the Director of the American Bureau of the Foreign Office (Yoshizawa) to the effect that the conference on the new Japanese policy which was to be held on November 30 by five Cabinet Ministers and officers of the Imperial Headquarters in the presence of the Emperor took place, and that within a short time a public announcement would be made in regard to the new policy. The secrecy with which the plan to hold the conference was carried out is shown by the fact that a high official of the Foreign Office had no direct previous knowledge of this important happening.

793.94/14433.

November 30, 1938

The President called HM, Jr from Warm Springs today, at 12:30 p. m. The following is Mr. Morgenthau's part of the conversation:

HM, Jr: Good morning.

Well, the main thing is that the French are having most of their main troubles at the port of Marseilles, where they usually do, but the whole thing to me seems so difficult to explain because the French Treasury is gaining large sums of money these last two days. In other words, this is what the French people seem to like and the franc has been stronger and the Pound is up to 4.87-7/8s.

We have had another meeting with Bewley and I have sent several messages back and I have been putting pressure on the British to do something and they have. Commodities are better. The whole market has taken a better turn since Sterling has straightened out. Everybody was really worried about it.

The French are fighting Labor with bayonets. That is what I think they are doing. Personally, I don't like it, but the money people seem to like it. I have not seen anything on the ticker other than the trouble at Marseilles. If anything happens I will put it on your telegraph wire.

How are you feeling? Is there anything that I can do?

We have practically decided on our financing. We had a meeting with the Federal Reserve. We will borrow \$700,000,000 cash and we will take up the March notes which are maturing now and give the holders the opportunity to convert.

I have not followed the French thing very closely because, frankly, I am as disgusted with them as you are.

I felt that we might do that sometime when Congress is on and we can still sell another

-2-

\$500,000,000 of his. I was waiting for an opportune time.

(Explanation: The President told Jesse Jones that he thought we ought to borrow some money in Jesse Jones' name so that we would not increase our total debt too much.)

Welles is coming here with Hornbeak and he said he talked to you. He was wrong -- it was \$20,000,000. I am in writing on that. I have recommended it. Welles told me that you told him to go ahead with it. I also told Jesse Jones to be here at 3:30 too. You are satisfied to go ahead with it. Of course, I am tickled to death.

I got a very nice wrinkle. Of course it is not too sincere. All these people who are worrying about Communism -- we are driving China right into the arms of Russia because they are the only people who are helping them. If we give them a loan, they have two friends instead of one. It is an argument which can be used with one's tongue in the cheek.

(HM, Jr's comment to HSK: The main thing the President wanted to know was how the French strike was going.)

November 30, 1938

3:30 pm

Welles came in with Hamilton and Hornbeck and asked the Secretary if they could see him alone because there were a few matters of policy that he wanted to discuss with him. However, Mr. Jones, Mr. Hanes and Mr. Taylor were already in the room and they remained, and the Secretary asked Mr. Oliphant, Mr. Loshhead and Mr. Foley to wait a few minutes in his outside office and would call them in a few minutes.

Mr. Welles asked that no stenographic notes be made of his remarks. The following is in substance what he told the Secretary, but is not a verbatim report.

1. Public opinion in this country is not yet ripe for any evidence of policy on the part of the United States which might result in the need for any forceful action on our part.

2. Under present conditions in Europe, neither Great Britain nor France are free to take any parallel action. The position of the United States is weaker than it might be at other times. Any open assistance on the part of the United States to the Chinese Government may give rise to protest on the part of the Japanese Government and would bring us face to face with those eventualities. We have received a communication that the Japanese Government is now going to determine what other nations will be permitted to trade in China. In order to answer that communication the United States could, of course, make its position very clear. We do not agree, but will insist on our rights in China. The United States will announce certain steps of economic kind which would deprive advantages which Japan now enjoys. I want to ask that any active step be postponed until after the President returns.

HM, Jr.: I am embarrassed in this way: when I talked to you the other day, I got the distinct impression that the President said to go ahead with it.

-2-

Mr. Welles: The President did say to go ahead with it.

HM, Jr: The President called me today to ask me about the French situation and in talking to him I told him that I understood that he had talked to you about the Chinese loan and the President said that he had and that it is all right to go ahead on the tung oil. He also said that it was a matter of \$5,000,000 and I said, "No, Mr. President, it is a matter of \$20,000,000," and he said, "Well, I don't think that makes any difference."

Frankly, on this letter which I have written recommending it, in view of Mr. Hull's opposing it, I think the President ought to countersign it. I mean, this whole thing has been hanging fire so long -- if you really mean next week, I am perfectly willing to wait.

Mr. Welles: The President will be back on the 8th. I think that since this step is of such importance, if the President wants to accept the second alternative, which I have just outlined, I think your plan ought to be a part of it.

HM, Jr: I would hate to see this made part of an aggressive policy.

Mr. Welles: It means assistance to the Chinese Government.

HM, Jr: As I told you, I don't think there is one chance in ten that we will ever get paid back. As I told the President today, all these people that are worried about Communism -- we are driving China right into the arms of Russia because they are the only people who are helping China. If we give them a loan, they have two friends instead of one.

If on this Japanese thing, if you are going into that, I would like to have our Customs people prepare a memorandum on the discrimination against our goods.

Mr. Welles: It would be extremely helpful to have that.

-3-

HM, Jr: We have waited so long I think we can wait until next week.

