Transmitted by State Department (Rec. Dec. 7, 1936)

Bern, November 24, 1936

No. 4886

Subject: Approval by Switzerland of tripartite monetary agreement of September 26, 1936.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my despatch No. 4866 of November 7, 1936, relative to the adherence of Switzerland to the tripartite monetary agreement and to quote the following translation of a communiqué appearing in the Swiss press today, announcing the Swiss Government's approval of the general principles of the tripartite communication of September 25th:

"The Federal Council has addressed to the Governments of the French Republic, the United Kingdom, and the United States of America a communication informing them that it has taken note of their declarations concerning their intentions with regard to monetary policy, and that it approves, for its part, the general principles con-

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tained in the Convention of September 26th of the three Powers. By this communication the Federal Council confirms the negotiations previously announced which have for their purpose the adhesion, in collaboration with other States, of Switzerland to the French-English-American Convention relative to the delivery of gold."

Respectfully yours,

Hugh R. Wilson.

A true copy of the signed original
mk

Enclosure:
Clipping.

File No. 851

GK/mk

In quintuplicate to Department
Copies to American Embassy, Paris,
and American Consulate General, Zurich

Bern, November 24, 1936

No. [illegible]

Subject: Approval by Switzerland of tripartite monetary agreement of September 25, 1936.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch No. [illegible] of November 7, 1936, relative to the adherence of Switzerland to the tripartite monetary agreement and to quote the following translation of a communiqué appearing in the Swiss press today, announcing the Swiss Government's approval of the general principles of the tripartite convention of September 26th:

"The Federal Council has addressed to the Governments of the French Republic, the United Kingdom, and the United States of America a communication informing them that it has taken note of their declarations concerning their intentions with regard to monetary policy, and that it approves, for its part, the general principles con-

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tained in the Convention of September [illegible] of the three Powers. By this formal communication the Federal Council continues the negotiations previously announced which have for their purpose the adhesion, in collaboration with other States, of Switzerland to the French-English-American Convention relative to the delivery of gold."

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Enclosure:
Clipping.

File No. 851

GK/mk

In quintuplicate to Department
Copies to American Embassy, Paris,
and American Consulate General, Zürich

Bern, November 24, 1936

No. [illegible]

Subject: Approval by Switzerland of tripartite monetary agreement of September 25, 1936.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my despatch No. [illegible] of November 7, 1936, relative to the adherence of Switzerland to the tripartite monetary agreement and to quote the following translation of a communiqué appearing in the Swiss press today, announcing the Swiss Government's approval of the general principles of the tripartite convention of September 25th:

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tained in the Convention of September [illegible] of the three Powers. By this formal communication the Federal Council continues the negotiations previously announced which have for their purpose the adhesion, in collaboration with other States, of Switzerland to the French-English-American Convention relative to the delivery of gold."

Respectfully yours,

Hugh R. Wilson.

A true copy of the signed original
mk

Enclosure:
Clipping.

File No. 861

GK/mk

In quintuplicate to Department
Copies to American Embassy, Paris,
and American Consulate General, Zürich

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-93

By authority of the President the Secretary of the Treasury announces that as a further step in the direction of international monetary equilibrium arrangements have been made to give effect to the desire of the Governments of Belgium, The Netherlands and Switzerland to cooperate with the Governments of the United States, Great Britain and France in accordance with the principles of the tripartite declaration of September 25, 1936.

The Belgian Government notified the United States of its adherence to these principles on September 26. Similar declarations of adherence have now been received from the Governments of The Netherlands and Switzerland.

The Governments of the United States, Great Britain, and France welcome the declarations of the Governments of Belgium, Switzerland and The Netherlands expressing their adherence to the principles stated in the tripartite declaration of September 25.

Arrangements have been made by the United States Treasury for gold transactions on a reciprocal basis with these three countries. These arrangements are given effect by public statements of the Secretary of the Treasury which are annexed hereto:

(1) A statement supplementing the statement of the Secretary of the Treasury dated October 13, 1936, with respect to reciprocal transactions in gold with certain countries, and withdrawing the statement of January 31, 1934, relating to the sale of gold for export;

(2) A statement naming the countries of Belgium, The Netherlands and Switzerland as complying with the conditions of the statement of October 13 as supplemented by the above statement.

In addition to the statements to which reference is made above, copies of communications from the Governments of The Netherlands and Switzerland are made public herewith.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-34

Supplementing the announcement made by him on October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours' notice, this statement of intention may be revoked or altered) the United States, in addition to sales of gold to the exchange equalization or stabilization funds of foreign countries, will also sell gold for immediate export to, or earmark for the account of, the treasuries, or any fiscal agencies acting for or whose acts in this connection are guaranteed by the treasuries, of those countries whose treasuries or fiscal agencies so acting or guaranteed are likewise offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold by the United States will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

> Sales of gold will be made at $35 per fine ounce, plus one-quarter per cent handling charge, and sales and earmarking will be governed by the Regulations issued under the Gold Reserve Act of 1934.

The Secretary further announces that his statement of January 31, 1934, relating to the sale of gold for export, is accordingly withdrawn.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-95

The Secretary of the Treasury today named the following additional countries:

Belgium
The Netherlands
Switzerland

as complying with the conditions specified in his press release of October 13, 1936, as supplemented by his press release of November 24, 1936, for the purchase of gold from the United States for immediate export or earmark.

--oOo--

TREASURY DEPARTMENT

Washington

Press Service
No. 8-96

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, November 24, 1936.
11/23/36

The Secretary of the Treasury makes public the following note from the Swiss Legation, transmitted to the Treasury Department by the Acting Secretary of State:

"LEGATION DE SUISSE
Washington, D. C.

November 21, 1936.

"Sir:

"I have the honor to inform you that I have been instructed by my Government to convey to you the following:

"'The Government of Switzerland has cognizance of the declarations by which the Governments of France, Great Britain and the United States of America have seen fit to express their intentions with regard to their monetary policy and adheres to the general principles stated in their tripartite declaration of September 25.'

"Accept, Sir, the assurances of my highest consideration.

(Signed) MARC PETER

Minister of Switzerland.

"The Honorable
R. Walton Moore,
Acting Secretary of State,
Washington."

--oOo--

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-97

The Secretary of the Treasury makes public the following note from the Royal Netherland Legation, transmitted to the Treasury Department by the Acting Secretary of State:

"ROYAL NETHERLAND LEGATION

No. 3775

Washington, D. C.

November 21, 1936.

"Sir:-

"Acting upon instructions of the Minister of Foreign Affairs of the Netherlands I have the honor to inform Your Excellency of the following declaration made by my Government:

"'The Government of the Netherlands has cognizance of the declarations by which the Governments of France, Great Britain and the United States have seen fit to express their intention with regard to their monetary policy and adheres to the general principles stated in their tripartite declaration of September 25, 1936.'

"I avail myself of this opportunity to renew to you, Sir, the assurances of my highest consideration.

(Signed) C. van Breugel Douglas.

Charge d'Affaires a.i.
of the Netherlands.

"The Honorable R. Walton Moore,
Acting Secretary of State,
Washington, D. C."

--oOo--

November 24, 1936.
12:20 P.M.

Present: Mrs. Klotz
Mr. Bell
Mr. Upham
Mr. Opper
Mr. Haas
Mr. Taylor
Dr. Williams
Dr. Viner
Mr. White
Mr. Seltzer
Mr. Lochhead

Taylor: The first three points there are possibilities of doing what you suggested could be done. Number Three probably requires legislation; Numbers One and Two probably don't. Number Four is simply an initial operation which probably should be taken in under any circumstances.

H.M.Jr: Now, may I read for my edification:

" 1. The General Fund of the Treasury could sell securities to the market as a means of reducing bank reserves on the occasion of gold inflow (and could buy securities as a means of increasing bank reserves on the occasion of gold outflow).

" 2. The Stabilization Fund could obtain Government obligations from the Treasury in exchange for gold. The Stabilization Fund could then sell securities to the market in order to reduce bank reserves on the occasion of gold inflow (and could buy securities from the market in order to increase reserves on the occasion of gold outflow).

" 3. The Federal Reserve banks could obtain Government obligations from the Treasury in exchange for gold certificates and sell securities to the market in order to decrease bank reserves on the occasion of gold inflow (and could buy securities from the market in order to increase bank reserves on the occasion of gold outflow)."

Well, that's what the last bank act said we couldn't do - that we could not do business between each other.

Bell: That's right.

H.M.Jr: What?

Bell: That's right.

H.M.Jr: " 4. As an initial operation the Federal Reserve banks could increase reserve requirements to the limit now permitted by law, or could sell its Governments."

As between One and Two, as between the General Fund and the Stabilization Fund, who of - those who think that they'd rather see it done from the General Fund, if they will raise their hands. (No hands raised) Those who would rather see it through the Stabilization Fund (great majority raise their hands).

What are you doing with your hand (to Bell)?

Bell: Doesn't make much difference to me.

H.M.Jr: What did you do with your hand (to Opper)?

Opper: I was neutral, because there's some slight legal advantages in Number One and because I can see the practical advantages in Number Two.

H.M.Jr: Which should we be, practical or legal?

Opper: Well, I thought I wouldn't vote.

H.M.Jr: Now, White, we'll get - we'll come back to you.

Are there any economic reasons which favor One or Two?

White: If I may say so, I would like - or we would like the opportunity of presenting the pros and cons of this in a memorandum.

Taylor: This is very preliminary, obviously.

H.M.Jr: Well, let me say this, because I take it that it is possible to do either One or Two. I think that's quite exciting. Huh? Isn't it (to Viner)?

Viner: The Treasury did that in 1840, in 1860, and in

1890 - it's an old - 1907.

H.M.Jr: You see, that's the advantage, Jake; I never studied history.

Taylor: How exciting was it at the time?

Viner: It was quite exciting. There's a couple books dealing with it. Kinney's "Independent Treasury of the United States" is a treatise on it.

Williams: He was finding fault with it, though.

Viner: Yes.

Williams: Ought to bring that in.

H.M.Jr: I still say it is exciting to me, in my innocence.

Viner: It is exciting. Old things can be exciting, unless they're ladies.

H.M.Jr: Well, I take it that - what did you say?

Viner: Unless they were ladies. I said old things can be exciting -

Mrs. Klotz: That's funny.

H.M.Jr: You fellows want to develop this thing further (to Haas and White)?

Haas: Oh, I would say on it - all that statement is - just sets down the different alternatives. The question of the pros and cons, the arguments one way or another - yes, we'd very much like to have an opportunity to develop, as we see it, the advantages and disadvantages of doing it via those different methods.

Viner: Then also there would have to be the - a legal study of these things, just what could and would have to be done from the legal standpoint.

Opper: Yes, we ought to.

H.M.Jr: Well - After all, Williams and Viner are only here for two days and I'd like to get the benefit of what they have to say while they are still here. See? And so, Williams, would you care to talk to this subject?

Williams: In the first place, I think that we ought to do Four before doing any of the others. The reason for that would be to remove the excess reserves in so far as that can be done, say, by raising reserve requirements, and then you'd be in a better position to operate. It would be very difficult to do anything now that would be effective so long as you have two billion two hundred millions of excess reserves outstanding. For example, you could use up your whole Stabilization Fund and there still would be excess reserves.

So the thing to do, it would seem to me, would be to eliminate and get down to as close a normal situation as we can, and then consider the three methods as means of governing further inflow and outflow of gold after Number Four is done.

And then, as among the three methods, the real question in my mind is between Two and Three. I think on the whole I favor Two, but I think there is a very large question raised as between Two and Three. I can see how in some circumstances you might prefer to do it by Three; of course, there is a legal difficulty.

H.M.Jr: Three?

Williams: Yes.

But the real question, the broadest questions of policy and of future policy, is raised by Two and Three. I think the advantages of Two are very considerable in that you can now contemplate a kind of two-fold set-up. You could have a two-fold set-up, leaving the Federal Reserve to use its portfolio for internal credit control, and the Stabilization Fund to take care of gold movements and external control generally. And that may be the cleanest set-up; I think it would involve a good deal of cooperation, of course.

H.M.Jr: Will you say that again, please?

Williams: If you use Method Two, you could contemplate in the future a division of function, the Reserve Board using its portfolio for purposes of internal credit control, and the Stabilization Fund operating for external control, to take care of gold inflow, outflow, and the rate of exchange, that problem. But there would be many times when the two questions interlocked, I think. For example, you might desire to let gold inflow have its effect on bank reserves at some time, and then there would be times when you might want gold outflow to have a restraining effect on bank reserves, so that there would be the necessity for close cooperation.

The advantage of Three, if it is an advantage, would be that the two types of operation would be under - in one function, see? - and the possibilities of conflict between the two kinds of considerations would be lessened.

H.M.Jr: What two?

Williams: That is, having the Federal Reserve handle the gold inflow-outflow problem as well as the internal problem. This merely points out that that is a possibility, if you could remove the legal difficulty.

Now, the British method is the second, pretty clearly, and we have that much precedent to go by.

H.M.Jr: Just let me ask one thing: that is, there isn't a danger that we might soak up so much of this gold that we would reach the saturation point of stabilization and we find ourselves with the Federal Reserve - let's say they had gone to the maximum increasing their excess reserves and we come along with the Stabilization Fund, begin to absorb this gold and let's say we reach our limit, we've taken the two billion dollars, and they say, "Oh, you can't release any of this because you're going to go ahead and accentuate - "

Williams: I think the only way you could reach your limit would be the Stabilization Fund to have used up two billion dollars, and didn't have any more.

H.M.Jr: Yes

Williams: Then face the question of the desirability of granting to the Stabilization Fund a further borrowing authority; you'd have to get legislation for it.

Viner: Or you could use Number One.

Williams: Or you could use Number One.

H.M.Jr: In thinking this thing through myself - I mean seriously - I was just joking with Jake - I mean I've done a lot of thinking on this thing. I kept always worrying that - well, I can see this thing, but I am always afraid of when we go to the end of the road, you've used up two billion dollars, then the Federal Reserve says, "You can't at this time release one hundred million dollars because this is just the wrong time to do it."

Williams: Yes. Well, that's what I had in mind too: that there might be a division, a difference in opinion; but then you could go to the General Fund.

H.M.Jr: If necessary, and then you have unlimited borrowing powers.

(Unidentified): Not unlimited borrowing powers.

H.M.Jr: Well, of course, you couldn't absorb two billion dollars without Congress meeting once for the legality.

Williams: Take the British method, for example. There is this difference between their method and the way you would operate your Stabilization Fund: You would get Government obligations into the Stabilization Fund.

H.M.Jr: (To Viner and Lochhead) Would you mind? It distracts me. I'm sorry.

Williams: As now contemplated in this statement, the Stabilization Fund would get Government obligations by an exchange for gold, by giving up gold. Now, in the British method they really go beyond that, and the equalization fund can get securities from the Treasury without giving up anything, and that opens the possibility of an unlimited power, you see. It is really the government power to sell securities.

H.M.Jr: But as far as you have explored this thing, it looks as though we were on the right track: that we can take this question, if we want to have gold coming in, and remove it as an influence on excess reserves, on the banking system.

Williams: Without any question.

H.M.Jr: And that's a very important thing.

Williams: Yes.

H.M.Jr: But you feel that before we do that the Federal Reserve should first act and use the powers that they have, and we should only do that -

Williams: That's right.

H.M.Jr: - after they - in other words, make them use what they have first.

Williams: Yes, and with one modification. I would favor their increasing reserve requirements right away - that is, January-February - in order to clean up as much of the excess reserves as they can. I don't know that I would favor their going on to sell their securities, because that raises another question.

H.M.Jr: That's another question.

Williams: It might be that it would be better for you to come in then.

H.M.Jr: I think this is one of the most encouraging things that I have seen for a long time. I'm terribly thrilled about it.

Do you want to contribute anything else?

Williams: No, that's all I had.

H.M.Jr: Now Dr. Viner.

Viner: I find it hard to choose between Two and Three. They both raise questions of machinery of cooperation, and I don't know under which one of those two there would be less potentiality of conflicting objectives and of friction. But I would say that in many respects they work - they do the same thing; the question is who does them. The question as to who is the agent that does them is not necessarily the same question as that of who decides that they shall be done. That would be a matter not of the law; and I would say that none of these operations ought to be done, no matter which the set-up is, Two or Three or One - none of the operations ought to be done except as a credit control operation, and therefore with the approval of the Federal credit control agency.

Williams: I'd like to add one remark, if you don't mind. It seems to me that it would be a good idea to explore all three with the Board. I mean I don't see that anything is lost. The question as between Two and Three is really a major question. I could see how it could be in the future.

H.M.Jr: Well, before I want that, I'd like to give our own - they still have until Monday. I told that to Eccles. They have till Monday to explore this thing, see. They've got till Monday to do this thing and I'd like to adjust this thing a little further myself before I even let the Board know I am thinking about it. Huh? I - I frankly don't want to influence them if - at this time in making up their own minds.

Williams: I think their question, the question they're thinking about, is Four really, and that could be treated by itself. And then the question what to do in the future is - well, it is a question they ought to be doing more thinking about. I'm glad to see that your mind has already run on to what do you do after you raise the requirements.

H.M.Jr: Frankly, after I saw what happened here with all those people and all the floundering, I got worried, because it didn't seem to me that - oh well, that they were - they were doing any original thinking. I think that's a fair statement, isn't it? I mean Number Four is the obvious thing, and -

Viner: I think they are also thinking of the question of borrowing powers of their own.

Williams: They have been raising these questions, but they are still very vague. They've got their minds on Four at the moment, but the others have been under some discussion.

H.M.Jr: Well, my own inclination is I think this question of foreign exchange and gold and the handling of gold, for the time being, should stay with the Treasury, and that if it does - if the President agrees with me - then I think it is our job to find some way to remove that influence of the gold - I mean on our internal situation.

Viner: - when you want to remove it.

H.M.Jr: I mean when it is necessary. I mean when it becomes - when it becomes - how shall I say? - a burden, or when it becomes an instrument that you don't know how to handle.

Viner: But who is to decide when the control of gold, internal gold, is exercising an injurious effect?

H.M.Jr: Well, but it is much easier to decide when we know what we can do. And all these people have been floundering around and wringing their hands and saying, "What are we going to do?"

Viner: But it is an important question as to who is to decide.

H.M.Jr: True, but up to now nobody knew, if you did decide, what you could do.

Williams: You didn't see what you could do before; but now it is clearer.

H.M.Jr: But I mean - well, we've been saying, "What are we going to do about this gold coming in," and all about exchange control and all that sort of stuff, which simply circumvents instead of going right direct to the thing. Now, all I say is if I now know that at the proper time I could isolate this gold from our domestic economy - I say that one of my biggest worries has been removed.

Williams: I agree. But there would always be the question of whether the gold ought to be allowed to have its effect or not; and so there would be need for continuous consideration.

H.M.Jr: Absolutely true. But, Professor Williams, isn't it much easier? I mean I think that decision is much easier now knowing that you've got something that you can do. Now, when I worry is when I'm in a dark room and I can't find the door. But if suddenly there is a light and I see what that door is, I know how to get out of the room, I stop worrying and I don't mind being in the dark. But up until now I've been completely surrounded by four solid gold walls and there's been - with no door; and now there is a door and I've stopped worrying. But the only question is when to go out.

Viner: No, no, who's going to decide that the time has come to go out of the door?

H.M.Jr: That is a joint decision between the President, Federal Reserve Board, and the Treasury.

Viner: Fine, that's all I want.

Williams: That's the nub of it really.

H.M.Jr: But I've had four gold walls with no door. Now I see the door.

Viner: I'd say, on that basis, I don't much care, except for legal convenience, which one of One, Two, or Three you adopt.

H.M.Jr: And I will say that we have demonstrated in the last month that there is more cooperation between the Treasury and the Federal Reserve than there ever was when the Secretary was Chairman of the Board - and with New York too.

Williams: I think so too. I might add one further word. It seems to me that One is not a good method, although it might legally be more defensible, because you would be dribbling out the securities bit by bit, as I see it. Gold is flowing in, and you couldn't tell how much, and you want a very elastic instrument; and a portfolio of securities in the Stabilization Fund, which could be sold in small amounts or large amounts, whatever we needed, would be better than an ordinary Treasury issue.

Viner: They could sell over the counter as they please -

Williams: - whereas the Treasury can't do that.

Taylor: Infinitely more flexible.

H.M.Jr: Of course, what we have done - we've got 150 or 175 million dollars - we've been practicing this right now - isolated. Is that right (to Lochhead)?

Lochhead: Oh well, we have practically that much isolated.

H.M.Jr: We've done it already. I mean we've actually done it.

Williams: That's your gold. But the question is of reducing excess reserves.

H.M.Jr: We've kept that - we've kept them off the market, so to speak. But that was the limit, and I've been thinking about my limit. That's why I was worried, that's why I was groping and - well, if we let all this stuff come in there would be about another 175 million gold come in. Did you know that?

Williams: Yes. But I am still unclear in my mind as to whether we all get the difference between the gold flow and the change in excess reserves. It is possible to get the gold. But by increasing reserves - now, as I understand it, that's what you want to avoid.

Viner: And that's why you need this 175 million that's been isolated.

White: To the extent of that 200 million we were like the British fund.

Williams: - after you got it.

H.M.Jr: Again, Viner and Williams, is there anything else other than that? We'll have our own staff explore this thing. Do you think you'll have something Monday or Tuesday (to Haas)?

Haas: (Nods affirmatively)

H.M.Jr: Could you gentlemen come back again?

Viner: It's possible.

H.M.Jr: What?

Viner: It's possible, if desired.

H.M.Jr: Well, why not?

Viner: I'm speaking for myself, I'm not speaking for Williams.

H.M.Jr: Well, I'd like to have you both here.

Williams: I was wondering; isn't there an Open Market meeting next week anyway?

H.M.Jr: Wednesday. Why don't you come down Wednesday (to Viner)?

Viner: Bad day; it's the middle of the week and I lose both ways.

Haas: We'd like as much time as possible. If that commitment is a firm commitment, of course, we could meet it Monday, but the more time we have the better.

H.M.Jr: Well, I've got my financing and now that I know there is a way I'd rather let it go over till

Monday a week - let it go over till Monday a week; because now that I know there's a door I'm going to quit worrying.

Taylor: I don't think that that deadline with the Federal Reserve Board need be kept, now that the other decision has been reached that you are going to keep January and February free.

Bell: You haven't any commitment Monday with the Federal Reserve Board. You gave them until Monday before they announced it.

Taylor: That all can be changed now, so you can change this other schedule.

H.M.Jr: But they were saying they were going to come and see us and say they were thinking about this. Now they've done it, so we'll make it Monday a week, which is December 7.

Now, why not let's say you'll be back here December 8 or on December 7?

Williams: The seventh.

H.M.Jr: How about the seventh and eighth; that's Monday and -

Williams: I don't know if I can make it for the eighth, the way my classes run.

H.M.Jr: How about you (to Viner)?

Viner: I think I could make it. You know, there's this: that you may find you need some little bits of legislation.

H.M.Jr: Well, they've got a week and a half to study that.

Opper: I just wanted to be sure.

H.M.Jr: You've got a week and a half.

Opper: There may be some things I don't see at first thought.

H.M.Jr: At least it is safe to say that it is 80 percent workable.

Viner: Oh, it's workable.

Williams: Yes, it's workable.

H.M.Jr: But I just saw this gold coming; I saw them raise excess reserves and another billion dollars worth of gold coming in and they have reached their top and they're going to ask Congress for more authority to do it, and that thing wouldn't hold this thing down.

Viner: There is one other question, one other point I'd like to make; that is between One and Two (I'm just thinking aloud): the question as to whether the expense of this operation is different in the two cases; in one it would be a Stabilization Fund expense and in the other it would be a General Fund expense. Is that right?

Opper: No, no. In either case it would be a General Fund expense.

Bell: It wouldn't be the Stabilization. Financing operation and an interest cost in either case.

Viner: Well then, in one case the Stabilization Fund would be making money.

Bell: Would be drawing the interest on the securities so long as they hold them.

Opper: Wouldn't be making -

Lochhead: Yes; well, that is if -

Viner: There is that difference. I don't know what it - that it is important, but that ought to be canvassed.

H.M.Jr: Well, if we can make a little money for the Stabilization Fund, Archie and I would love to.

Viner: That's one of the things that in the memorandum ought to be worked out, as to where the expense would be as shown on the Federal accounts.

Williams: In the General Fund anyway.

H.M.Jr: Anybody want to raise any point at this time why we can't go till Monday a week on this thing, December 7? Anybody? All right, fine.

1. The General Fund of the Treasury could sell securities to the market as a means of reducing bank reserves on the occasion of gold inflow (and could buy securities as a means of increasing bank reserves on the occasion of gold outflow).

2. The Stabilization Fund could obtain Government obligations from the Treasury in exchange for gold. The Stabilization Fund could then sell securities to the market in order to reduce bank reserves on the occasion of gold inflow (and could buy securities from the market in order to increase reserves on the occasion of gold outflow).

3. The Federal Reserve banks could obtain Government obligations from the Treasury in exchange for gold certificates and sell securities to the market in order to decrease bank reserves on the occasion of gold inflow (and could buy securities from the market in order to increase bank reserves on the occasion of gold outflow).

4. As an initial operation the Federal Reserve banks could increase reserve requirements to the limit now permitted by law, or could sell its Governments.

Nov. 24. 1936

~~143~~

Memorandum of a Conference of Secretary Morgenthau with Aubrey Williams, Acting Administrator of W. P. A., and Mr. Ross, his Chief Finance Officer, Mr. Bell and Mr. McReynolds in the Secretary's Office at 10 a. m., November 25, 1936.

Mr. Williams gave the Secretary a copy of the Hopkins letter to State Administrators setting up state quotas, which he promised at yesterday's conference.

After Mr. Williams had again stated the plans that W.P.A. has made for reducing their expenditures, the Secretary asked: What is your position going to be from January to July for other Federal agencies? Mr. Williams: They can go no further than they now have money to carry them. Whenever their money is gone they are out unless the President should decide to give them more funds.

Mr. Bell: The President has put the responsibility on you for financing those projects.

Mr. Williams: If a project is located where there is need for relief labor and we think it is a good project and the cost is not excessive, we will do it, but we do not like those projects for we pay the entire costs including the costs of material.

The Secretary: What about Public Health project - that is a good project. How long will they run without additional money?

Mr. Williams: Until January 15th.

The Secretary: Can't you take care of that until February 1st? How much will it take?

Mr. Williams: We will take care of that. It will require about $50,000.

The Secretary: Let us review this situation again. You say you are getting your own people down to 2,300,000 on January 1st?

Mr. Williams: That is the program.

The Secretary: If you do get down to that, do you have money enough to carry you to February 1st? If you get every dollar that is available can you run through January?

Mr. Williams: Here's the answer - we will have money enough to go to January 15th. As I understand it from that point on we will have to depend on using encumbrances previously made but not used up and the amounts previously held available as cushions for administrative convenience, and also if we get all the money that is left in the funds that have not been committed.

Mr. Bell: I do not think the President is going to give you every dollar that is left. There are other agencies he is committed to carry on.

The Secretary: How much money will you have going into January - that is, not allotted to Hopkins?

Mr. Bell: About $20,000,000.

The Secretary: How much unspent of both appropriations from allotments to other agencies?

Mr. Bell: I do not know, but there will be a large sum.

The Secretary: Let somebody study that and let us talk about it again next week. I think we should keep at this until we have it definitely worked out before the President gets back. I also want to talk to you about the program we will have after February 1st. I never get a chance to talk about more than one month in advance and I want to talk about where you will be a year from now.

Mr. Bell: I think it is important that the President say something in his Budget Message about the limitation on these relief expenditures. It is unfair to the Treasury to leave this open.

The Secretary: We will talk about this again next week.

Mr. Williams: Do you want me to call you or will you call?

The Secretary: I wish you would call me.

November 25, 1936.
9:40 a.m.

H.M.Jr: Some of the boys were supposed to suggest that you have company.

Oliphant: What?

H.M.Jr: That you had company and you decided that two hours up the river would be nice.

O: Well I - this is what happened - they told me we'd get in about noon.

H.M.Jr: Yes.

O: And I wanted to take advantage of that and talk things over with Hastings and then when I got on board I found that it didn't get in - that it got in at 7 o'clock which I thought was very unreasonable to ask him to get down there then.....

H.M.Jr: Oh we thought there was somebody on board that you had to see up the river.

O: (Laughter) Oh well it is exciting, isn't it?

H.M.Jr: Well Mac was all a-tizzy wizzy about it - I mean - he didn't know what to do.

O: Well that's the way it was, see?

H.M.Jr: Yes, well then......

O: It seems they changed the arrival time I guess after the ship sailed.

H.M.Jr: Oh - well I'm just - how are you feeling?

O: I feel much better, Henry, and I'm bound to - I want to thank you - I - I realize now that my judgment wasn't any good. The trip was just what I needed.

H.M.Jr: Was it really?

O: Yes.

H.M.Jr: And the boat stayed there till you left?

O: Yes, and I had a grand set of men and I had a splendid time.

H.M.Jr: Good well I'd like to hear about it - I'm anxious.....

O: When will I be seeing you?

H.M.Jr: Well I'm going - I'll be here Monday morning.

O: All right.

H.M.Jr: Yes.

O: Well I'm going to see a man here in New York and then I'll come down probably this evening.

H.M.Jr: What's that?

O: I'll be down this evening or tomorrow.

H.M.Jr: Well -

O: Well everything's closed up tomorrow, isn't it?

H.M.Jr: Yes.

O: Yes, well then I'll see you Monday.

H.M.Jr: Well do you really feel well?

O: Very very well, yes.

H.M.Jr: Good.

O: Is Morrison Shafroth - ah - when is he coming?

H.M.Jr: December one.

O: What?

H.M.Jr: December one.

O: December one.

H.M.Jr: Yes.

O: Everything else all right?

H.M.Jr: Everything is fine.

O: Nothing to worry about?

H.M.Jr: Not a thing.

O: That's fine.

H.M.Jr: All right. Glad to hear your voice.

O: Thank you, Henry.

November 25, 1936
11:50 A.M.

W.R. Burgess: Sir?

H.M.Jr: Now, how are things today?

B: Oh, they're fine; they're - they're up a little.

H.M.Jr: Good.

B: They're going nicely.

H.M.Jr: Now -

B: One or two of the - of the longer bonds are just a - just a fraction off.

H.M.Jr: Yes

B: They note they're up a thirty-second; I've been looking at those.

H.M.Jr: Now that the New York Tribune financial columns are writing as though they were straight news instead of editorials, they - I - I feel as though they were wonderfully friendly, because they stopped coloring them.

B: Well, I - I confess I had a talk with -

H.M.Jr: Well, I mean -

B: - yesterday.

H.M.Jr: What? You had a talk with who?

B: With some of the boys yesterday.

H.M.Jr: Did you?

B: And I explained to them a little bit about how the Treasury is playing fair with them.

H.M.Jr: How the Treasury what?

B: Was playing fair with them this time.

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

B: I don't think they'd got that point fully.

H.M.Jr: Oh, -

B: And I thought that the Times had a nice little article on it this morning.

H.M.Jr: Yes. They both had the same. I wondered where they got them from.

B: Well, I chatted with them a little bit -

H.M.Jr: Fine

B: - very confidential, and -

H.M.Jr: Fine

B: - in a restrained way, but they got the point, I thought.

H.M.Jr: Oh, very - well, it was - it was a - I mean I immediately sensed something new.

B: (Laughing) Well, that's it.

H.M.Jr: Yes. Well, fine. Now, have you got anybody lined up for next week, or any thoughts?

B: Well, I haven't had a chance to talk with George about it and I want to do that. My preliminary thought is - is that we ought to have somebody from the bankers.

H.M.Jr: The bankers.

B: And - now, how would you like to see our - our - Divine?

H.M.Jr: Love to.

B: I think it'd be a good idea.

H.M.Jr: Love to.

B: There's another chap who - who is outside the usual circle who knows about savings banks; there's Charlie Miller, who was at one time President of the

R.F.C. -

H.M.Jr: Ah-ha.

B: - and who is now with the savings bank trust company that - that does business for the savings banks.

H.M.Jr: Ah-ha.

B: He's an awful nice fellow.

H.M.Jr: All right.

B: I think he might be a good man to see.

H.M.Jr: Now, I tell you, there are two fellows that I'd like to see if they care to come.

B: Yes

H.M.Jr: And one is the President of the Manufacturers Trust.

B: That's a good suggestion.

H.M.Jr: I mean I don't care whether he brings his bond man up or not. I - just talk general conditions.

B: I think he ought to bring his bond man, -

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

B: - anyway.

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

B: He's got a good bond man. I talked with him last week.

H.M.Jr: And then I'd like to see this hard-boiled baby, the President of the Guaranty.

B: Potter?

H.M.Jr: Yep!

B: I find that his - that Garner, his man, may be away.

H.M.Jr: No, I want Potter.

B: You just want Potter?