Mr. Jones: Of course, I disagree with both of you. If I felt as you do, Henry, I would not make the loan. I personally think it is a good loan.

HM, Jr: Perhaps, Jesse, I am just a little bit franker than you. I really think we are approaching it from different angles, but will arrive at the same conclusion.

Mr. Welles: The President ought to consider the two major alternatives that I pointed out to you.

HM, Jr: The President told me that if he could get a satisfactory statement from General Chiang Kai-Shek, he would make this loan. He did receive such a statement and the President felt it was a satisfactory one.

(At this point, Mr. Welles said he would like to know a little bit more about the deal that we are proposing to make with China on tung oil and Mr. Olliphant, Mr. Foley and Mr. Lockheed were called in from the Secretary's reception room where they had been waiting.)

Mr. Foley gave Mr. Welles a brief outline of the plan to purchase tung oil from China.

HM, Jr: Since Canton has fallen, they have been working very hard on their other routes. The Highway Commissioner of China is here and, for the first time, we have accurate information showing various routes about which we never knew before.

They have \$2,000,000 cash here which has been earmarked and they are in the process of buying 1,000 trucks and those will be sent to Rangoon. They have in mind that this transportation system will take, for instance, gasoline and will bring back tung oil.

(Mr. Hamilton, of the State Department, spoke about a cable which was then being paraphrased and which stated that an American engineer had been studying the Chinese roads and reported that transportation

-4-

on these roads was impractical. A copy of the cable is attached herewith.) *See pages 117, 118 & 119.*

HM, Jr: Well, in view of this cable, you people certainly ought to see this Chinese Highway Commissioner who is here and who is in charge of these roads. They will not use tank trucks.

(At this point, the Secretary asked Mr. Hanes to tell the State Department representatives about his contacts with the manufacturers, which he did.)

Mr. Welles: That gives me the education that I needed.

HM, Jr: There is a shipment of tung oil on the water now.

Mr. Lochhead: There are two shipments on the water, but they are coming out of Burma.

HM, Jr: (To Mr. Oliphant) I wish that you would have Customs get everything together that we have on Japan in regard to customs losses and I want to get it into Sumner Welles' hands by Monday.



# TREASURY DEPARTMENT

370

OFFICE OF THE SECRETARY

WASHINGTON

COMMISSIONER OF  
ACCOUNTS AND DEPOSITS

November 30, 1938.

TO THE SECRETARY:

The Daily Treasury Statement as of November 30, 1938, shows the following receipts and expenditures in millions of dollars:

	This fiscal year to Nov. 30	Corresponding period last year
Receipts .....	2,323	2,311
Expenditures .....	3,659	3,049
Gross deficit .....	1,436	738
Deduct public debt retirements .....	16	36
Net deficit .....	1,420	708
Net deficit last week .....	1,306	679
Increase during week .....	114	23

A summary of recovery and relief expenditures during the fiscal year is indicated below:

	Total to Nov. 22, 1938	Week ending Nov. 30, 1938	Total to Nov. 30, 1938
Agricultural Aids:			
Federal land banks ...	\$21,826,572.29	\$45,977.33	\$21,872,549.62
Other .....	- 2,457,630.78	- 386,215.48	- 2,843,846.26
Relief .....	1,332,589.24	34,075.57	1,366,664.81
Public Works:			
Works Progress Admn. ..	905,456,943.44	55,606,781.85	961,063,725.29
Other .....	195,547,158.38	13,974,273.52	210,521,431.90
Aid to Home Owners:			
Farm Security Admn. ..	47,200,001.03	2,478,124.72	49,678,125.75
Other .....	6,517,681.10	,192,193.06	6,709,874.16
Miscellaneous .....	- 89.81	2,000,000.00	1,999,910.19
	<u>\$1,176,423,224.89</u>	<u>\$73,945,210.57</u>	<u>\$1,250,368,435.46</u>

DIVISION OF DISBURSEMENT

Since the last report, the following transactions have taken place:

During the month of October arrangements were made to make disbursements for the Federal Surplus Commodities Corporation on account of the Northeast Timber Salvage Administration which will secure a loan of \$10,000,000 from the Reconstruction Finance Corporation for the purpose of purchasing timber which was blown down by the hurricane and would, if left on the ground, become worthless within a short time. This loan is to be repaid as the timber is salvaged and sold, but it may be a five or ten year program of disposing of the timber. Symbol numbers have been assigned for doing this work and it is expected that the Federal Surplus Commodities Corporation will reimburse the Division of Disbursement for whatever additional work is involved.

The volume of work for the first four months of the fiscal year in central and regional offices has increased by 40% over the first four months of the previous fiscal year, which taxed the capacity of the various subdivisions to the limit. In the central office in Washington the typed checks and cash payments for the period July 1 through November, 1938, has increased by 61.4% over the volume of work for the corresponding period in 1937. Except for the addition of a few typists for a short period, the number of employees has not been increased.

In the Treasury-State Disbursing Offices the volume of work for October, 1938, was 65.5% larger than the volume of work in February, 1938, but the work is being done with an increase of only 4.02% in personnel. This is possible by close supervision of the methods used. The result is accomplished by frequent inspections by the staff of field investigators and the constant study, in the central office, of improved methods.

INDUSTRIAL LOANS

The status of payments to Federal Reserve banks on account of industrial loans has remained unchanged since October 14, 1937, making the total loans to date \$27,546,310.97.

BALANCES IN DEPOSITARIES

The amount of balances in special depositaries on November 30, 1938, was \$735,802,000.