H.M.Jr: Well, no - but I mean I'd like to see that baby.

B: I see. Yes, yes.

H.M.Jr: He's so tough I'd like to see him.

B: (Laughs) Well now, do you want to see Mills and Remp again?

H.M.Jr: What do you think?

B: Well -

H.M.Jr: You don't think we're doing it too often?

B: I don't know I'm sure.

H.M.Jr: Think that over.

B: Yes

H.M.Jr: I mean we've had them now so regularly, I don't want them to get - you know.

B: They were - Mills was awful wrong last time, of course -

H.M.Jr: Yes

B: Remp was right.

H.M.Jr: Yes. Think that over.

B: All right.

H.M.Jr: Could you see George and then call me back?

B: Yes, I will, I'll talk to him -

H.M.Jr: Call me back, if you could, before - about - well, just before 12:30, will you?

B: All right, all right, I'll - I'll see if I can get hold of him.

H.M.Jr: Will you do that?

B: Yes

H.M.Jr: And - let - let's see, I'd like to see Divine. The fellow who was right was Levy, you know, last time.

B: Yes -

H.M.Jr: - of Solomon.

B: - he was.

H.M.Jr: Levy was right, you know.

B: Yes, yes.

H.M.Jr: Yes

B: He's not much of a philosopher about things -

H.M.Jr: No - well -

B: - but he's got a good notion of the market.

H.M.Jr: Yes, he seemed to.

B: But Divine will give you a good deal of the same stuff that Levy would.

H.M.Jr: I see.

B: That is, the - the fellow with his nose right on the market.

H.M.Jr: Well, perfectly frankly, I just - I don't care so much actually about the bond men this time, but I would like to use this as an excuse to see a couple of these really important bank presidents.

B: I see, yes.

H.M.Jr: To get the general picture.

B: Yes

H.M.Jr: And I - and I'd like to use this as an excuse and I - I'd be glad to see Divine. You think over about the Discount or not, you see?

B: Yes, yes. I don't believe you want to do them every time.

H.M.Jr: No, I'd just as leave skip them this time.

B: Yes

H.M.Jr: And see Divine and see Mills.

B: Well, I think if you did Divine and Gibson and the bankers -

H.M.Jr: Yes

B: - and perhaps Charlie Miller.

H.M.Jr: Yes. What about Potter?

B: And then - well, the only question about Potter is whether his bond man is away. I think he -

H.M.Jr: Well, even if he isn't I'd like to talk to him if he - if he'd come.

B: Yes, yes.

H.M.Jr: Well -

B: He - he'd probably keep his bond man here.

H.M.Jr: Well, supposing you call up and call me back about 12:25, will you?

B: All right.

H.M.Jr: Thank you.

B: Yes. Right.

November 25, 1936
12:22 P.M.

W.R. Burgess: Sir.

H.M.Jr: Hello.

B: I've just been talking with George about this list.

H.M.Jr: Yes

B: In the first place, he said he had this - this general thought about it: -

H.M.Jr: Yes

B: In extending this invitation to these people -

H.M.Jr: Yes

B: - we ought to explain the situation pretty clearly and carefully avoid giving the impression that - that you didn't trust us to give you the information, explain to them that - that you used to have the Undersecretary come here and in the absence of that you wanted to -

H.M.Jr: Well -

B: - supplement what you got from us by direct contact, and so on.

H.M.Jr: Well, the invitation is going to -

Operator: Hello

H.M.Jr: Hello.

B: Yes.

H.M.Jr: The invitation is - is going to them through you.

B: Yes

H.M.Jr: And that's why I've always done it that way, -

B: That's right, yes.

H.M.Jr: So there shouldn't be any question.

B: I think we can take care of that all right; just a question of -

H.M.Jr: Well, you don't feel that way, do you?

B: No, I don't have that feeling. I think it's a good thing for you to see them direct, only I do think -

H.M.Jr: Well, just a few - it gives me the excuse, I'm so isolated here.

B: Yes, that's right.

H.M.Jr: I mean if I kept calling these people up, it'd be something different, but I extend the invitation -

B: Yes

H.M.Jr: - through you.

B: Yes. I think it's a thing that - that you have to protect yourself on constantly.

H.M.Jr: Yes. And also tell them that there's no publicity connected with it.

B: Yes, yes.

H.M.Jr: Yes. If I had an Undersecretary, I wouldn't most likely do this.

B: Yes. Well, this gives you a good excuse for seeing them once in a while.

H.M.Jr: Righto.

B: That's the main point of it.

H.M.Jr: Yes.

B: But I think we can protect that in - in the form in which we deliver the invitation.

H.M.Jr: That's right.

B:	Now -
H.M.Jr:	Now having got that over -
B:	He raises the question whether - whether, for your dinner party, if you still want to have that -
H.M.Jr:	Yes
B:	- you couldn't perhaps handle two of them there, say perhaps Potter and Miller. He likes the idea of -
H.M.Jr:	No, I - I - I - I don't - wouldn't feel comfortable having either of them. I'd like - I'd only like to have somebody who I really know.
B:	At dinner, you mean?
H.M.Jr:	Yes.
B:	Yes, I see.
H.M.Jr:	No, I don't want somebody that - I mean if I'm going to have anybody for dinner I want somebody who I already know.
B:	I see. Yes, yes, yes. Well, I think - he was thinking, I think, that in the case of Potter perhaps it was a little bit easier to extend him an invitation to come down to dinner than - than just to come to see you; but I don't think that -
H.M.Jr:	No, I - I mean a total stranger like Potter - I mean I - I wouldn't want to invite him to my house the first time.
B:	I see. I see the point. I see the point, yes.
H.M.Jr:	Yes.
B:	Yes.
H.M.Jr:	Now, what else?
B:	He has a little qualification about asking Divine.
H.M.Jr:	Yes.

B: He's a little afraid there might be danger that he'd use the information.

H.M.Jr: I don't care - I mean -

B: Yes

H.M.Jr: I mean I'll leave that to you. I don't have to see Divine.

B: Well, I think - I think you don't have to see him.

H.M.Jr: No.

B: Just as well not to perhaps.

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

B: Yes, yes. Well then, the - the names that we went over together would be Potter, Colt of the Bankers, Miller, Ward of the Irving possibly, and Gibson of the Manufacturers. Now, that's - that's five. Now, there are none of those that you know very well, are there?

H.M.Jr: No. I don't want too many.

B: Yes.

H.M.Jr: Let - let - let's just start with Gibson and Potter, see?

B: All right.

H.M.Jr: And see if you can get those to come either Monday or Tuesday.

B: All right.

H.M.Jr: See?

B: Yes.

H.M.Jr: And -

B: There's Monday at three or Tuesday at eleven or three.

H.M.Jr: Yes.

B:6 Yes.

H.M.Jr: Well, it'll be three people. Supposing you - let's put it in this order: Gibson first, Potter second.

B: Yes

H.M.Jr: Now, if neither of those can come, shall we say Miller?

B: Yes, I think Miller's good anyway; I think he gives a lot -

H.M.Jr: All right.

B: - from your point of view.

H.M.Jr: And then -

B: Colt of the Bankers, I think.

H.M.Jr: Colt, all right - Colt.

B: We tried to get him and couldn't, see?

H.M.Jr: All right, Colt. That gives you four.

B: Yes.

H.M.Jr: Briefly - I'll just make three appointments, see?

B: I see.

H.M.Jr: How many people does that give you now?

B: That's - that's four people. If we put Gibson first, Potter second, Colt third, Miller fourth, that'd be four; but probably one of them can't come.

H.M.Jr: Yes. Well, do you want a fifth one in case another one drops out?

B: Well, I'd next put - I'd put Ward, from the Irving, next, I think.

H.M.Jr: Is - is that fairly important?

B: Well, you haven't seen him at all, and he's one of the big banks, -

H.M.Jr: All right.

B: - one of the great big banks there.

H.M.Jr: All right.

B: And he has a rather distinct point of view; doesn't buy any Governments over about three years.

H.M.Jr: All right.

B: (Laughs)

H.M.Jr: All right.

B: But he's quite an able fellow.

H.M.Jr: All right. Well, that gives you five. And it'll be Wednesday night; let's keep Wednesday night open. Mrs. Morgenthau has company Tuesday night.

B: All right.

H.M.Jr: So I'll keep Wednesday night open for you and for whoever we think would be really important to see when we get right down to it, see?

B: Very good.

H.M.Jr: If you still want our friends - you know -

B: Yes

H.M.Jr: - we can have them. I like those two boys.

B: You mean Mills and Remp?

H.M.Jr: Yes.

B: Oh yes, they're good boys.

H.M.Jr: Yes. So let's -

B:

H.M.Jr: - let's make it tentatively for Wednesday.

B: All right.

H.M.Jr: Now, I'll be on the farm and I think it's time enough if you let me know Monday morning.

B: All right. You're going to the farm for Thanksgiving?

H.M.Jr: I'm going in about an hour.

B: Good stuff.

H.M.Jr: Yes.

B: I hope you have a grand time.

H.M.Jr: Yes. And then you could let me know Monday -

B: All right, and I'll arrange for three of these people.

H.M.Jr: Thank you.

B: On those three dates.

H.M.Jr: Thank you.

B: Very good.

H.M.Jr: Goodbye.

B: Goodbye.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 25, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

I called Bank of England at 10:52 and, in the absence of Mr. Bolton on a brief holiday, spoke to Mr. Hawker who appears to be Mr. Bolton's deputy.

I told him of the order to ~~buy~~ £1,500,000 sterling received from Banco Central in Buenos Aires and Hawker replied that they had also today received an order from the same friends to buy $22,000,000 for delivery November 27. He had not done anything so far; the market was nervous; he did not expect to touch the market unless dollars were very strongly offered. He had recently been able to get spot dollars through swaps and expected to continue these transactions as long as the market permitted them. What he could not do in that way, he probably would do against gold. He did not expect to get through with the order today.

Security markets in Europe this morning had opened rather weaker, probably because of the fact that Hitler had called together all Ambassadors for the purpose of making an important announcement. However, when he actually only formally announced the anti-communistic agreement between Japan and Germany, markets picked up a little. The figure for dollars had ranged between 4.89 3/8 to 1/2 all morning, in London, until New York opened and began offering dollars. There was not a lot of business going through, he said.

LWK:KMC

FS

GRAY

Paris

Dated November 25,1936

Rec'd 2:05 p. m.

Secretary of State,

Washington.

1146, November 25, 5 p. m.

FROM COCHRAN.

Paris exchange and stock markets were nervous especially before noon over prospect of statements by Goebell's and over rumors of (1) threatened rupture of diplomatic relations between Germany and Soviet Government and of (2) heavy concentration of German army on French frontier.

Since noon franc has improved against dollar and latter is now offered at 21.46. Bank of France obliged to give only small amount of sterling. Continued steadiness of florin is believed due to short covering. French rentes have recovered part of this morning's two franc loss. Shares generally down as a result of international situation, addition of three new countries to tripartite pact credited with helping forward franc yesterday and today.

Mitzakis, in L'INTRANSIGEANT, Paris, emphasizes

that

FS No. 1146, November 25, 5 p. m. from Paris

that the extension of the arrangement to the three new countries will have a very favorable psychological and (END SECTION ONE)

HPD BULLITT

LMS

GRAY

Paris

Dated November 25, 1936

Rec'd 3:45 p. m.

Secretary of State,

Washington.

1146, November 25, 5 p. m. (SECTION TWO) technical effect for the franc, and constitutes an important forward step toward the reestablishment of economic peace. He remarks that most of the European and American countries are now moving gradually in the direction of a modernized gold standard.

The financial editor of the JOURNEE INDUSTRIELLE, Paris, referring to the six-power cooperation, says this is the nearest to stabilization that can be envisaged and the maximum that could be obtained from Great Britain, so that we should be pleased with what we have.

FIGARO, Paris, referring to the new arrangement says "There is thus found organized for all the free currencies the best modus vivendi that could be hoped for".

Under city notes, LONDON TIMES today says in part;

"The business condition derived more solid

satisfaction

LMS 2-No. 1146, November 25, 5 p. m., Sec. 2, from Paris.

satisfaction from the announcement that Switzerland as well as Holland had decided to adhere to the tripartite exchange agreement than from international political advices. It is not unnatural that the city realizing the great difficulty of finding a solution of the prolonged conflict between fundamentally different political ideas on the continent should feel that international cooperation may be easier to secure in (END SECTION TWO)

BULLITT

WSB

JR

GRAY

Paris

Dated November 25, 1936

Rec'd 3:30 p.m.

Secretary of State,

Washington.

1146, November 25, 5 p.m. (SECTION THREE)

the strictly economic than in the political field. Although it is in the nature of a 'gentlemen's agreement', the extension of the tripartite agreement places on a broader foundation the effort to diminish the obstacles that block the way of international trade. The extension of the agreement may have far reaching effects for the reason that not only does it pledge the parties to abstain from competitive currency depreciation but it also sets up machinery for standardizing so far as possible the various exchanges. Further the arrangement now provides for free exchange of gold between the central banks of the countries concerned. In other words the agreement aims at giving precision to the value of the different currencies in terms of gold and permits the resumption of the shipment of gold between the various countries for the purpose of settling balances that are owing. There is no more serious

obstacle

-2- JR #1146, November 23, 5 p.m.(SECTION THREE) from Paris.

obstacle to international trade than currency instability, for it was the break down of that stability in 1931 which resulted in the enormous contraction of international finance and trade. Some countries were compelled not only to adopt exchange restrictions and quotas to protect their currencies but to take exceptional measures to render themselves less dependent upon foreign manufactures. Owing to the virtual elimination of international (end section three).

BULLITT

WSB

LMS

GRAY

Paris

Dated November 25, 1936

Rec'd 3:40 p. m.

Secretary of State,

Washington.

1146, November 25, 5 p. m. (SECTION FOUR) financing international trade for many countries has been reduced to a cash or barter basis, their important credit trade being largely suspended."

FINANCIAL TIMES and FINANCIAL NEWS, London, carry rather full reports of press conference of Secretary of the Treasury on new arrangement. The following paragraph is taken from a Lombard Street article of the FINANCIAL NEWS on the gold development.

"When in October last the tripartite gold agreement was concluded Mr. Morgenthau announced it as a new type of gold standard. Indeed it seems to be developing into a new system and the new ban on private arbitrage is one of the rules of the new gold standard. The trend of evolution points to the gradual elimination of private arbitrage and gold movements between monetary authorities. Private arbitrage will survive however in connection with the open gold market in London whence newly produced and dishoarded gold will continue to be moved on private

initiative

LMS -2- #1146, November 25, 5 p.m.(SECTION FOUR) from Paris.

initiative. Even in this respect the experience since September 26 has been that most gold that comes to the market is bought for shipment for the monetary authorities of the two recipient countries, the United States and Switzerland. Before very long we shall possess quite a considerable set of rules regarding the working of this new gold standard. Let us hope that this (END SECTION FOUR)

BULLITT.

WSB

LMS

GRAY

Paris

Dated November 25, 1936

Rec'd 3:55 p. m.

Secretary of State,

Washington.

1146, November 25, 5 p. m. (SECTION FIVE)
time some sort of agreement will be reached as to what exactly those rules are so that in future we shall know exactly when some of the participants in the arrangement do not play the new gold standard game. By codifying the rules as they develop the recurrence of the bitter controversies of the late twenties and the early thirties could be avoided."

AGENCIE ECONOMIQUE carries remarks of Senator Pittman on need for settling war debts. Radical Socialist Deputy Rene Richard is scheduled to introduce tomorrow a resolution inviting the French Government to open negotiations with the United States for settlement of the war debts. European press carries numerous stories to the effect that Italy is negotiating with the United States toward debt dettlement. (END MESSAGE)

BULLITT

KLP

November 25, 1936.

Honorable R. Walton Moore,

Acting Secretary of State.

My dear Mr. Secretary:

With the successful conclusion of our negotiations of new monetary arrangements with Belgium, the Netherlands, and Switzerland, supplementing the tripartite monetary understanding of September 25th, I should like to express to you my great appreciation of the very fine cooperation we have had from the staff of the State Department. I am particularly grateful for the constant helpful advice and assistance of Dr. Feis and Dr. Livesey and I hope also that you will find it fitting to convey to Mr. Cochran, in Paris, my thanks and my commendation for the diligent and tactful manner in which he conducted conversations with the representatives of the various European nations concerned.

I hope you will also convey to Secretary Hull, and accept for yourself, my thanks to you personally for thus placing the full facilities of the State Department at my disposal in connection with these negotiations.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

HEG/mah

"HEG"

COPY

November 25, 1936

My dear Mr. Cochran:

I am sending you herewith for your personal and confidential information, a copy of a letter which I have sent the Acting Secretary of State.