Confidential

Strictly 372  
Confidential

PARAPHRASE

A telegram (No. 758) of November 30, 1938, from the American Ambassador at Tokyo reads substantially as follows:

Information has been received from the Consulate General at Seoul stating that the Russian Consulate there is under closer surveillance and that information colored with authenticity has come to the Consulate General to the effect that Changkufeng has been occupied again by Russians and that Japanese soldiers are moving in that direction.

A Japanese newspaper recently carried an article under a Seoul dateline to the effect that a Japanese officer who returned on October 28 from a reconnaissance of the Changkufeng region reported that the Soviets were engaged in military construction in Manchurian territory and that the Soviet flag was flying on the hill.

The Japanese Foreign Office states that it has received no information with regard to the report from the Consulate General at Seoul and the Embassy finds it impossible at the present time to obtain from other sources in Tokyo confirmation of the report. There is no way, of course, in which the Embassy can confirm the report that Japanese soldiers are moving in the direction of <sup>the</sup> Changkufeng area. This rumor apparently has not reached Tokyo as yet.

761.93 Manchuria/234

Recommendation

In our recent memorandum we suggested a 1-1/4% 5-year Treasury note and a 2-3/4% 25-30 year Treasury bond but since that time long term bonds have shaded slightly and it now appears the suggested bond would not provide ample premium. Therefore, we suggest that the issue be shortened 2 or 3 years. On the other hand, Treasury notes have improved but our preference is still a 1-1/4% coupon over a 1-1/8% coupon.

TREASURY DEPARTMENT

374

INTER OFFICE COMMUNICATION

To Secretary Morgenthau

DATE: November 30, 1938

FROM M. A. Harris  
W. H. Hadley

Estimates based on closing bid prices November 29, 1938.

<u>Possibilities</u>	<u>Estimated Market Bases *</u>	<u>Indicated Premium</u>
<u>NOTES</u>		
1-1/8% 12/15/43 (5 yrs.)	0.94 - 0.97	29/32nds - 3/4 pt.
1-1/4% 12/15/43 (5 yrs.)	0.94 - 0.97	1 pt. 18/32 - 1 pt. 13/32nds
<u>BONDS</u>		
2-1/2% 1950/53 (12-15 yrs.)	2.37 - 2.39	1 3/8 pts. - 1 pt. 5/32nds
2-5/8% 1952/57 (14-19 yrs.)	2.49 - 2.51	1 pt. 19/32nds - 1 3/8 pts.
2-5/8% 1953/57 (15-19 yrs.)	2.52 - 2.54	1 pt. 10/32 - 1 pt. 2/32nds
2-3/4% 1960/66 (22-27 yrs.)	2.63 - 2.65	2 pts. - 1 5/8 pts.
2-3/4% 1961/66 (23-28 yrs.)	2.64 - 2.66	1 7/8 pts. - 1 1/2 pts.
2-3/4% 1962/67 (24-29 yrs.)	2.65 - 2.67	1 3/4 pts. - 1 3/8 pts.
2-3/4% 1963/68 (25-30 yrs.)	2.66 - 2.68	1 5/8 pts. - 1 1/4 pts.

\* The first basis given is in line with the current market. The second is a conservative estimate and the one on which the issue will probably sell when first quoted.

Note: The 1-1/2% due 3/15/39 are quoted 101.18 bid, which is a price about 1 1/2 points above a "no yield" basis.

November 30, 1938.  
12:45 p.m.

Wayne C. Taylor: particular message is extremely technical and extremely confidential.

HMJr: Yes.

T: And he would feel a little better about it if the circle and observers and so on wasn't too big.

HMJr: Well, we can have you and Archie.

T: Yes.

HMJr: How's that?

T: I think probably that's the way he'd like to do it.

HMJr: All right.

T: Right.

HMJr: O.K. You and Archie.

T: Yes.

HMJr: All right. Fine.

November 30, 1938.  
4:33 p.m.

W.O.  
Douglas: Hello.

HMJr: Hello Bill.

D: Yes.

HMJr: Henry Morgenthau.

D: Yes.

HMJr: Bob Allen of Pearson and Allen just left me.

D: Yes.

HMJr: And he said he had a letter from out West, that he knew a lot about this Gianini stuff and all the rest of it, what was there to it, see?

D: Yes.

HMJr: So I said, "Well after all this is SEC"and if there is a story and so forth and so on, and he knew about McAdoo being over there, but I said, "Why don't you go over and see Douglas, it's his story, it's his organization."

D: Yes.

HMJr: So I hope you don't mind, but I did tell them to come and see you, and I told them nothing.

D: Yes. O.K.

HMJr: I - I told them nothing, all I said was that I was in this with you and we were shoulder to shoulder.

D: Yes.

HMJr: I did tell them that.

D: Yes.

HMJr: Outside of that I told them nothing.

D: O.K. Thank you very much.

HMJr: You're welcome.

D: Goodbye.

November 30, 1938.  
4:35 p.m.

HMJr: Hello.

Operator: Secretary Wallace. Go ahead.

HMJr: Hello. Hello.

Secy.  
Wallace: Hello, Henry.

HMJr: How are you?

W: Oh, just fine. Henry, we're selling some wheat to England where's there's a problem of some sterling.

HMJr: Yes.

W: Involved, some sterling exchange.

HMJr: Yes.

W: And before we moved on that front I wondered if we could have Jesse Tapp talk with some of your people about it.

HMJr: Yes. Let him talk to Archie Lochhead.

W: To Lochhead.

HMJr: Who's in charge of our Stabilization Fund.

W: All right, sir.

HMJr: Will you?

W: Yes, I just - we want to handle it so we weren't taking a risk.

HMJr: Sure, but - and incidentally we've been working like Hell on sterling the last week and we got some results.

W: Oh, that's fine. Fine.

HMJr: It's - it's much better, it went - you know it went down to low 4.62, it's up to above 4.68 today.

W: Yes.

HMJr: And we're getting some cooperation from the British Treasury.

- 2 -

W: Good.

HMJr: And I hope it'll last a few days longer because the commodity index has responded nicely and I'm doing all I can and we're getting better cooperation from them than we ever had before.

W: Fine.

HMJr: But if he'll - if he'll contact Archie Lochhead he'll give them what - he'll give them anything he's got.

W: Fine. Zeke was telling me you're having some very fine conferences.

HMJr: Well -

W: On the long range aspects of certain of our problems.

HMJr: I'm doing the best I can and as I tell these boys if they've got anything I'd like to have it and if they think we're on the wrong foot I'd like to have that too.

W: We're - we've had one conference with Wayne Taylor on this other matter on the - some of the long range aspects of wheat and cotton and I think we'll have some - thing for you.

HMJr: Maybe some day the President -

W: Week or so.

HMJr: Will ask a half a dozen of us to get together and sit down with him.

W: By the way I'm going to send a book over to you that's to come out from - written by some young Harvard Professor on -

HMJr: Oh I've heard about that. I'd love to see it.

W: I'll send - ah - ah - I've ordered several copies, it impressed me so much, I'll send one over to you.

HMJr: Oh, I'd appreciate it very much. I heard about it, but I haven't seen it.

W: Yes. All right.

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HMJr: Well - Thank you.

W: Fine.

November 30, 1938.  
4:38½ p.m.

HMJr: Hello.

Operator: Mr. Gibbons. Go ahead.

Stephen  
Gibbons: Hello.

HMJr: Hello Steve.

G: Remember the Secretary of State calling you about ten days ago on the Tay Bank narcotic case.

HMJr: Yes.

G: British Ambassador.

HMJr: Yes.

G: He's in to see me. Well, it's a case where they exercised no care at all.

HMJr: Yes.

G: And the British Ambassador is bringing pressure to bear on Bryan McMann and Bryan McMann came over here. I had a conference with Oliphant's assistant, Kearns and Johnston and so on, and they've offered twenty five thousand dollars.

HMJr: Yes.

G: And Bryan - the law says that the Court can decide whether the highest degree of efficiency has been maintained on these ships to stop the stuff from being taken aboard.

HMJr: Yes.

G: And Bryan is afraid that if we go into Court on one of these cases we may lose.

HMJr: Yes.

G: And there'd be no serious objection. I talked the thing over with Kearns and Johnston and twenty-five thousand dollars is a pretty good smack on the first - the original fine at twenty-five dollars an ounce is ninety thousand.

HMJr: Waan't there something about them , we took their check or something too quickly?

- G: Yes. Yes. Well that has no bearing on the final settlement, -
- HMJr: How much was the check?
- G: Twenty-five thousand dollars.
- HMJr: Uh-huh.
- G: Now I told Bryan if we could get them, you see the Canadian Pacific Steamship Lines have set up a system that they had three men aboard each ship -
- HMJr: I know about it.
- G: And they've never had a violation since. Of course, that isn't foolproof.
- HMJr: What steamship company is this?
- G: This is a foreign British steamship company.
- HMJr: Well look, if you fellows are all unanimous and will say so in a letter to me I'll go along with you.
- G: Well, that's - we didn't want to put anything - he hasn't for it in writing but we wouldn't - would we seriously object if he - if he accepted the twenty-five thousand. He doesn't want to do anything that - and he thinks it ought to be accepted, or twenty-six thousand or thirty thousand, he's going to ask them for say thirty-five thousand, and -
- HMJr: Who?
- G: Bryan McMann.
- HMJr: Yes. Well -
- G: And he's perfectly sincere in his -
- HMJr: I'll leave it to you Steve and the rest of the boys.
- G: Well, I just want to - I think that -
- HMJr: You get together, you - anything that's reasonable, I'll take it.
- G: O.K.

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HMJr: How's that?

G: That's right, and then if we can get them to put up a system, of course, for the future.

HMJr: Yes.

G: That they're doing our work, see?

HMJr: Then the next time if they fine us, then -

G: There will be nothing doing.

HMJr: Right.

G: Yes.

HMJr: O.K. Steve.

G: O.K.

C A B L E

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

Date: November 30, 1938  
Wednesday

#323. LIQUIDATION BULL POSITIONS DOLLARS CONTINUES BUT TURNOVER SMALLER THAN YESTERDAY. FORWARDS STEADY. STRONG DEMAND FOR SPOT PARIS. FORWARDS WANTED. DeCASTELLANE REPORTS POSITION-PARIS NORMAL RAILROADS, BUSSES, METRO ALL RUNNING BANKS OPENED NO EVIDENCES STRIKE GOING ON. REPORTS FROM PROVINCES INDICATE SAME STATE AFFAIRS. CERTAIN PART STRIKES FACTORIES BUT GENERAL STRIKE COMPLETE FAILURE FOR EXTREMISTS AND LABOR UNIONS. DALADIER SCORED GREAT SUCCESS. CONTROL ACQUIRED BETWEEN POUNDS 4 - 5 MILLION MOVEMENT STILL CONTINUING PARTLY DUE FEAR DOLLAR.