I want to congratulate you on the very intelligent and able manner in which you handled the recent negotiations with Belgium, Holland and Switzerland. It is a source of great satisfaction to me to know that in these negotiations I could always count on your loyal assistance.

With kind personal regards, I remain

Yours sincerely,

/S/ Henry Morgenthau, Jr.

Hon. H. Merle Cochran,
First Secretary,
United States Embassy,
Paris, France.

received for filing 11/25/36

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

With many thanks for your kind thought in sending me the very

Comte Robert van der Straten Ponthoz

Ambassadeur de S.M. le Roi des Belges

interesting press releases dated November 24.

1 copy of this has been sent to our
Ambassador to Great Britain

1 copy sent to our Ambassador to France

1 copy to our Ambassador to Holland

1 copy to our Ambassador to Belgium

1 copy to out Ambassador to Switzerland

6 copies sent to H. M. Cochran

6 copies sent to Butterworth

Hopi's
Card

France

~~Holland~~

~~Belgi~~

~~Switzerland~~

6 copies Cochran
6 " Butterworth

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-93

By authority of the President the Secretary of the Treasury announces that as a further step in the direction of international monetary equilibrium arrangements have been made to give effect to the desire of the Governments of Belgium, The Netherlands and Switzerland to cooperate with the Governments of the United States, Great Britain and France in accordance with the principles of the tripartite declaration of September 25, 1936.

The Belgian Government notified the United States of its adherence to these principles on September 26. Similar declarations of adherence have now been received from the Governments of The Netherlands and Switzerland.

The Governments of the United States, Great Britain, and France welcome the declarations of the Governments of Belgium, Switzerland and The Netherlands expressing their adherence to the principles stated in the tripartite declaration of September 25.

Arrangements have been made by the United States Treasury for gold transactions on a reciprocal basis with these three countries. These arrangements are given effect by public statements of the Secretary of the Treasury which are annexed hereto:

(1) A statement supplementing the statement of the Secretary of the Treasury dated October 13, 1936, with respect to reciprocal transactions in gold with certain countries, and withdrawing the statement of January 31, 1934, relating to the sale of gold for export;

(2) A statement naming the countries of Belgium, The Netherlands and Switzerland as complying with the conditions of the statement of October 13 as supplemented by the above statement.

In addition to the statements to which reference is made above, copies of communications from the Governments of The Netherlands and Switzerland are made public herewith.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-34

Supplementing the announcement made by him on October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours' notice, this statement of intention may be revoked or altered) the United States, in addition to sales of gold to the exchange equalization or stabilization funds of foreign countries, will also sell gold for immediate export to, or earmark for the account of, the treasuries, or any fiscal agencies acting for or whose acts in this connection are guaranteed by the treasuries, of those countries whose treasuries or fiscal agencies so acting or guaranteed are likewise offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold by the United States will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

> Sales of gold will be made at $35 per fine ounce, plus one-quarter per cent handling charge, and sales and earmarking will be governed by the Regulations issued under the Gold Reserve Act of 1934.

The Secretary further announces that his statement of January 31, 1934, relating to the sale of gold for export, is accordingly withdrawn.

--oOo--

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-95

The Secretary of the Treasury today named the following additional countries:

Belgium
The Netherlands
Switzerland

as complying with the conditions specified in his press release of October 13, 1936, as supplemented by his press release of November 24, 1936, for the purchase of gold from the United States for immediate export or earmark.

--oOo--

TREASURY DEPARTMENT

Washington

Press Service
No. 8-96

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, November 24, 1936.
11/23/36

The Secretary of the Treasury makes public the following note from the Swiss Legation, transmitted to the Treasury Department by the Acting Secretary of State:

"LEGATION DE SUISSE

Washington, D. C.

November 21, 1936.

"Sir:

"I have the honor to inform you that I have been instructed by my Government to convey to you the following:

"'The Government of Switzerland has cognizance of the declarations by which the Governments of France, Great Britain and the United States of America have seen fit to express their intentions with regard to their monetary policy and adheres to the general principles stated in their tripartite declaration of September 25.'

"Accept, Sir, the assurances of my highest consideration.

(Signed) MARC PETER

Minister of Switzerland.

"The Honorable
R. Walton Moore,
Acting Secretary of State,
Washington."

—oOo—

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-97

The Secretary of the Treasury makes public the following note from the Royal Netherland Legation, transmitted to the Treasury Department by the Acting Secretary of State:

"ROYAL NETHERLAND LEGATION

No. 3775

Washington, D. C.

November 21, 1936.

"Sir:-

"Acting upon instructions of the Minister of Foreign Affairs of the Netherlands I have the honor to inform Your Excellency of the following declaration made by my Government:

"'The Government of the Netherlands has cognizance of the declarations by which the Governments of France, Great Britain and the United States have seen fit to express their intention with regard to their monetary policy and adheres to the general principles stated in their tripartite declaration of September 25, 1936.'

"I avail myself of this opportunity to renew to you, Sir, the assurances of my highest consideration.

(Signed) C. van Breugel Douglas.

Charge d'Affaires a.i.
of the Netherlands.

"The Honorable R. Walton Moore,
Acting Secretary of State,
Washington, D. C."

--oOo--

TREASURY DEPARTMENT

WASHINGTON

For immediate release. PRESS RELEASE
193 .

Supplementing the announcements made by him on January 31 and February 1, 1934, to the effect that the Treasury would buy gold, and on January 31, 1934, referring to the sale of gold for export, the Secretary of the Treasury states that, hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered, the United States will/sell gold for also immediate export to, or earmark for the account of, the exchange equalization or stabilization funds of those countries whose funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

> Sales of gold will be made at $35 per fine ounce, plus one-quarter per cent handling charge, and sales and earmarking will be governed by the Regulations issued under the Gold Reserve Act of 1934.

Henry Morgenthau Jr.

Approved:

Franklin D Roosevelt

The White House

Sept. 27 1936

Personal

DEPARTMENT OF STATE
WASHINGTON

November 27, 1936.

Dear Mr. Secretary:

I thank you very much for your kind note, and the copy of the Study of International Capital Movements which accompanied it.

I hope to be able to very soon tell you that your request with reference to Mr. Butterworth will be complied with. My understanding is that you would like him to be here shortly after Christmas and remain for a couple of weeks. We made a cable inquiry of London as to whether he can be sent.

Referring again to Senator Pittmen's mention of the silver question to me, and my utter ignorance of it, I will thank you to have someone write a short memorandum, giving me the principal things I should know in order to talk with the Senator, if he comes at me again. Of course I thoroughly understand that I have no business discussing the silver matter with anyone, since it lies in the jurisdiction of your Department, but perhaps I cannot escape listening to the Senator.

With

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

With all best wishes, I am

Yours very sincerely,

R. Walton Moore.

MED

GRAY

PARIS

Dated November 27, 1936

Received 4:35 p.m.

Secretary of State,

Washington

1155, November 27, 6 p.m. (Section one).

FROM COCHRAN.

With New York closed yesterday the Paris exchange market was very quiet. There is a little more business today. Bank of France is giving some sterling at 105 point 15. Florin continues specially strong as a result of short covering and in the opinion of the FINANCIAL NEWS London as a result of impression on Dutch and foreign centers that adherence by the Netherlands to the Tripartite money arrangements signifies that the Dutch authorities intend to maintain the sterling-florin exchange in the vicinity of 9. Swiss franc weaker following reduction in Swiss Bank rate from two to one and one half per cent.

French rentes opened badly but closed with losses of only from 55 to 85 centimes. French shares lower and internationals higher. Market is upset by threatened recrudescence of serious French labor strikes and by international political tension. And the space being

given

MED - 2 - #1155, November 27, 5 p.m. from Paris

given in financial press to gossip about prospects for negotiation of settlement of French war debt to the United States. While there is no great effort to veil the most compelling present motive for reconsideration of the French position, namely, the need of new facilities for borrowing, some papers play up the alleged significance to the United States of the German-Japanese agreement and appeal for a solid front of the three great democracies.

BULLITT

NPL

PARAPHRASE OF SECTION TWO OF NO. 1155 of November 27, 1936, from the American Embassy, Paris.

At noon today Mirianna Pennachio of the Bank of Italy called to see me. He had received absolutely no news from Rome as to any Italian negotiations for settling war debts and receiving a loan from America. On the other hand, he told me that his many contacts in the French Financial community seem quite convinced that serious negotiations on a war debt settlement are well advanced between officials of the United States and France. During the present period of unrest in Europe, Pennachio said he is not very hopeful of Italian loans being floated on the market in the United States, even though the Johnson law might be satisfied by the Italians. A loan for colonial developments would be their best chance, although he doubted whether American capital would be willing to give up the opportunity for gains on the present New York Stock Market in order to take a chance on improvement of Ethiopia by Italy. The main reason for amending the Italian exchange regulations to allow withdrawal from Italy of capital that may be newly placed therein, he said, was to encourage remittances to Italy by (omission) which under the regime of exchange control and sanctions had practically ceased.

My Italian contact is pessimistic, being displeased with French financial changes in the Cabinet. He found officials at the Bank of France gloomy and dissatisfied yesterday, due in part he thought to exchange difficulties and in part to lack of efficient direction on the part of

the

the Governor of the Bank of France. Pennachio is of the opinion that it is too early for war debt talks between the French and Americans.

END OF MESSAGE.

BULLITT.

EA:LWW

November 27, 1936

CABLE TO PRESIDENT ROOSEVELT

(To be coded by Coast Guard)

"The following confidential information will undoubtedly be of interest to you. The Bank Centrale Buenos Aires, Argentina, informed the Federal Reserve Bank of New York that they would require $45,000,000 by the end of this month to provide which they would sell sterling in London and purchase dollars in New York. They advised that these funds are to be used by the Argentine Government to redeem the total of a $45,000,000 loan in this market. The necessary exchange orders were placed by the Bank Centrale with the Bank of England and the Federal Reserve Bank and by use of both the U. S. and English Stabilization Funds the orders are being executed without any disturbance to the exchange market.

Morgenthau."

Note: This cable was read to Secretary Morgenthau today over the telephone to the Farm. He approved it. It was also shown to Mr. Taylor and he approved it.

Fin

November 27, 1936

MR. RENTSCHLER

Attached you will find various memoranda covering existing U. S. Government issues, as well as suggestions to be used in the December 15 financing. In the case of the five-year Notes, we have suggested a 1 1/4% issue, although we recognize that conditions of the market at this time would make it possible for the Treasury Department to sell a 1 1/8% coupon. We believe, however, it would be a mistake to cut the rate any finer than 1 1/4%.

We next suggest a ten-year 2 1/4%, which we think the market would readily absorb, but do not particularly urge this issue as we feel the maturity conflicts with too many other Treasury obligations. We also suggest a fourteen-year 2 1/2% bond, which would fall due in 1950. We think this issue would be very popular with the banks and be the initial step in a series of bonds bearing a 2 1/2% coupon. 1950 is entirely open as there are no maturity or optional dates in that year.

In a longer bond, we have suggested a 25-30 year 2 3/4% issue which we feel would be the most desirable security for us to own. If the present market continues to hold, this issue should be worth approximately a 2.60% basis, which is equivalent to a price of 102 3/4. However much we prefer this issue, I question whether we can ask the Treasury Department to make such a generous offer.

You will note we have also listed a 2 5/8% bond due in twenty-five years, callable in twenty years. In this market, such a bond would probably go, but, in my opinion, it would lack the enthusiasm that would attend the offering of the other issues suggested.

Yields on 15-Year 2 1/2% Bonds

100 5/8	2.45
101 1/4	2.40

Yields on 20-Year 2 5/8% Bonds

100.39	2.60
101.16	2.55
101.96	2.50

Yields on 25-Year 2 3/4% Bonds

100.90	2.70
101.82	2.65
102.74	2.60

LEO A. KANE

LAK:DR
Enclosures

SECRET SERVICE DIVISION

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

November 27, 1936

MEMORANDUM

To: Mr. Graves

From: Mr. Wilson

Supplementing my memorandum of October 29 the following is submitted with reference to the activities of the Secret Service Division:

1. In compliance with the order of the Secretary establishing fifteen standard districts for the law-enforcement agencies of the Treasury Department effective December 1, Secret Service Districts have been established with the following Acting Supervising Agents in Charge:

District No.	Headquarters	Acting Supervising Agent
1	Boston, Massachusetts	Harry L. Barker
2	New York, N. Y.	William H. Houghton
3	Philadelphia, Pa.	William A. Landvoigt
4	Newark, N. J.	James J. Maloney
5	Baltimore, Md.	Harry Cooper
6	Atlanta, Ga.	John C. Marsh
7	Louisville, Ky.	Alonzo A. Andrews
8	Detroit, Michigan	George F. Boos
9	Chicago, Illinois	Thomas J. Callaghan
10	New Orleans, La.	Forrest V. Sorrels
11	Kansas City, Mo.	William H. Davenport
12	Saint Paul, Minn.	Charles Mazey
13	Denver, Colorado	Rowland K. Goddard
14	San Francisco, Calif.	Thomas B. Foster
15	Seattle, Washington	William R. Jarrell

2. I called a conference at Salt Lake City on November 25 of the three Acting Supervising Agents covering the Rocky Mountain and Pacific Coast area, with the view of coordinating their activities in the eleven states embracing that area and I have received an air mail report from them relating to the plans which they made at that conference.

3. I have called a conference at New York City on November 28 of the five Acting Supervising Agents covering the New England and

Atlantic Coast area embracing fourteen states, which I will attend, and a definite program will be made to coordinate their activities to the end that in the future their operations may be more efficiently directed at the past offenders and the leaders in the production of counterfeit currency, in order to eliminate the larger sources of counterfeit currency now in circulation. I will advise the Acting Supervising Agents in these five districts that until further notice I will attend a conference with them every two weeks at a central point in the area to receive their personal reports regarding the progress they are making in the program developed at our first meeting, and to make further plans with them to successfully carry out that program.

4. I have called a conference of the five Acting Supervising Agents covering the Great Lakes and Mississippi Valley area at Chicago on November 30 and I will attend in order to set in motion a program in the sixteen states embracing that area similar to the program referred to above. I will require this group to meet at least once a month to report their progress and will plan to be present at such meetings.

5. I have arranged for the Acting Supervising Agents in the South Atlantic and Gulf of Mexico area to meet at New Orleans on November 30 in order to coordinate the activities of the seven states embracing that area and to make plans to more efficiently suppress counterfeiting in their respective districts. Monthly conferences will also be held by the Acting Supervising Agents in this area and I have advised them that I will plan to attend their conferences or have a representative of this office present.

6. Seventy agents of this Service have been given a course of instruction at the Bureau of Engraving And Printing at Washington, and the Mint at Philadelphia, and by the Treasury Department handwriting expert. This instruction will continue until the entire personnel of the Secret Service Division has been given advantage of this training.

7. A circular is now being prepared which will be placed in the hands of each agent, quoting the United States Criminal Code and other acts and regulations relating to the various functions of this Service, together with certain court decisions relating to the laws we are called upon to enforce, and certain legal forms which the agents are called upon to use from time to time.

8. A survey is being made of the field offices by Messrs. Bernie and Dengler with a view of establishing a uniform office system in each of the new district offices which will conform to a system to be established in the headquarters office at Washington.

9. The titles Operative and Operative in Charge have been abolished and the titles Agent and Agent in Charge have been established.

10. At Louisville, Kentucky, on November 14 Que R. Miller, an associate of Count Victor Lustig and William Watts, was convicted on a charge of passing counterfeit $20 Federal Reserve Notes and sentenced to ten years in the Federal Penitentiary.

11. The system of daily reports in use has been abolished and a new system established which will furnish all the necessary data and which will permit the agents to devote their activities to more productive work than report-writing.

12. Arrangements have been made to establish posts of duty of agents at Milwaukee and Toledo. Formerly the activities of this Division at these points were covered by agents in travel status from Chicago and Cleveland and it is expected that better results will be obtained by having the agents stationed at these cities.

Frank J. Wilson
Acting Assistant Chief

fjw/w.

Fm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 28, 1936.

TO Secretary Morgenthau

FROM Mr. Haas

Subject: December 15 Financing - Preliminary

I. Aggregate Volume of Financing

The aggregate volume of financing must provide for

(1) $558 millions of 2¾ percent notes maturing December 15;

(2) $429 millions of 3 percent notes maturing February 15;

(3) $400 millions of bills maturing December 15 and

(4) Replenishment of the Working Cash Balance to the extent of $350 millions to $750 millions.