CONFIDENTIAL

Treasury Department  
Division of Monetary Research

Date.....1938

To:

3/28/39

Ask Miss Chauncey if she has copy  
of this.

MR. WHITE  
Branch 2058 - Room 200

November 30, 1938

Mr. Bewley, British Financial Attache, called to see the Secretary of the Treasury at 3 p.m., and Messrs. Lochhead, Taylor and Dutterworth were present.

Mr. Bewley began by saying that he had received a reply from London (see memorandum of meeting in Secretary's office on November 22nd) which was partly technical and partly general, and he requested that the technical part be kept with absolute secrecy and he asked that no verbatim record be made of his remarks.

Mr. Bewley read what was obviously a telegram he had received from the British Treasury, which outlined in general terms the technical steps which Bolton had informed Knoke yesterday that the British monetary authorities were taking, namely, that the British clearing banks had been requested to refrain from facilitating speculative transactions both against gold and dollars with the intention of promoting a squeeze. Mr. Bewley emphasized that this was not a panacea, but a palliative, a temporary remedy to remove some of the speculative pressure, but, nevertheless, it was hoped that it would be effective.

In this connection, he asked that the American Treasury, should the need arise, facilitate this action as regards any American banks operating in London. The Secretary readily offered to do anything that was necessary to insure that the American banks would fall into line and he specifically asked Mr. Bewley to let him know if any of the American banks in London were operating in a way which ran counter to the desired aims.

Mr. Bewley took occasion to point out, on behalf of the British monetary authorities, that if the international political situation had not arisen, the fundamental economic trend in recent months would, nevertheless, have made impossible the maintenance of a \$5 pound and, in this connection, he emphasized particularly the falling-off of American purchases abroad by, roughly, \$1,000,000,000. At the same time he expressed the hope that the technical measures undertaken would gradually operate to strengthen the pound,

- 2 -

but that that, in turn, presented a problem of policy as to the degree to which the pound would be permitted to rise in relation to the amount of resources to be recouped. To this the Secretary replied by saying that, at first blush, he hoped that in their desire to replenish the Fund that the British authorities would not weigh too heavily against letting the pound rise.

Mr. Bewley brought up the question of the use of the devaluation powers by saying that the Secretary had made some reference to this in their previous conversation and that it was a matter which his Treasury, from time to time, pressed him about. He wished to know whether their use was being considered. The Secretary replied, "What I have said repeatedly, when this is brought up, is this: the question of further devaluation I consider a device only to use in a great emergency, and at this time I don't envisage any such emergency."

Mr. Bewley expressed entire satisfaction with this answer.

It should be added that Mr. Bewley stressed at several points in the conversation the importance of maintaining secrecy about the measures the British authorities were taking to restrict exchange operations; that it was essential that the market should be kept in the dark, and uncertain, even though it would eventually realize that action had been taken. The Secretary assured him that no publicity would arise from it.

FEDERAL RESERVE BANK  
OF NEW YORK

387

2(f)

OFFICE CORRESPONDENCE

DATE November 30, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

I called Cariguel at 10:25 a.m. Things were very good with them, he said. The strike had been a failure. He had taken in about \$5,000,000 today and was quite happy. The money market already was in very much better shape as a result of the improvement.

LWK:KW

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE: November 20, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knoke

Mr. Bolton called me at 11 o'clock. They were having a big day over there due in part, of course, to the fact that the general strike in Paris, generally speaking, had been a "tremendous failure" and that only in isolated parts of the country had there been any evidences of limited success. He expected that the French were having a very big return of capital today, probably in the neighborhood of \$5,000,000 and that as things were looking now this situation might continue.

As regards sterling "our little squeeze has begun"; in connection with the improvement of the situation in Paris it had brought out a large amount of dollars; he had bought about \$15,000,000 at rates from 4.86 1/2 to 4.87 3/8. They were out of the market now trying to see if the rate would improve further. Should it fall back they had plenty of dollars to sell in support. The market as a whole was just beginning to be aware that there was some squeeze going on. This situation might cause some difficulties with the American banks there and he wanted to warn me of that. Most of the sterling funds which these banks had were simply the result of hedges (they had furnished spot dollars to the London market against forward dollars on a swap basis); if they couldn't renew these hedges they might face difficulties. If that situation should develop they at the bank would probably handle them; however, if the situation should become at all serious he would let me know. Meanwhile, he

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE November 30, 1938.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnekeBANK OF ENGLAND.

B

did not think there was any necessity for us to warn any of them. He simply wanted to put the idea into our minds not because he expected trouble but just to be prepared if anything should happen. If the covering movement continued for awhile, that is after the bulk of the short positions were covered, it would probably be easier for the others - at a price, that is, at a widened premium for forward dollars - to maintain their hedges.

LWK:KW

JR

A portion of this telegram must be closely paraphrased before being communicated to anyone.  
(C)

Berlin

Dated November 30, 1938

Rec'd 1:10 p.m.

Secretary of State,  
Washington.

673, November 30, 4 p.m.

(GRAY) No. 34, FOR TREASURY FROM HEATH.