At the minimum, then, to take care of immediate needs, approximately $1,550 millions of new securities must be issued. If $750 millions of new money is raised instead of $350 millions (exclusive of funds to retire maturing bills), the financing will aggregate about $1,950 millions.

II. New Cash Requirements

1. If we limit our new cash offerings to $350 millions:

(a) Our effective Working Balance will probably fall to about $500 millions at the end of February, unless replenished by bill issues in January and February (In connection with the last financing, the Secretary emphasized the necessity, under present conditions, of maintaining a large Working Balance.);

(b) Our Working Balance will fall even lower if litigation delays anticipated receipts from the Unjust Enrichment tax, and from Unemployment, Old-Age, and Railroad Retirement taxes and trust funds, collections from which were estimated at $338 millions to the end of February; and

(c) Our Balance will fall even lower if more than $500 millions of additional relief funds are made available for the balance of this fiscal year. (To keep within this limit, non-recoverable "recovery and relief" expenditures, which have averaged $289 millions per month during the past four months, would have to be cut by 40 percent in the last half of the fiscal year.)

2. If we raised $750 millions in new money, an adequate Cash Balance would be assured against the contingency of delayed collections resulting from litigation, and no further borrowing would presumably be needed during the present fiscal year to provide up to $500 millions of additional relief or other appropriations. As already indicated, however, it is possible to confine the December new cash offering to $350 millions and to raise an additional amount through bill issues in January and February.

III. Suggested Note Issue

1. In view of the fact that $1,187 millions of the aggregate financing involves the replacement of short-term obligations now outstanding, and in view of the size of the aggregate financing, it seems best to repeat the practice, successfully employed in the past, of making a joint offering of notes and bonds. Both notes and bonds would be offered for cash subscription in stated amounts, these amounts to be increased by the exchange subscriptions tendered by holders of the $2\frac{3}{4}$ and 3 percent notes. The bill holders would be paid off in cash.

2. Five-year $1\frac{1}{4}$ percent notes: It appears reasonable to believe that a 5-year $1\frac{1}{4}$ percent note will sell on a yield basis approximating 1.10 percent under existing market conditions. Such a yield basis would mean a market price of 100-23/32.

The nearest comparable maturity, the 5-year 1-3/8 percent note, maturing six months earlier than the proposed issue, is selling to yield 1.03 percent; the 5-year $1\frac{1}{2}$ percent note, maturing nine months prior to the proposed issue, is selling to yield 1.02 percent; and the 5-year $1\frac{1}{2}$ percent note, maturing one year earlier than the proposed issue, is selling to yield 1.00 percent.

A premium of 23/32 of a point, which would rise to a premium of 31/32 if the new issue sold on a 1.05 basis, as would be justified on a straight mechanical extrapolation, would appear to be ample for a note issue. It is true that the maturing $2\frac{3}{4}$ percent notes are at present commanding a premium in excess of 1-6/32 points ex-interest (the premium ex-interest on the 3 percent notes is only 21/32 of a point); but there is no adequate reason to allow fully for this premium, particularly in a note issue.

In the first place, the market premium on a maturing issue is primarily determined by the market's speculative expectations of the value of the preferential subscription privilege that the Treasury will offer to holders of such obligations. If the Treasury always meets or betters the market's speculative expectations in this respect, the expected premium could be worked up to two or three points as well as one point.

In the second place, the premium offered on a note issue should be smaller than that offered on a bond issue, because the risk of price declines in short-term issues is very much less than in long-term issues.

Finally, in making a joint note and bond offering, it is better from the Treasury's standpoint to offer a higher premium on the bonds than on the notes.

If the 5-year note issue were to carry a 1-3/8 percent coupon rate, the premium would be no less than 1-11/32 points on a 1.10 percent basis, and 101-19/32 on a 1.05 percent basis.

IV. Callable Period in Long-term Bond Issue

As was brought out in a previous memorandum (dated November 17), certain considerations, mainly of statutory origin, appear to make it almost mandatory for the Treasury to confine future bond issues to medium-term maturities, or alternatively, to longer-term bonds containing early and extended call periods.

> It was noted that the operation of the statutory Sinking Fund and the Old-Age Reserve Account, as at present constituted, is estimated to provide funds for the retirement of about $24½ billions of the Federal debt during the next 15 years, and $56 billions (more than the total outstanding direct interest-bearing debt) in the next 20 years. Further, the Unemployment Trust Fund, other governmental trust funds, and the FDIC, as well as other governmental corporations and credit agencies, may also require large but indeterminate amounts of Government securities.

> It was also noted that the use of budgetary surpluses for debt retirement, and the reduction of interest charges through refunding, in the event of lower interest rates, are made extremely difficult unless a large part of the outstanding debt contains extended call periods.

> Estimates based upon the existing statutes would indicate that no final maturity longer than 17 years is now needed. On the other hand, it is not inconceivable that Congress may revise downward the existing Sinking Fund and Old-Age Reserve Account provisions; or that another depression or war may increase the public debt. If we confine our bond issues to final maturities of 17 years or less, the Treasury might be faced with an embarrassing concentration of maturities in the event of such contingenies being realized. By issuing longer-term bonds that are callable after the first 10 or 12 years, the Treasury is enabled to take full account of the existing statutory requirements and to protect itself against the contingencies mentioned.

V. Suggested Alternative Bond Issues

The highest yield now obtainable on any outstanding direct or guaranteed Federal obligation (excluding United States Savings Bonds) is 2.59 percent. It is possible, therefore, by appropriate choice of maturity, to break new ground in the reduction of interest rates on post-war Government bonds.

1. 2-5/8 percent 10-18 year bond: This bond would mature December 15, 1954, and would be callable after December 15, 1946. Such a bond should sell on a yield basis not worse than 2.50 percent, on which basis it would command a premium of 1-3/32 points. The yields on comparable issues now outstanding are as follows:

Treasury 4's	1944-54	1.85
Treasury 3-3/4's	1946-56	2.04
Treasury 3's	1951-55	2.48
Treasury 2-3/4's	1951-54	2.51
HOLC 3's	1944-52	2.30

Because of the early call date of such a bond, it is easily conceivable that the market might price the issue on a substantially better basis than outstanding issues of comparable final maturity; and in this event the issue would command a premium well in excess of the one here indicated as probable.

Professor Viner, in the conferences preceding the September financing, argued against the offering of medium-term bonds carrying lower coupon rates and in favor of bonds of such long maturity as would require a coupon rate of 2¾ percent or higher. His reason for this position, he said, was that he feared the effects upon bank solvency of a rise in long-term interest rates if the banks continued to purchase substantial amounts of Government bonds; and that banks could be discouraged from further purchases by making the new issues of long maturities.

In point of fact, however, banks are purchasing Government bonds anyhow; and it is precisely the weakest banks as a class that choose the longest-term issues — because of their higher yield. From the standpoint of protecting the banking system — which appeared to be Professor Viner's main criterion —, medium-term bonds carrying lower interest rates would, because of their smaller vulnerability to price declines, be far preferable to longer-term issues. Indeed, Professor Viner specifically stated that he was not afraid of bank investments in Government bonds maturing in 15 years or thereabouts on the ground that these would shortly become relatively short-term obligations.

It is of interest to note that, judged by market behavior, there has been a relatively greater demand for Treasury bonds of 10-15 years and 15-20 years maturity than for bonds of longer maturity. Between September 1st and November 27th the average yield of Treasury bonds of 5-10 years maturity declined by 14.7 percent; 10-15 years maturity, by 10.3 percent; 15-20 years maturity, by 7.2 percent; and 20-25 years maturity, by 2.4 percent.

2. 2¾ percent 10-25 year bond: This bond would mature December 15, 1961, and would be callable after December 15, 1946. Such a bond would have a maturity of 1¾ years longer than the longest-term Treasury bond now outstanding.

In the present market, such a bond could be reasonably expected to sell on a yield basis of about 2.60 percent, on which basis it would command a premium of 1-10/32 points. Even if it sold on a yield basis of 2.65 percent, the premium would be 28/32 of a point; and the issue would be protected even on a 2.70 percent yield basis, where it would command a premium of 14/32 of a point. Because of the early call period, on the other hand, it is altogether possible that the market might "irrationally" price the issue on a basis as low as 2.55 percent or even lower. On a 2.55 percent basis, the premium would be 1-24/32 points. The yields of the nearest comparable outstanding issues are:

Treasury	3-3/4's	1946-56	2.04
Treasury	2-3/4's	1956-59	2.59
Treasury	2-7/8's	1955-60	2.57
FFMC	3-1/4's	1944-64	2.37

As was indicated in the memorandum of November 17, the cost to the Treasury of obtaining relatively long call periods has never been great and is apparently negligible at the present time.

Fin 271

November 28, 1936.

MEMORANDUM

TO: The Secretary
FROM: Mr. Gaston

In carrying on its financing and refinancing in the last three years the Treasury Department has given a great deal of attention to the proper spacing of maturities. It has been important not to concentrate too great an amount of maturities in any one year or at any one payment date, but it has been even more important to provide for sufficient maturities so that the debt can be retired rapidly and in an orderly way without unnecessary expense to the Government.

There have been occasions in the past when the Government has been embarrassed by not having maturities available for which surplus funds could be used with the result that substantial premiums were paid to buy in Government obligations. In the years 1889, 1890 and 1891, for instance, the Treasury had to pay out $48 millions in premiums to retire $270 millions face amount of bonds. The average price paid then was 118. We are very anxious to avoid any difficulties of this kind in the future.

We are just about to enter on a period of reduction of the public debt and, in view of the great strength of the tax structure, it is our expectation that this debt retirement may be quite rapid over the next ten or fifteen years. But besides the retirement of the public debt from surplus revenues there are other considerations of great importance. Statutory sinking fund operation will require the retirement of 10½ billions of the debt during the next fifteen years and 4½ billions during the succeeding five years. These retirements will be out of the surplus of revenues.

But there are also various reserve accounts which will require large investments in Government securities and in order to have securities available for this purpose it will be necessary to retire equivalent amounts of outstanding debt. The old age reserve account, it is estimated, will alone absorb 14 billions of Government securities in the next fifteen years and 7 billions additional during the remaining five years.

This situation seems to require that the remainder of the deficit financing be either in the form of medium term securities or of longer term bonds with an early call date and an extended call period.

It is expected that the old age reserve account and sinking fund requirements together will begin to exceed the amount of public debt available for retirement in 1953, and there are the unemployment trust fund and other governmental trust funds, as well as the F.D.I.C. requirements, and it may also be expected that surplus revenues will materially exceed the amount necessary for the statutory sinking fund retirements.

Consequently it seems the part of wisdom that we should issue no new securities having a more advanced call date than ten years hence.

Even if changes in the law should be made, which would reduce the amounts available for retiring public debt, there would still be strong reasons for an extended call period in any new securities. Long call periods increase the opportunity for refundings and consequent interest saving to the Government. The refunding of the fully tax exempt $3\frac{1}{2}$ per cent First Liberty Bonds and the $4\frac{1}{4}$ per cent First Liberties by this administration and the refunding of the second Liberties by Secretary Mellon, were all made possible by the fact that Secretary McAdoo had incorporated fifteen year call periods in these issues. In contrast are the Treasury $4\frac{1}{4}$'s of 1947-52, issued under Secretary Mellon on October 16, 1922. Even if it had been necessary to increase the coupon to 4-3/8 on this issue, so as to make it callable in 1937 instead of 1947, these bonds would have been eligible for refunding next October at a coupon rate of 2-3/4 per cent or lower, assuming continuance of the present interest rates. Under such conditions the interest saving over the term of the bonds would have approximated 100 million dollars on this one issue.

While the existing interest rates on Government obligations may be considered low by past standards, there is no certainty that they will not go lower and the Treasury should not restrict its freedom to take advantage of a possible further decline. The cost to the Treasury of obtaining long optional call periods has never been great and present market conditions indicate that it would be insignificant now. The Federal Farm Mortgage Corporation has outstanding $3\frac{1}{4}$ per cent bonds maturing in 1964, but callable in 1944, and these bonds are selling to yield only 2.39 per cent to the earliest call date. Treasury 3-3/4's of 1946-56, with a call period of ten years, are selling to yield 2.11, while Treasury 3-1/8ths of 1946-49, a three year call period, are selling to yield 2.12 and the 3's of 1946-48, with only a two year call period, are selling to yield 2.09.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

274

DEPARTMENT OF STATE
WASHINGTON

November 28, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses five copies of telegram No. 1152 of November 27, 1936, from the American Embassy, Paris, regarding the indebtedness of France to the United States Government.

Enclosure:
As stated.

RV

RB

GRAY

Paris

Dated November 27, 1936

Rec'd 3:02 p. m.

Secretary of State

Washington.

1152, November 27, 3 p. m.

On November 24 Rene Richard (Radical Socialist Deputy for the Deux-Sevres) introduced a resolution inviting the government to resume negotiations with the United States with a view to the settlement Franco-American debt. Subsequently Richard declared to press that he felt it was indispensable to open negotiations for the settlement of the Mellon-Berenger accord, suspended since 1932. He considered it was high time to make a gesture to the United States to efface the misunderstanding on the debt question which exists between the French and American democracies. With this end in view it was his intention to ask the Chamber to pronounce itself at once. The reasons for this move are probably the feeling that if a debt settlement can be made, the American market will then be open for large borrowings by France, and also the fear that Italy may be stealing a march by initiating debt settlement negotiations with the United States.

The

RB -2-#1152 November 27, 3 p. m. from Paris

The OEUVRE, recalling that debts have hardly been spoken of since December 1932 when the Herriot Government was overthrown by a coalition, reminds its readers that Roosevelt has since taken Hoover's place and that the President is credited with the intention of shortly making a sort of declaration of peace to the world inviting the nations to come to an amicable settlement of their differences.

"Resume payments to America? asks the OEUVRE, let us say simply that during the past four years certain new facts have arisen which are of a nature to change the atmosphere."

The introduction of the Richard bill has been noted briefly in a number of papers, one paper indicating that it is the government's intention to take the matter up with the United States prior to December 15.

BULLITT

WSB

FS

GRAY

Paris

Dated November 28,1936

Rec'd 11:01 a. m.

Secretary of State,

Washington.

1161, November 28, 2 p. m.

FROM COCHRAN.

Unofficial exchange trading at Paris very quiet this forenoon. Belga somewhat offered from Brussels on report of increase in unemployment as of November 21 and on prospect of imposition of 75% tax on profits from gold dealings at time of Belgian devaluation. Florin outstandingly strong. Paris-American banks remark that Netherlands should be drawing more gold from London than is now evident. As it is, gold continues to leave London for New York at a price which it seems to my contacts here either the Bank of the Netherlands or the Bank of England could afford to pay for increasing their gold stocks. Guaranty has about $15,000,000 of gold on water from India which will proceed to New York unless above-mentioned condition change.

French Chamber has passed Government's fiscal

reform

FS 2-No. 1161, November 28, 2 p. m. from Paris

reform bill. French labor situation appears somewhat improved today.

KLP

BULLITT

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

279

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA851.5151/1158

November 30, 1936

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of notes addressed to the Minister of Switzerland and the Chargé d'Affaires ad interim of the Netherlands in reply to their notes of November 21, 1936, regarding the policy of their Governments with respect to the general principles stated in the Tripartite Declaration of the Governments of France, Great Britain and the United States of September 25, 1936.

Enclosures:
To Minister of Switzerland.
To Chargé d'Affaires ad interim of the Netherlands.

Rum

November 30, 1938

Mr. Bewley came in at 11:30 this morning to see the Secretary. Mr. Taylor and Mr. Lochhead were also present. The purpose of the call was to give the Secretary an answer to his question of Saturday as to whether or not he should make some reference at his press conference today to the recent transaction in which the Argentine Government transferred $45,000,000 from London to New York for the purpose of providing funds to pay off a bond issue, of that amount, which they were calling for June 1937, although it did not mature until June 1959. The Secretary's thought in announcing this was to draw attention to the use of the stabilization fund facilities which permitted this transaction to be carried out without any disturbance to the exchange market.

Stenographic transcript of the meeting follows:

<u>Bewley</u>: Well, I telegraphed what you asked me on Saturday and I thought I had better bring down the reply. They asked me to tell you that they would very much like to meet your wishes, but they do think it undesirable for either Government to refer to specific transactions which are, in effect, private ones concerning banker and customer, and they add that they would be grateful if you could possibly see your way to keep your statement on more general lines about the necessity of having an equalization fund so as to prevent the money markets being disturbed on these occasions, and they would be delighted if you would choose to say that technical arrangements between parties concerned are running very smoothly, but without referring to specific transactions.

<u>HM,Jr</u>: Since phoning you, I have thought it over and I don't think I am going to say anything, because I am going to talk about my own financing this afternoon and I would sort of have to drag this thing in by the hair. Also, after thinking it over, it is a little too fresh; a little bit too recent, so I think, as we say, "we will skip it." I thought it was the best demonstration that I had seen and, of course, it isn't private in the sense it is a Government affair.

<u>Bewley</u>: It's a Government affair, I know, but I don't know -- the British are very stiff about the business of

banker and client.

HM,Jr: It's perfectly all right. As a matter of fact, I was going to phone you that I had given up the idea.

Bewley: Then it obviously doesn't matter.

HM,Jr: No, it does not. I don't think I am going to mention it at all. In a month or so, when I testify on the Hill, they will say, What kind of things -- why do you need it? Then in January I could say, You know, six weeks ago, the question came up of the Argentine Government paying off $45,000,000 and the transfer of funds from London to New York, and due to our fund being there we were able to facilitate the thing smoothly which nobody could object to.

Bewley: Right..

HM,Jr: Nobody.

Bewley: I suppose not by that time.

HM,Jr: By that time I may have forgotten about it.

(General laughter.)

Bewley: If the Argentines don't object, I don't see ...

HM,Jr: True. True. But I am not going to say anything tonight.

Bewley: I guess that's all there is.

HM,Jr: But I appreciate your coming in, and the answer.

Bewley: And I am glad it is not awkward for you, because I was afraid you might be ....

HM,Jr: No. Now, when there is any doubt where any partners in this thing are concerned, my attitude would be not to do anything. If anybody has any doubt as to the ethics involved, then I would much rather do nothing.

-3-

Bewley: Yes.

HM,Jr: What else do you know?

Bewley: Nothing.

HM,Jr: Did you see the newspaper article, this morning, this thing that came out of Holland, " Holland Cautious on Currency Pact."

Bewley: Yes, I saw that headline and wondered whether it was true.

HM,Jr: Much as to say they are going to think it over. I don't know whether you know it, but the thing definitely we asked Cochran to tell them -- to point out to the Dutch that when they agreed to this thing it meant that they could not do any more sharp devaluation and we pointed that out very carefully because one of you men brought it to my attention that they had not committed themselves as to further devaluation and if they came in, they were committed and Cochran very carefully pointed that out. You may want to pass that on.

Bewley: Yes; I will pass it on.

HM,Jr: We carefully pointed that out -- once you are in, no competitive devaluation.

Mr. Lochhead: They subscribed to the September 25th agreement.

Bewley: Yes.

HM,Jr: That's about all.

Bewley: I haven't got you the text of our actual statement yet, but I am hoping it will turn up.

HM,Jr: You have ours?

Bewley: Yes, we have got yours. I have asked for ours, but I don't think there is any great hurry. It may take a few days to come.

HM,Jr: I don't know of anything else. Thank you for coming down.

NEW YORK TIMES Nov.30,1936

HOLLAND CAUTIOUS ON CURRENCY PACT

Nation Joins Tripartite Bloc in Principle Pending Definite Talks.

FISCAL FREEDOM SOUGHT

Final Guilder Rate and Ultimate Ratio of Depreciation Are Motivating Factors.

By PAUL CATZ
Wireless to THE NEW YORK TIMES.

AMSTERDAM, Nov. 27.—Holland's joining of the tripartite currency agreement is contrary to the action of Belgium and Switzerland so far that it means only adherence in principle to the declarations of Sept. 25 and Oct. 13. Until technical details in cooperation with Washington, London and Paris are worked out, Dutch adherence is only of theoretical value.

Although the Dutch authorities, for several reasons, are cautious of binding themselves to any international monetary pact, it nevertheless is certain that an early, full technical agreement will be reached. Holland's cautiousness is due principally to a desire to retain the fullest freedom regarding the guilder rate and ultimate ratio of depreciation. Once an agreement is concluded, Holland wholeheartedly will cooperate, because such action will render the Dutch equalization control easier, enabling it to spread control over various currencies and counter exchange speculation while probably making it unnecessary for Holland to bind herself to a fixed gold price.

Belief is increasing that this will greatly assist de facto stabilization, and perhaps promote a new kind of gold standard for which, however, an indispensable condition is the breaking down of international trade barriers.

Holland's adherence, in principle, already has brought about a repatriation of capital and pressure on spot and forward sterling, forcing continual Dutch control buying of sterling. It is expected here that international gold dealings gradually will become the monopoly of the central banks and equalization funds, following last week's lead by the United States, and this would contribute greatly to the checking of unsound speculation and lay the basis for a modus vivendi of stabilization.

Europe, as a whole, has shown only restricted recovery in 1936, the political situation being a great handicap, while gold-bloc currency devoluation, only to a small extent coupled with the demolition of trade barriers, and Germany's increasing autarchy constitutes a continued check to the recovery trend.

Nov. 20, 1936

Mrs. E. S. Friedman

A. Lochhead

Please transmit the following by cable to Professor Buck, Shanghai, China:

"Consider it desirable for you to return to the United States for a stay of about one month. You are accordingly authorized to make arrangements to proceed to the United States at your earliest convenience. Morgenthau."

November 30, 1936.
4:32 p.m.

H.M.Jr: Hello.

Operator: Mr. Cochran

H.M.Jr: Yes.

O: Go ahead.

H.M.Jr: Hello

O.O: Go ahead please.

C: Hello

H.M.Jr: Hello Cochran.

C: Hello Mr. Morgenthau.

H.M.Jr: How are you?

C: All right, sir. How are you?

H.M.Jr: Very well.

C: Mr. Morgenthau, it was - it's been suggested that you might want to take up another problem over here the same way you handled the currency question.

H.M.Jr: Yes.

C: So I just wanted to phone you from home tonight....

H.M.Jr: Yes.

C: .....to tip you off confidentially that this matter has come up in a way that may make it embarrassing or hard to handle later.

H.M.Jr: For us to handle?

C: It might make it difficult to handle later.

H.M.Jr: I see.

C: This question has been discussed on a few occasions when our friend Bill was with officials.....

H.M.Jr: Yes.

C: .....and this morning he was called over to the Ministry of Foreign Affairs....

H.M.Jr: Yes.

C: ......and they asked him to learn whether you people at Washington would welcome an approach by these people here to settlement of the war debt through a - on account of what they call the "commercial side."

H.M.Jr: They do - on what?

C: What they call the commercial side - that's the foreign stocks.....

H.M.Jr: I - I don't quite get that.

C: .....that's for sale over here....

H.M.Jr: Wait a minute - say - say it again. I don't quite get it.

C: They call it the commercial side of the war debt.

H.M.Jr: Now what is that?

C: That was by 400 million dollars worth of surplus stocks which our Army left here and sold to them.

H.M.Jr: Ah-ha.

C: You see the whole debt amounted to over four billion dollars....

H.M.Jr: Yes.

C: .....as funded, while this item is only 400 million dollars.

H.M.Jr: Yes.

C: And what they want to know is whether if they made a nice suggestion now.....

H.M.Jr: If they what?

C: ....something on that stock, on that commercial side......

H.M.Jr: Yes

C: ....would we welcome it.

H.M.Jr: Ah-ha.

C: See?

H.M.Jr: Well what I imagine will happen is this....

C: Tomorrow they'll wire him - tomorrow or next perhaps - has wired in to-day asking for instructions.

H.M.Jr: They - they wired for instructions?

C: Yes.

H.M.Jr: To-day?

C: Yes.

H.M.Jr: Well that undoubtedly will come to me.

C: That - that will . Of course you can't tell them that I phoned you but I thought you might inquire of the Secret Service - but that's it.

H.M.Jr: Now just a moment. It just so happens that Mr. Bell is in my office and he knows more about this war debt than anybody else, see? Just let me speak to him a minute. Just stand by. (Pause for side conversation). Just stay on the wire please.

C: Yes, all right.

(Conversation aside with Bell - long pause)

H.M.Jr: Hello

C: Hello

H.M.Jr: Bell has - he understands what this is, see?

C: Yes.

H.M.Jr: And I - the American papers carried that Bullitt saw these people.

C: Well that's the trouble, you see. They're getting a lot of publicity to it.......

H.M.Jr: Yes.

C: .....and I'm afraid that they may let it out that they're approaching us on this narrow basis.

H.M.Jr: Yes.

C: And where this constitutes only one tenth of the total debt....

H.M.Jr: Yes.

C: The - the next approach to war debts you could never get it broadened again for the whole debt probably.

H.M.Jr: I get it.

C: See?

H.M.Jr: Well I appreciate your calling me and I'll - I think I can - I'll - I'll look into it.

C: Fine. Well I just wanted to let you know that it came up in that way.

H.M.Jr: Well -

C: But I - while it isn't -

H.M.Jr: They opened -

C: - any desire on their part to reopen it but....

H.M.Jr: Well - I mean did the French open it or did we open it up?

C: They - they took this step; I don't know just where - where the original one started.

H.M.Jr: Yes.

C: But anyway they made the important approach to-day.

H.M.Jr: I see.

C: And if we could just encourage them to - to in their notes say they want to open negotiations later, but - it'll protect them from anything like this, -

H.M.Jr: I see.

C: - putting it on that narrow basis.

H.M.Jr: Ah-ha.

C: See?

H.M.Jr: O.K.

C: All right, fine; that's all. Things are quiet here, better to-day than they have been.

H.M.Jr: Good. Well, things here - we've got a big financing on next Monday.

C: I notice you have that on schedule.

H.M.Jr: It's about a billion and a half.

C: Yes - yes.

H.M.Jr: And I don't look for any trouble with it.

C: Oh, you ought to get that all right.

H.M.Jr: All right.

C: Now, don't mention me of course in this.

H.M.Jr: What's that?

C: I - I say you'd better not mention that I called you on it.

H.M.Jr: Oh no, no, no - I'll just say that it was on the - in fact I just got through a Press Conference and they asked me about it. I'll call up Judge Moore and say I was asked at my Press Conference, "What is there to it?"

C: Yes, yes.

H.M.Jr: See?

C:	Well it - it ought to be over there by this time.
H.M.Jr:	O.K.
C:	Fine.
H.M.Jr:	Thank you.
C:	All right, sir.
H.M.Jr:	Goodbye.
C:	Goodbye.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 30, 1936, 5 p.m.

NO.: 1167

FROM COCHRAN.

Paris exchange market very quiet. Bank of France sold very little sterling at 105.15. Dollars offered fairly freely by Lazard at 21.4525. Florin again the market's strongest currency. French rentes rose 90 centimes to 1.55 francs of relief over failure of general strike to develop over past week end. Shares fairly well bid. Forward franc still offered with labor and budgetary difficulties in prospect.

I had a call this morning from de Castellane, the Paris representative of Bankers Trust. He is of the opinion that if an early war can be averted and if a few shifts could be made in the present government, a real pick-up should be experienced by France. So long as the present line-up in the Government is rigidly maintained, he believes, sufficient confidence and capital will not return to France. Daladier or Chautemps, he thinks, should head the Government with Reynaud in the Finance Ministry and Blum perhaps in Foreign Affairs.

END SECTION ONE.

BULLITT.

EA:LWW

My

PARTIAL PARAPHRASE OF SECTION TWO, TELEGRAM NO. 1167 of November 30, 1936, from the American Embassy, Paris

It is reported by an officer of the Urquijo Bank of Madrid, who just arrived in Paris, that the principal banking district, including his own, was badly damaged by shells and bombs. He said a long drawn-out siege seems likely, and expects Madrid to suffer increasingly heavy destruction.

Resolution adopted at Praha by certain bank governors from Czechoslovakia, Yugoslavia and Roumania stressed the need for definitive monetary stabilization, urged solution of the problem of international indebtedness and recommended an international examination of general methods of payment.

AGENCE ECONOMIQUE reports from Warsaw that in his budget speech tomorrow Polish Minister of Finance will voice government's strong opposition to devaluation of zloty.

END MESSAGE.

BULLITT.

EA:LWW

November 30, 1936
5:40 P.M.

H.M.Jr: How are you?

R.Walton Moore: Living.

H.M.Jr: Well, I'm living. On this request of yours to give you a memorandum on - on silver - Key Pittman, see? Of course, what Key wants to know is what's going to happen about silver legislation and the price of silver.

M: Yes

H.M.Jr: And all during the campaign the President and I steered clear from it.

M: Yes

H.M.Jr: And I frankly can't tell you what we're going to do.

M: Suppose I tell Key Pittman this; I'll just hear him talk and I'll tell him that any of the questions that may - he may propound he ought to take up with you or the President.

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

M: I think so.

H.M.Jr: I don't mind your shoving it over here a bit.

M: Yes.

H.M.Jr: But I didn't want to not answer your letter -

M: Yes

H.M.Jr: - but quite frankly it all gets down to how much are we going to pay for domestic silver and I swear I don't know.

M: Well, that's what Key wants to know: how much money you're going to pay him -

H.M.Jr: Sure; well I don't know.

M: - for Nevada silver.

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

M: By the way, the newspapers, some of them have been saying that the President may come back; he may think it's necessary for him to come back here before the end of his vacation. I sent him a telegram today. McIntyre phoned me from Florida -

H.M.Jr: Yes

M: - and he's in constant touch with the White House and he thought it'd be well to send the President a telegram saying there are no immediate problems in the State Department, and so far as I can hear there were no problems anywhere else that would require him to be here before the middle of the month.

H.M.Jr: Ah-ha. Well -

M: I hate - I hate to see him be denied the opportunity to get some real rest.

H.M.Jr: Yes

M: Don't you think that he -

H.M.Jr: Oh yes. I - I got a call in for him. He said he was going to talk to me a little later, and I'm - I want to talk to him about our December financing - the President.

M: Well, you - you don't think it's necessary for him to come back here at once?

H.M.Jr: I never saw the place so quiet.

M: What's that?

H.M.Jr: I say it's - everything seems very quiet.

M: I think so.

H.M.Jr: Yes.

M: And I'm going - I hope - I hope you'll tell him when you do talk to him that that's the general feeling here.

H.M.Jr: Righto.

M: All right.

H.M.Jr: Thank you.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Consulate, Geneva, Switzerland
DATE: November 24, 1936, 4 p.m. Rec'd Nov. 27, 9:10 a.m.
NO.: 479

Loveday tells me while the agenda for the financial committee meeting on December 5 only includes the customary technical financial questions concerning specific states, that the three power currency declarations will come up in the general discussion.

I am told by Loveday, who just returned from a visit to London and Paris, that in respect of the foregoing as related to commercial policy, he found an extremely negative attitude on the part of the British, their general position being that the states at present imposing restrictions must make the first move. Neither does he consider that Paris can make the first move, due to the difficulty Blum is encountering in the commercial policy already initiated by him and due to his Government's general weakness. The Eastern European States are not inclined to take action on currency matters because of the rumored (repeat rumored) weakness of the French currency.

Loveday naturally cannot forecast the line that may be followed in the committee discussions, but he definitely does not envisage any constructive results, or in particular, any initiative in which action would be involved.

GILBERT.

EA:LWW

No. 157 Paris, November 28, 1936.

Subject: Adherence of Holland, Switzerland, and Belgium to the Three-Power monetary agreement of September 25, 1936.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

Reference is made to the Embassy's despatch No. 41 of October 21, 1936, concerning the text of the supplementary announcement, as published in LE TEMPS of October 14, 1936, by Mr. Morgenthau setting forth the conditions under which the American Treasury was prepared to buy and sell gold.

I now have the honor to forward herewith, for the information and records of the Department, the text of the communique published in the French press of November 24, 1936, relating to the adhesion to the monetary arrangement of September 25, 1936, of Holland, Switzerland and Belgium. This communique embodies

the . . .

the French translation of the communiqué of the American and British Treasuries in this respect, and concludes with the following statement:

> " As far as it is concerned, the French Government has the intention of taking all necessary measures to the end that the technical cooperation instituted between the French, American and British Exchange Equalization Funds shall be extended to the banks of issue or Stabilization Funds of Belgium, Holland and Switzerland. The monetary authorities of these countries will henceforth benefit from the same facilities as concerns the delivery of gold against currencies, and these monetary authorities will assure similar treatment to the French Stabilization Fund."

There is also enclosed, as clipped from the London FINANCIAL TIMES of November 24, 1936, the text of the declaration of the Government of the Netherlands, the report of the correspondent of this paper at Basel relating to the announcement of the Swiss Federal Council, and the statement issued by the British Government welcoming the steps taken by Holland and Switzerland.