It is understood that the American newspaper correspondents have cabled the main sections of Schacht's speech on "financial miracle" last night. Schacht repeated his familiar praise and justification of National Socialist internal financial reconstruction measures and his usual arguments that the bilateral foreign commercial policy and exchange measures were unavoidably forced on Germany. He described the various financial reconstruction measures but in an aside not quoted in the official version of his speech said that the rearmament and the automobile road construction programs were practically sufficient in themselves to bring about full economic activity in Germany. He referred to the cessation of Central Bank credit creation on April 1 and the new policy of meeting all Government expenditures from  
loans

-3-

loans and taxes. After the speech Schacht informed me that he had battled for a year before he succeeded in ending the issue of inflationary "special bills" and had refused to accept a four-year prolongation of his term as President of the Reichsbank, limiting his acceptance to one year instead, which indicated that he had feared he would be unsuccessful in abolishing "special bills" and desired to be free to resign in case he were not successful.

He asserted that foreign estimates of Germany's total indebtedness were excessive and that when it would be possible -- which he hoped would be soon -- to disclose the entire debt "the world would be astonished that so much work--creation and armament had been accomplished with relatively little recourse to credit." He declared that Germany was not "autarchic" and will never be autarchic "in all fields" of production. He admitted that the quantity of manufactured goods imported had decreased by 83% between 1934 and 1937 but pointed to the increased imports of foodstuffs and raw materials. He described Germany's bilateral trade system as "a natural and necessary result of the war indemnities" and of the clearing systems "imposed" on Germany and stated that "as soon as our creditors are ready jointly with us to do away with the results

-3- #673, November 30, 4 p.m., from Berlin.

results of the war indemnities then a gate will be opened through which we can come to multilateral trade and to free international payments transactions".

Replying to assertions that monetary inflation had occurred he stated "in 1929 the total German monetary circulation amounted to around 5,980,000,000 marks. In the interim the population of the Reich has increased by 14,900 through excess of births and through the acquisition of the Saar district, Austria and Sudetenland. Therefore, figuring on the same per capita money circulation a figure of 7,370,000,000 marks is reached. Compared with this figure the average monetary circulation for the first ten months of the current year was around 7,930,000,000 marks. It is therefore only 560,000,000 higher in comparison with the year 1929." He admitted in every particular that "naturally the monetary circulation in the critical month of September this year had undergone a substantial increase" but added that this was still less than the increase of circulation in other countries.

It is true as Schacht states that the average circulation for the first ten months was only about 8,000,000 marks but he did not mention that the circulation steadily increased up to September. There was a decrease

in

-4- #673, November 30, 4 p.m., from Berlin.

in October but this has not continued so far in November. The total circulation on November 23 stood at 9,007,000,000 marks as compared with 9,069,000,000 marks on October 23 and 8,786,000,000 on September 23.

The remarkable ratio of repayment of fresh Reichsbank credits continued through the third week of November at the end of which 114.8% of the October credits increase had been repaid. Total Reichsbank credits fell 165,000,000 marks to a total of 7,484,000,000 marks. The Reichsbank holdings of commercial bills stood at 6,611,000,000 marks as compared with 6,737,000,000 marks on October 22. This reduction of credits was accompanied by an increase of liabilities. Demand deposits increased 94,000,000 to 104.2 million and time deposits 8,000,000 to a total of 417,000,000 marks. The disclosed gold and foreign exchange holdings of the Reichsbank continued practically without change at 70.7 million marks and 6.2 million marks respectively.

The money market has stiffened recently presumably largely due to final payments to be made on the October loan. (Payments on the one point five billion marks loan announced November 19 will not begin until January 17) call money was quoted at 2-7/8 to 1-1/8 which is about three-quarters of one per cent higher than

the

-5- #673, November 30, 4 p.m., from Berlin.

the first week in November.

Published indices show continuing slight increases in economic activity. The employment index for October was 118.2 (1936 equal 100) as compared with 117.8 in September. The index for hours of work performed was 122.8 in October as compared with 122.1 in September. The index for retail trade turn over in September last was 12 per cent higher than in September 1937. There was a net increase of 242,000,000 marks in deposits of German savings banks during October.

GILBERT

HPD

JR

GRAY

London

Dated November 30, 1938

Rec'd 2:15 p.m.

Secretary of State,  
Washington.

1375, November 30, 6 p.m.

FOR TREASURY. Only 106 bars, 78 of which were  
married were sold at today's fixing at 149 shillings  
1 pence which gave one-half pence premium at 4.66-3/8.

Opening at 4.66 the rate has moved to 4.68-1/8  
with the British fund buying considerable amounts of  
dollars.

An exchange market source estimates that the Bank  
of France has bought something like pounds 10,000,000  
of sterling today starting at 178.36 and moving to 32.  
The three months forward discount was quoted 1 to 1-1/4.

KENNEDY

DDM:HTM

November 30, 1938

11:30 am

Present:

Mr. Bewley  
Mr. Butterworth  
Mr. Lochhead  
Mr. Taylor

HM, Jr.: Before you start, would you like to know the spot news? Tell him.

Mr. Lochhead: Sterling last night closed at 4.65-7/8s. Of course it had gone down to 4.65-3/8s, then gone up again. Then the market, you remember it was 4.66 in the morning, strong. Then it went down to 4.65-3/8s and closed at 4.65-7/8s. This morning opened over there 4.66-1/4 and strong all during the day. At the present time it is 4.68-1/2. The Bank of England reports that there was substantial covering in their market, that may have reduced their short position by \$30,000,000 today, which shows there is active covering caused, one, by technical methods and, second, by the general improved tone of the market through the improvement in the French situation.

Mr. Bewley: The French situation is regarded as improved?

Mr. Lochhead: Regarded as improved in financial circles.

Mr. Bewley: I have a reply, part of which is technical, part of which is general. I would like to begin by saying that the technical part they would like kept with absolute secrecy; that it is more secret than the other part. I object to having it down in writing. It seems to me my words are not of great value.

HM, Jr.: Don't take it, Miss Chauncey.

(Note: Mr. Butterworth dictated a memorandum on Mr. Bewley's off-the-record statement.)

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HM, Jr: I can say unhesitatingly that if these American banks -- to use the American vernacular, "squawk" about it, I will be delighted to spank them for having done it. How's that?

Mr. Bewley: That's perfect.

HM, Jr: I will give the British Treasury full support and if they will care to name the particular banks .....

Mr. Bewley: I don't know that it has happened.

HM, Jr: If they will name the banks, I will get in touch with the heads of the American banks here, if they wish me to, and tell them that this is something that is both very displeasing to the British Treasury and to ourselves.

Mr. Bewley: I am sure they would feel very grateful.

HM, Jr: This is something that it is almost impossible for us to follow here.

Mr. Lochhead: If there are American banks, it would all be done on the other side.

HM, Jr: But if you will say this is the Guaranty, or the Bank of Manhattan or Chase, these are the bad banks .....

Mr. Bewley: If there are any.

HM, Jr: If there are any, I will back your Treasury up 100%.

Mr. Bewley: Thank you very much.

HM, Jr: Cheerfully!

Mr. Bewley: I am sure my Government will be gratified.

HM, Jr: I will call up the President of the Bank or have our Fiscal Agent do that and say this is very displeasing to us, unhesitatingly!

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Mr. Bewley: That, really, is all there is to it. Of course, nothing has happened yet.

HM, Jr: Unhesitatingly I will support your people along these lines if they will tell me which of the American banks it is and it does not make any difference if it is a private bank we will be very glad to get in touch with them.

Mr. Bewley: I will be very glad to tell my Government that and they will be very grateful to you.

HM, Jr: I will do it cheerfully, enthusiastically and forcefully. I can assure you there will be no intimation come out of this Treasury or the Federal Reserve Bank of New York.

Mr. Bewley: I don't doubt it at all.

(At this point there was more off-the-record remarks by Mr. Bewley.)

HM, Jr: The only thing, and this is at first blush, I hope that in their desire to replenish the Fund that they won't weigh too heavily against letting the Pound rise. That's my first reaction. See? Now I have not had time to talk about it with my associates. I don't know how they feel, but in their desire to replenish their Fund I hope that they won't be too strict about letting the Pound go back.

Mr. Bewley: We can't tell now the thing is going to work; depends upon how much comes back, obviously.

HM, Jr: Today is a typical day. The Pound is up 2-1/2 points and they have gotten back \$30,000,000. At that rate they would not need many days like that and, incidentally, the French did very well today too.

Mr. Taylor: I think the market itself will give the answer to that on each day as to what it is going to be possible to do.

HM, Jr: But today we could have put the lid on where?

Mr. Lochhead: Around 4.8%.

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HM, Jr: And I told Aronie to let it go up, and we did about \$50,000,000. That's the way I felt. We have all this gold and we could say, 'Here's a chance. Now I am quickly going to sell a lot of gold,' but I said no, it's more important to see the Pound rise. That's the way I react. As I say, I am giving you my first blush.

You left me with the impression, the other day, as to what was your own opinion, that there was not any technical action.

Mr. Bewley: I did not want to go as far as that. I merely meant that technical action is not a panacea. It can only be a palliative.

HM, Jr: I do feel that there are certain technical steps which can be taken, particularly when the situation is right, which it seems to be now, where there is a big shortage.

Mr. Bewley: Yep.

HM, Jr: And I am very pleased to see that the British Treasury has taken the steps it has the last few days, but I also realize that it is only part of the picture.

Mr. Bewley: I think we see fully eye to eye on that.

HM, Jr: I want to thank Sir John Simon for this message. I can assure you it will be kept as part of our Stabilization Fund information and that if he finds that some of the American banks over there are not playing ball, if he will advise me at once I can assure him he will get full cooperation at this end. Now, all I can hope for is what's happened in the last few days will continue at least a few days more.

Mr. Bewley: Yes.

There was really only one other thing which is in relation to something you said the other day. You said you would have to take some further action. I wondered whether you were referring to further de-

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valuation. I want to say that if the economic situation is such as to make for a weaker relation between Sterling and the Dollar, it does not seem to me -- and in this I know I am representing Treasury viewpoint -- that any deliberate alteration of any currency is any solution of the problem.

HM, Jr: Is this something you want to know or your Government.

Mr. Bewley: It's just something my Government is putting to me repeatedly.

HM, Jr: Do you want an answer?

Mr. Bewley: If you feel inclined. You don't have to give me an answer.

HM, Jr: What I have said repeatedly when this is brought up is this: the question of further devaluation I consider a device only to use in a great emergency, and at this time I don't envisage any such emergency. Does that answer you?

Mr. Bewley: Yea; perfectly.

HM, Jr: I don't at this time envisage any such emergency.

Mr. Bewley: That is certainly a complete answer. I did not really suspect it for a moment, but as there are all these rumors going out I thought it wise to clear it up.