Respectfully yours,

For the Ambassador:

Edwin C. Wilson
Counselor of Embassy

In quintuplicate.

Enclosures:
No.1 - 5 copies of French communiqué of November 24, 1936.
2 - 5 " declaration from FINANCIAL TIMES of November 24, 1936.

ECW/AM/jf

Enclosure No. 1 to Despatch No. of November [illegible], 193[illegible], from the Embassy at Paris.

AGENCE ECONOMIQUE ET F

APRES L'ADHESION DE LA HOLLANDE ET DE LA SUISSE A L'ACCORD MONETAIRE

Le ministère des Finances communique :

Dès le lendemain de la déclaration franco-anglo-américaine du 25 septembre dernier, le gouvernement belge a annoncé qu'il y donnait son adhésion. Le gouvernement hollandais et le gouvernement suisse viennent maintenant de faire connaître leur décision de s'y rallier également.

Le gouvernement français accueille avec faveur les déclarations par lesquelles les gouvernements de Belgique, de Suisse et de Hollande adhèrent ainsi aux principes exposés dans la déclaration tripartite du 25 septembre.

A la suite de ces adhésions, des dispositions ont été prises pour étendre à ces trois pays les arrangements assurant les relations de change entre les places de Paris, Londres et New-York, qui ont fait l'objet d'un communiqué, en date du 13 octobre, et pour établir la collaboration des fonds d'égalisation ou de stabilisation des changes.

Ces dispositions font l'objet des deux communiqués suivants de la Trésorerie américaine et de la Trésorerie britannique.

Communiqué de la trésorerie américaine

« Comme suite aux avis donnés par lui les 31 janvier et 1er février 1934, prévoyant les achats d'or par la trésorerie, et le 31 janvier 1934, concernant la vente de l'or pour l'exportation, le secrétaire du Trésor déclare que dorénavant, et tant que, après préavis de vingt-quatre heures, cette déclaration d'intention ne sera pas annulée ou modifiée, les Etats-Unis, en dehors des ventes d'or effectuées au bénéfice des fonds d'égalisation ou de stabilisation de pays étrangers, vendront aussi de l'or aux fins d'exportation immédiate (ou de consignation d'or *earmarked*) aux trésoreries (ou aux agents financiers quelconques intervenant pour leur compte ou dont les interventions en cette matière sont garanties par telles) des pays dont les trésoreries (ou les agents financiers intervenant ou garantis de la sorte) sont de la même manière disposées à vendre de l'or aux Etats-Unis, pourvu que telles offres d'or soient faites à des taux et dans des conditions tels que le secrétaire du Trésor puisse les estimer les plus avantageuses du point de vue de l'intérêt public. Le secrétaire du Trésor fait connaître en outre d'ores et déjà la liste des pays étrangers qui remplissent les conditions ci-dessus indiquées et cette liste sera complétée chaque jour. Toutes les ventes d'or de l'espèce seront faites par l'intermédiaire de la Banque de Réserve fédérale de New-York, agissant comme agent financier des Etats-Unis, aux conditions suivantes que le secrétaire du Trésor estime les plus avantageuses du point de vue de l'intérêt public :

L'or sera vendu au prix de 35 dollars par once de fin, plus 1/4 % pour les frais, et les ventes et consignations seront soumises aux règles édictées en application du Gold Reserve Act de 1934. »

A la suite de ce communiqué, le secrétaire du Trésor américain a fait connaître que dès maintenant il ajoutait sur la liste sus-visée la Belgique, la Hollande et la Suisse.

Communiqué de la trésorerie britannique

« Le gouvernement de Sa Majesté a enregistré avec plaisir les déclarations que les gouvernements de Hollande et de Suisse ont publiées hier en vue d'exprimer leur adhésion aux principes de la déclaration tripartite du 25 septembre, auxquels le 26 du même mois le gouvernement belge avait déjà expressément adhéré.

Le Gouvernement de Sa Majesté a été informé que la trésorerie des Etats-Unis d'Amérique avait étendu à la Belgique, à la Hollande et à la Suisse les arrangements établis en vue d'assurer au sujet de la politique des changes la coopération technique qui avait été visée dans la déclaration du 13 octobre dernier. Le gouvernement de S. M. accueille cette nouvelle décision avec faveur. Elle s'harmonise avec les arrangements déjà pris entre les Etats-Unis d'Amérique et, d'une part, le Royaume-Uni, d'autre part, la France. L'extension de ces arrangements s'harmonise également avec les lignes générales de la coopération mutuelle existant entre les autorités monétaires britanniques et celles de la Belgique, de la Hollande et de la Suisse. »

Les mesures du Gouvernement français

En ce qui le concerne, le gouvernement français a l'intention de prendre les mesures nécessaires pour que la coopération technique instituée entre le fonds de stabilisation des changes français et les fonds d'égalisation américain et britannique soit étendue aux instituts d'émission ou fonds de stabilisation de Belgique, de Hollande et de Suisse. Les autorités monétaires de ces pays bénéficieraient désormais des mêmes facilités en ce qui concerne la délivrance de l'or contre devises, et elles assureraient au fonds de stabilisation français un traitement analogue.

…E FINANCIAL TIMES
…vember [illegible], 1936.

…IX-POWER MONETARY ACCORD.

…OLLAND AND SWITZERLAND …OW ANNOUNCE ADHERENCE.

BRITISH TREASURY EXPRESSES ITS PLEASURE AT DECLARATIONS.

…S. EXTENDING ARRANGEMENTS FOR THEIR CO-OPERATION.

Holland and Switzerland yesterday announced their adherence …the three-power monetary agreement of 25th September, aimed to …abilise currencies.

Switzerland has decided to join the pact and adds that it will be …he first to stabilise its currency if Britain, the United States and …rance, signatories of the accord, do likewise. Belgium has already …nnounced its adherence.

…UTCH STATEMENT OF POLICY.

The Dutch Government last night ordered the following declara…ion to be made to the Governments in London, Washington and …aris :—

"The Dutch Government has taken due notice of the declaration …y which the Governments of France, Great Britain and the United …tates have indicated their intentions in regard to their monetary …olicy and agrees with the general principles laid down in their …ripartite declaration of 25th September, 1936."

It was officially added that the necessary preparations are being …ade in order to arrive at practical co-operation with the monetary …uthorities in those three countries.

These steps by Holland and Switzerland were welcomed by the …ritish Government in a state…ent issued through the Treasury …is morning. This was as …llows :—

"His Majesty's Government has noted with pleasure the declarations of the Governments of the Netherlands and Switzerland, which were issued yesterday, expressing their adherence to the principles stated in the tripartite declaration of 25th September (when the French franc was devalued). The Belgian Government declared their adherence to those principles on 25th September.

"His Majesty's Government are informed that the United States Treasury are extending to Belgium, the Netherlands and Switzerland the arrangements for technical co-operation in exchange matters which were referred to in the statement published on 13th October.

"His Majesty's Government welcome this step, which is in harmony with the arrangements already made between the United States and this country and between the United States and France.

"The extension of this arrangement … also in harmony with the general …sis of mutual co-operation which …ists between the British monetary …thorities and the Belgian, Nether…nds and Swiss monetary authorities."

DUTCH DECISION.

Not Definite.

FROM OUR OWN CORRESPONDENT.

AMSTERDAM, 23rd Nov.

According to information gathered in authoritative quarters, the Dutch Government's declaration on the monetary agreement does not mean an actual joining of the tripartite accord. It means …ly what had been forecast in THE FINANCIAL TIMES of 5th November, that the Dutch authorities are investigating means to join the agreement, though it is highly probable that shortly it will join.

It is emphasised that the guilder remains completely free and that no commitments whatever in this respect have been undertaken. Also, there is no questi n of stabilisation of the guilder at the present level.

The Dutch authorities, by issuing the cautious declaration, do not desire to join the tripartite agreement unconditionally, it is believed. They apparently want to keep a back-door open. It is, moreover, considered as remarkable that the Dutch Government does not declare its approval in principle of the tripartite gold agreement of 13th October.

SWISS DECISION.

Natur… Step.

FROM OUR OWN CORRESPONDENT.

BASLE, 23rd Nov.

The Swiss Federal Council announced today that it had informed the Governments of France, Great Britain and the U.S. that it approved and was willing to co-operate in the tripartite monetary pact of 25th September. It added that it will be the first to stabilise if these three countries do likewise.

When Switzerland devalued the franc, the principal reason given for this sudden step was the monetary agreement reached between France, Great Britain and the U.S. to create a general scheme of realignment of the principal currencies.

It was only natural for Switzerland, therefore, to join this agreement. It was already reported in THE FINANCIAL TIMES of 4th November last that the Swiss National Bank had been authorised to participate in the agreement of 12th October regarding free exchange of gold between the countries concerned.

No. 157 Paris, November 20, 1936.

Subject: Adherence of Holland, Switzerland, and Belgium to the Three-Power monetary agreement of September 25, 1936.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

Reference is made to the Embassy's despatch No. 41 of October 21, 1936, concerning the text of the supplementary announcement, as published in LE TEMPS of October 14, 1936, by Mr. Morgenthau setting forth the conditions under which the American Treasury was prepared to buy and sell gold.

I now have the honor to forward herewith, for the information and records of the Department, the text of the communiqué published in the French press of November 20, 1936, relating to the adhesion to the monetary arrangement of September 25, 1936, of Holland, Switzerland and Belgium. This communiqué embodies

the . . .

the French translation of the communiqué of the American and British Treasuries in this respect, and concludes with the following statement:

> " As far as it is concerned, the French Government has the intention of taking all necessary measures to the end that the technical cooperation instituted between the French, American and British Exchange Equalization Funds shall be extended to the banks of issue or Stabilization Funds of Belgium, Holland and Switzerland. The monetary authorities of these countries will henceforth benefit from the same facilities as concerns the delivery of gold against currencies, and these monetary authorities will assure similar treatment to the French Stabilization Fund."

There is also enclosed, as clipped from the London FINANCIAL TIMES of November 24, 1936, the text of the declaration of the Government of the Netherlands, the report of the correspondent of this paper at Basel relating to the announcement of the Swiss Federal Council, and the statement issued by the British Government welcoming the steps taken by Holland and Switzerland.

Respectfully yours,

For the Ambassador:

Edwin C. Wilson
Counselor of Embassy

In quintuplicate.

Enclosures:
No.1 - 5 copies of French communiqué of November 24, 1936.
2 - 5 " declaration from FINANCIAL TIMES of November 24, 1936.

ECW/AG/jf

Enclosure No. 1 to Despatch No. 157 of [illegible] [illegible], 19[illegible],
[illegible]

AGENCE ECONOMIQUE ET F

APRES L'ADHESION DE LA HOLLANDE ET DE LA SUISSE A L'ACCORD MONETAIRE

Le ministère des Finances communique :

Dès le lendemain de la déclaration franco-anglo-américaine du 25 septembre dernier, le gouvernement belge a annoncé qu'il y donnait son adhésion. Le gouvernement hollandais et le gouvernement suisse viennent maintenant de faire connaître leur décision de s'y rallier également.

Le gouvernement français accueille avec faveur les déclarations par lesquelles les gouvernements de Belgique, de Suisse et de Hollande adhèrent ainsi aux principes exposés dans la déclaration tripartite du 25 septembre.

A la suite de ces adhésions, des dispositions ont été prises pour étendre à ces trois pays les arrangements assurant les relations de change entre les places de Paris, Londres et New-York, qui ont fait l'objet d'un communiqué, en date du 13 octobre, et pour établir la collaboration des fonds d'égalisation ou de stabilisation des changes.

Ces dispositions font l'objet des deux communiqués suivants de la Trésorerie américaine et de la Trésorerie britannique.

Communiqué de la trésorerie américaine

« Comme suite aux avis donnés par lui les 31 janvier et 1er février 1934, prévoyant les achats d'or par la trésorerie, et le 31 janvier 1934, concernant la vente de l'or pour l'exportation, le secrétaire du Trésor déclare que dorénavant, et tant que, après préavis de vingt-quatre heures, cette déclaration d'intention ne sera pas annulée ou modifiée, les Etats-Unis, en dehors des ventes d'or effectuées au bénéfice des fonds d'égalisation ou de stabilisation de pays étrangers, vendront aussi de l'or aux fins d'exportation immédiate (ou de consignation d'or *earmarked*) aux trésoreries (ou aux agents financiers quelconques intervenant pour leur compte ou dont les interventions en cette matière sont garanties par telles) des pays dont les trésoreries (ou les agents financiers intervenant ou garantis de la sorte) sont de la même manière disposées à vendre de l'or aux Etats-Unis, pourvu que telles offres d'or soient faites à des taux et dans des conditions tels que le secrétaire du Trésor puisse les estimer les plus avantageuses du point de vue de l'intérêt public. Le secrétaire du Trésor fait connaître en outre d'ores et déjà la liste des pays étrangers qui remplissent les conditions ci-dessus indiquées et cette liste sera complétée chaque jour. Toutes les ventes d'or de l'espèce seront faites par l'intermédiaire de la Banque de Réserve Fédérale de New-York, agissant comme agent financier des Etats-Unis, aux conditions suivantes que le secrétaire du Trésor estime les plus avantageuses du point de vue de l'intérêt public :

L'or sera vendu au prix de 35 dollars par once de fin, plus 1/4 % pour les frais, et les ventes et consignations seront soumises aux règles édictées en application du Gold Reserve Act de 1934. »

A la suite de ce communiqué, le secrétaire du Trésor américain a fait connaître que dès maintenant il ajoutait sur la liste susvisée la Belgique, la Hollande et la Suisse.

Communiqué de la trésorerie britannique

« Le gouvernement de Sa Majesté a enregistré avec plaisir les déclarations que les gouvernements de Hollande et de Suisse ont publiées hier en vue d'exprimer leur adhésion aux principes de la déclaration tripartite du 25 septembre, auxquels le 26 du même mois le gouvernement belge avait déjà expressément adhéré.

Le Gouvernement de Sa Majesté a été informé que la trésorerie des Etats-Unis d'Amérique avait étendu à la Belgique, à la Hollande et à la Suisse les arrangements établis en vue d'assurer au sujet de la politique des changes la coopération technique qui avait été visée dans la déclaration du 13 octobre dernier. Le gouvernement de S. M. accueille cette nouvelle décision avec faveur. Elle s'harmonise avec les arrangements déjà pris entre les Etats-Unis d'Amérique et, d'une part, le Royaume-Uni, d'autre part, la France. L'extension de ces arrangements s'harmonise également avec les lignes générales de la coopération mutuelle existant entre les autorités monétaires britanniques et celles de la Belgique, de la Hollande et de la Suisse. »

Les mesures du Gouvernement français

En ce qui le concerne, le gouvernement français a l'intention de prendre les mesures nécessaires pour que la coopération technique instituée entre le fonds de stabilisation des changes français et les fonds d'égalisation américain et britannique soit étendue aux instituts d'émission ou fonds de stabilisation de Belgique, de Hollande et de Suisse. Les autorités monétaires de ces pays bénéficieraient désormais des mêmes facilités en ce qui concerne la délivrance de l'or contre devises, et elles assureraient au fonds de stabilisation français un traitement analogue.

Enclosure No. 2 to Despatch No. 157 of November 25, 1936, from the Embassy at Paris.

THE FINANCIAL TIMES
November 24, 1936.

SIX-POWER MONETARY ACCORD.

NOV 24 1936

HOLLAND AND SWITZERLAND NOW ANNOUNCE ADHERENCE.

BRITISH TREASURY EXPRESSES ITS PLEASURE AT DECLARATIONS.

U.S. EXTENDING ARRANGEMENTS FOR THEIR CO-OPERATION.

Holland and Switzerland yesterday announced their adherence to the three-power monetary agreement of 25th September, aimed to stabilise currencies.

Switzerland has decided to join the pact and adds that it will be the first to stabilise its currency if Britain, the United States and France, signatories of the accord, do likewise. Belgium has already announced its adherence.

DUTCH STATEMENT OF POLICY.

The Dutch Government last night ordered the following declaration to be made to the Governments in London, Washington and Paris:—

"The Dutch Government has taken due notice of the declaration by which the Governments of France, Great Britain and the United States have indicated their intentions in regard to their monetary policy and agrees with the general principles laid down in their tripartite declaration of 25th September, 1936."

It was officially added that the necessary preparations are being made in order to arrive at practical co-operation with the monetary authorities in those three countries.

These steps by Holland and Switzerland were welcomed by the British Government in a statement issued through the Treasury this morning. This was as follows:—

"His Majesty's Government has noted with pleasure the declarations of the Governments of the Netherlands and Switzerland, which were issued yesterday, expressing their adherence to the principles stated in the tripartite declaration of 25th September (when the French franc was devalued). The Belgian Government declared their adherence to those principles on 26th September.