HM, Jr: At my press conference Monday they asked me about it and I said this was not the season for gold devaluation rumors. It was usually an not August day when they had no stories to write and I refused, at this time, to either confirm or deny because the story was not worth it and they did not write anything and I just wasn't going to get into a series of denying twice a week, because the more you deny the more you get people to write it, but I can't add anything to what I answer you.

Mr. Bewley: I don't want any further answer.

HM, Jr: Things have to get a great deal worse

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for us to use it at this time, but it's there.

Mr. Bewley: The position as far as we are concerned is we are doing our best to keep up Sterling. We shall continue to do the best we can.

HM, Jr: As I said, I hope the last few days will continue for at least a few days more and if I have something, if anything develops, I will ask you to come down and if you have anything I would like you to come and tell me about it.

Just before you go, Wayne, you want to add anything?

Mr. Taylor: You do expect in the pouch some of the figures about the other thing?

Mr. Bewley: I do. The Queen Mary is delayed. I will bring it down Friday or possibly Saturday, because the Queen Mary is delayed.

HM, Jr: (To Mr. Taylor) I mean as to Administration attitude.

Mr. Taylor: I could not improve a word of it.

HM, Jr: Archie?

Mr. Lochhead: There is just one thing. You speak about these regulations. From what I gather they are all pointed towards exchange position. When you speak of that you take exchange positions between Sterling and Dollar or also between Sterling and gold?

Mr. Bewley: I think both.

Mr. Lochhead: Two technical things. First, that they were asking the London banks not to permit exchange transactions and, secondly, not to continue to finance transactions in Sterling against gold.

Mr. Bewley: That's certainly the way I feel.

Mr. Taylor: It covers the whole field.

Mr. Lochhead: Of course, there is just as much

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speculation with gold as against the dollar.

Mr. Butterworth: I have nothing.

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November 30, 1938

Mr. Bewley, British Financial Attache, called to see the Secretary of the Treasury at 3 p. m., and Messrs. Lockhead, Taylor and Butterworth were present.

Mr. Bewley began by saying that he had received a reply from London (see memorandum of meeting in Secretary's office on November 22nd) which was partly technical and partly general, and he requested that the technical part be kept with absolute secrecy and he asked that no verbatim record be made of his remarks.

Mr. Bewley read what was obviously a telegram he had received from the British Treasury, which outlined in general terms the technical steps which Bolton had informed Knoke yesterday that the British monetary authorities were taking, namely, that the British clearing banks had been requested to refrain from facilitating speculative transactions both against gold and dollars with the intention of promoting a squeeze. Mr. Bewley emphasized that this was not a panacea, but a palliative, a temporary remedy to remove some of the speculative pressure, but, nevertheless, it was hoped that it would be effective.

In this connection, he asked that the American Treasury, should the need arise, facilitate this action as regards any American banks operating in London. The Secretary readily offered to do anything that was necessary to insure that the American banks would fall into line and he specifically asked Mr. Bewley to let him know if any of the American banks in London were operating in a way which ran counter to the desired aims.

Mr. Bewley took occasion to point out, on behalf of the British monetary authorities, that if the international political situation had not arisen, the fundamental economic trend in recent months would, nevertheless, have made impossible the maintenance of a \$5 pound and, in this connection, he emphasized particularly the falling-off of American purchases abroad by, roughly, \$1,000,000,000. At the same time he expressed the hope that the technical measures undertaken would gradually operate to strengthen the pound,

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but that that, in turn, presented a problem of policy as to the degree to which the pound would be permitted to rise in relation to the amount of resources to be recouped. To this the Secretary replied by saying that, at first blush, he hoped that in their desire to replenish the Fund that the British authorities would not weigh too heavily against letting the pound rise.

Mr. Bewley brought up the question of the use of the devaluation powers by saying that the Secretary had made some reference to this in their previous conversation and that it was a matter which his Treasury, from time to time, pressed him about. He wished to know whether their use was being considered. The Secretary replied, "What I have said repeatedly, when this is brought up, is this: the question of further devaluation I consider a device only to use in a great emergency, and at this time I don't envisage any such emergency."

Mr. Bewley expressed entire satisfaction with this answer.

It should be added that Mr. Bewley stressed at several points in the conversation the importance of maintaining secrecy about the measures the British authorities were taking to restrict exchange operations; that it was essential that the market should be kept in the dark, and uncertain, even though it would eventually realize that action had been taken. The Secretary assured him that no publicity would arise from it.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 30, 1938, 5 p.m.

NO.: 3022

FOR THE TREASURY.

The general strike was more of a failure than had been anticipated. Today the exchange and security markets naturally reflected extreme buoyancy and strength as a result of the success of the Government. During the official market the rate for sterling was brought down from 178.47 to 178.32 because of the demand for francs. An excellent day was experienced by the fund, and our market contact informs us that about 8 million pounds was acquired by the fund. Dollar rate is now 38.17 where formerly it was 38.34, and there were rather free offerings of the dollar. 20 centimes is the forward rate for one month sterling, and 1 franc 12 centimes for three months sterling.

Firm and active security market here; gain of about one franc in rentes. This afternoon Bourse news is that defeat was admitted by the general Confederation of Labor and that the Syndicates were given freedom to go back to work again. It is understood from the same source that the country was calm and no trouble of any importance has been reported.

END MESSAGE.

WILSON.

EA:LWW