"His Majesty's Government are informed that the United States Treasury are extending to Belgium, the Netherlands and Switzerland the arrangements for technical co-operation in exchange matters which were referred to in the statement published on 13th October.

"His Majesty's Government welcome this step, which is in harmony with the arrangements already made between the United States and this country and between the United States and France.

"The extension of this arrangement is also in harmony with the general basis of mutual co-operation which exists between the British monetary authorities and the Belgian, Netherlands and Swiss monetary authorities."

DUTCH DECISION.

Not Definite.

FROM OUR OWN CORRESPONDENT.

AMSTERDAM, 23rd Nov.

According to information gathered in authoritative quarters, the Dutch Government's declaration on the monetary agreement does not mean an actual joining of the tripartite accord. It means only what had been forecast in THE FINANCIAL TIMES of 5th November, that the Dutch authorities are investigating means to join the agreement, though it is highly probable that shortly it will join.

It is emphasised that the guilder remains completely free and that no commitments whatever in this respect have been undertaken. Also, there is no question of stabilisation of the guilder at the present level.

The Dutch authorities, by issuing the cautious declaration, do not desire to join the tripartite agreement unconditionally, it is believed. They apparently want to keep a back-door open. It is, moreover, considered as remarkable that the Dutch Government does not declare its approval in principle of the tripartite gold agreement of 13th October.

SWISS DECISION.

Natural Step.

FROM OUR OWN CORRESPONDENT.

BASLE, 23rd Nov.

The Swiss Federal Council announced today that it had informed the Governments of France, Great Britain and the U.S. that it approved and was willing to co-operate in the tripartite monetary pact of 25th September. It added that it will be the first to stabilise if these three countries do likewise.

When Switzerland devalued the franc, the principal reason given for this sudden step was the monetary agreement reached between France, Great Britain and the U.S. to create a general scheme of realignment of the principal currencies.

It was only natural for Switzerland, therefore, to join this agreement. It was already reported in THE FINANCIAL TIMES of 4th November last that the Swiss National Bank had been authorised to participate in the agreement of 13th October regarding free exchange of gold between the countries concerned.

No. 157 Paris, November 2[illegible], 1936.

Subject: <u>Adherence of Holland, Switzerland, and Belgium to the three-power monetary agreement of September 25, 1936.</u>

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

Reference is made to the Embassy's despatch No. 41 of October 21, 1936, concerning the text of the supplementary announcement, as published in LE TEMPS of October 14, 1936, by Mr. Morgenthau setting forth the conditions under which the American Treasury was prepared to buy and sell gold.

I now have the honor to forward herewith, for the information and records of the Department, the text of the communiqué published in the French press of November 24, 1936, relating to the adhesion to the monetary arrangement of September 25, 1936, of Holland, Switzerland and Belgium. This communique embodies

the . . .

the French translation of the communiqué of the American and British Treasuries in this respect, and concludes with the following statement:

> " As far as it is concerned, the French Government has the intention of taking all necessary measures to the end that the technical cooperation instituted between the French, American and British Exchange Equalization Funds shall be extended to the banks of issue or Stabilization Funds of Belgium, Holland and Switzerland. The monetary authorities of these countries will henceforth benefit from the same facilities as concerns the delivery of gold against currencies, and these monetary authorities will assure similar treatment to the French Stabilization Fund."

There is also enclosed, as clipped from the London FINANCIAL TIMES of November 24, 1936, the text of the declaration of the Government of the Netherlands, the report of the correspondent of this paper at Basel relating to the announcement of the Swiss Federal Council, and the statement issued by the British Government welcoming the steps taken by Holland and Switzerland.

Respectfully yours,

For the Ambassador:

Edwin C. Wilson
Counselor of Embassy

In quintuplicate.

Enclosures:
No.1 - 5 copies of French communiqué of November 24, 1936.
2 - 5 " declaration from FINANCIAL TIMES of November 24, 1936.

ECW/AG/jf

Enclosure No. 1 to Despatch No. [illegible] November 28, 1936, from the Embassy in Paris.

AGENCE ECONOMIQUE ET FI

APRES L'ADHESION DE LA HOLLANDE ET DE LA SUISSE A L'ACCORD MONETAIRE

Le ministère des Finances communique :

Dès le lendemain de la déclaration franco-anglo-américaine du 25 septembre dernier, le gouvernement belge a annoncé qu'il y donnait son adhésion. Le gouvernement hollandais et le gouvernement suisse viennent maintenant de faire connaître leur décision de s'y rallier également.

Le gouvernement français accueille avec faveur les déclarations par lesquelles les gouvernements de Belgique, de Suisse et de Hollande adhèrent ainsi aux principes exposés dans la déclaration tripartite du 25 septembre.

A la suite de ces adhésions, des dispositions ont été prises pour étendre à ces trois pays les arrangements assurant les relations de change entre les places de Paris, Londres et New-York, qui ont fait l'objet d'un communiqué, en date du 13 octobre, et pour établir la collaboration des fonds d'égalisation ou de stabilisation des changes.

Ces dispositions font l'objet des deux communiqués suivants de la Trésorerie américaine et de la Trésorerie britannique.

Communiqué de la trésorerie américaine

« Comme suite aux avis donnés par lui les 31 janvier et 1er février 1934, prévoyant les achats d'or par la trésorerie, et le 31 janvier 1934, concernant la vente de l'or pour l'exportation, le secrétaire du Trésor déclare que dorénavant, et tant que, après préavis de vingt-quatre heures, cette déclaration d'intention ne sera pas annulée ou modifiée, les Etats-Unis, en dehors des ventes d'or effectuées au bénéfice des fonds d'égalisation ou de stabilisation de pays étrangers, vendront aussi de l'or aux fins d'exportation immédiate (ou de consignation d'or *earmarked*) aux trésoreries (ou aux agents financiers quelconques intervenant pour leur compte ou dont les interventions en cette matière sont garanties par telles) des pays dont les trésoreries (ou les agents financiers intervenant ou garantis de la sorte) sont de la même manière disposées à vendre de l'or aux Etats-Unis, pourvu que telles offres d'or soient faites à des taux et dans des conditions tels que le secrétaire du Trésor puisse les estimer les plus avantageuses du point de vue de l'intérêt public. Le secrétaire du Trésor fait connaître en outre d'ores et déjà la liste des pays étrangers qui remplissent les conditions ci-dessus indiquées et cette liste sera complétée chaque jour. Toutes les ventes d'or de l'espèce seront faites par l'intermédiaire de la Banque de Réserve Fédérale de New-York, agissant comme agent financier des Etats-Unis, aux conditions suivantes que le secrétaire du Trésor estime les plus avantageuses du point de vue de l'intérêt public :

L'or sera vendu au prix de 35 dollars par once de fin, plus 1/4 % pour les frais, et les ventes et consignations seront soumises aux règles édictées en application du Gold Reserve Act de 1934. »

A la suite de ce communiqué, le secrétaire du Trésor américain a fait connaître que dès maintenant il ajoutait sur la liste susvisée la Belgique, la Hollande et la Suisse.

Communiqué de la trésorerie britannique

« Le gouvernement de Sa Majesté a enregistré avec plaisir les déclarations que les gouvernements de Hollande et de Suisse ont publiées hier en vue d'exprimer leur adhésion aux principes de la déclaration tripartite du 25 septembre, auxquels le 26 du même mois le gouvernement belge avait déjà expressément adhéré.

Le Gouvernement de Sa Majesté a été informé que la trésorerie des Etats-Unis d'Amérique avait étendu à la Belgique, à la Hollande et à la Suisse les arrangements établis en vue d'assurer au sujet de la politique des changes la coopération technique qui avait été visée dans la déclaration du 13 octobre dernier. Le gouvernement de S. M. accueille cette nouvelle décision avec faveur. Elle s'harmonise avec les arrangements déjà pris entre les Etats-Unis d'Amérique et, d'une part, le Royaume-Uni, d'autre part, la France. L'extension de ces arrangements s'harmonise également avec les lignes générales de la coopération mutuelle existant entre les autorités monétaires britanniques et celles de la Belgique, de la Hollande et de la Suisse. »

Les mesures du Gouvernement français

En ce qui le concerne, le gouvernement français a l'intention de prendre les mesures nécessaires pour que la coopération technique instituée entre le fonds de stabilisation des changes français et les fonds d'égalisation américain et britannique soit étendue aux instituts d'émission ou fonds de stabilisation de Belgique, de Hollande et de Suisse. Les autorités monétaires de ces pays bénéficieraient désormais des mêmes facilités en ce qui concerne la délivrance de l'or contre devises, et elles assureraient au fonds de stabilisation français un traitement analogue.

[illegible] FINANCIAL TIMES
[illegible]vember 24, 1936.

[S]IX-POWER MONETARY ACCORD.

[H]OLLAND AND SWITZERLAND NOW ANNOUNCE ADHERENCE.

BRITISH TREASURY EXPRESSES ITS PLEASURE AT DECLARATIONS.

[U].S. EXTENDING ARRANGEMENTS FOR THEIR CO-OPERATION.

Holland and Switzerland yesterday announced their adherence to the three-power monetary agreement of 25th September, aimed to stabilise currencies.

Switzerland has decided to join the pact and adds that it will be the first to stabilise its currency if Britain, the United States and France, signatories of the accord, do likewise. Belgium has already announced its adherence.

DUTCH STATEMENT OF POLICY.

The Dutch Government last night ordered the following declaration to be made to the Governments in London, Washington and Paris:—

"The Dutch Government has taken due notice of the declaration by which the Governments of France, Great Britain and the United States have indicated their intentions in regard to their monetary policy and agrees with the general principles laid down in their tripartite declaration of 25th September, 1936."

It was officially added that the necessary preparations are being made in order to arrive at practical co-operation with the monetary [au]thorities in those three countries.

These steps by Holland and Switzerland were welcomed by the [B]ritish Government in a statement issued through the Treasury [th]is morning. This was as [fo]llows:—

"His Majesty's Government has noted with pleasure the declarations of the Governments of the Netherlands and Switzerland, which were issued yesterday, expressing their adherence to the principles stated in the tripartite declaration of 25th September (when the French franc was devalued). The Belgian Government declared their adherence to those principles on 26th September.

"His Majesty's Government are informed that the United States Treasury are extending to Belgium, the Netherlands and Switzerland the arrangements for technical co-operation in exchange matters which were referred to in the statement published on 13th October.

"His Majesty's Government welcome this step, which is in harmony with the arrangements already made between the United States and this country and between the United States and France.

"The extension of this arrangement [i]s also in harmony with the general [b]asis of mutual co-operation which [e]xists between the British monetary [a]uthorities and the Belgian, Nether[l]ands and Swiss monetary authorities."

DUTCH DECISION.

Not Definite.

FROM OUR OWN CORRESPONDENT.

AMSTERDAM, 23rd Nov.

According to information gathered in authoritative quarters, the Dutch Government's declaration on the monetary agreement does not mean an actual joining of the tripartite accord. It means [o]nly what had been forecast in THE FINANCIAL TIMES of 5th November, that the Dutch authorities are investigating means to join the agreement, though it is highly probable that shortly it will join.

It is emphasised that the guilder remains completely free and that no commitments whatever in this respect have been undertaken. Also, there is no questi[o]n of stabilisation of the guilder at the present level.

The Dutch authorities, by issuing the cautious declaration, do not desire to join the tripartite agreement unconditionally, it is believed. They apparently want to keep a back-door open. It is, moreover, considered as remarkable that the Dutch Government does not declare its approval in principle of the tripartite gold agreement of 13th October.

SWISS DECISION.

Natur[al] Step.

FROM OUR OWN CORRESPONDENT.

BASLE, 23rd Nov.

The Swiss Federal Council announced today that it had informed the Governments of France, Great Britain and the U.S. that it approved and was willing to co-operate in the tripartite monetary pact of 25th September. It added that it will be the first to stabilise if these three countries do likewise.

When Switzerland devalued the franc, the principal reason given for this sudden step was the monetary agreement reached between France, Great Britain and the U.S. to create a general scheme of realignment of the principal currencies.

It was only natural for Switzerland, therefore, to join this agreement. It was already reported in THE FINANCIAL TIMES of 4th November last that the Swiss National Bank had been authorised to participate in the agreement of 13th October regarding free exchange of gold between the countries concerned.

November 30, 1936

At the 9:30 group meeting this morning, the Secretary told Mr. McReynolds to get from each Treasury activity a weekly progress report on all research studies that are being made. This report should also show who is working on the studies and the approximate cost.

The progress report is to be handed to the Secretary each Tuesday morning.

Mr. McReynolds was authorized to hire an additional person if he needed anyone to assist him in getting this information together each week.

The Secretary explained that all of the Bureaus are making research studies and none knows what the other is doing.

November 30, 1936.
10:37 a.m.

Operator: Dr. Burgess.

H.M.Jr: Hello

Burgess: Hello sir.

H.M.Jr: Burgess, on this conversation, I just want to bring up one thing if you don't mind.

B: Yes.

H.M.Jr: We've been talking about new money and I thought at my four o'clock press conference I want to announce how much new money to give the market that much additional information.

B: Yes - yes.

H.M.Jr: And, after going over the thing very carefully here, we've made a tentative decision and we'll ask for three hundred million new money.

B: In addition to the - ah...

H.M.Jr: Four hundred.

B: Four hundred.

H.M.Jr: Makes seven hundred.

B: I see. That's larger than you've been thinking isn't it?

H.M.Jr: Well it's just - it's just this - without that and including the bills the present series - the 16th of March series.

B: Yes.

H.M.Jr: We'd go into the - well say up to the 13th of March we'd drop down to five hundred million dollars.

B: I see. Well that's a little thin.

H.M.Jr: And that's a little thin.

B: Unless you took an additional amount in January.

H.M.Jr: We can but I - I - I simply feel this way and that's why I'm calling you - that the market will take almost anything we give them.

B: That's right.

H.M.Jr: I don't like to let the thing run down that low and.......

B: Of course you could build it up with bills. (Laughs)

H.M.Jr: True but you fellows always (laughs) - argued against that the last three and a half years.

B: (Laughs)

H.M.Jr: What?

B: Yes that's true. I agree to that.

H.M.Jr: What's that?

B: That's true.

H.M.Jr: I mean you've always argued against that as a means and only to use for emergencies. I mean that's what you drilled into me.

B: Yes - yes.

H.M.Jr: And I'm a very good pupil.

B: (Laughs)

H.M.Jr: No but seriously you told me that again and again...

B: Yes I know.

H.M.Jr: ....not to do that. What?

B: That's sound.

H.M.Jr: Now here's a chance. I think - I don't want to talk about anything just at this minute as to prices, terms or anything else.

B: Yes.

H.M.Jr: I just want to settle one thing.

B: Yes.

H.M.Jr: And.....

B: How will they square that with previous statements?

H.M.Jr: It squares all right Dan says.

B: I see. That is that you can say that these bills will be paid off in March.

H.M.Jr: Ah - these bills will be paid off in cash in March. Just let me ask. (Aside: If we pay off that then how much would the extra three hundred plus - how much new money would it make then if we pay off the bills in cash? Bell: In cash? H.M.Jr: Yes if you say three hundred now. Did you say three and three - six. Well we took 470. Well then we never estimated on it. How much - put it another way-How much new money have we taken this year - outside of bills? Bell: It'll take four hundred and seventy. H.M.Jr: I get you. (Note: The rest of Bell's answer could not be heard distinctly)

H.M.Jr: Hello.

B: Yes.

H.M.Jr: We've taken 470 so far.

B: Yes.

H.M.Jr: Not counting Savings Bonds.

B: Yes.

H.M.Jr: Now you take 470 and 150 Savings Bonds is 620 and then we add 320.....

B: Well now the street has the impression that you said at one time that you'd only take 700 million of new money.

H.M.Jr: Well I didn't say it. The President said it in his Budget Summation.

B: Yes.

H.M.Jr: 750.

B: Yes. Yes.

H.M.Jr: Now - ah - what I can say is - I mean if - no - now when the President said 750 he did not have in mind that he'd have to ask more money for relief.

B: I see.

H.M.Jr: Now - now there's no question but what he's going to ask for 500 more for relief.

B: I see.

H.M.Jr: He - he set an upper - upper limit of 500 you see?

B: Yes.

H.M.Jr: So that brings it to 1250.

B: Yes - yes.

H.M.Jr: Now - ah - and he'll have to ask for that in January.

B: Of course you can also say that these Treasury bills - There's an additional 50 Treasury bills in December is going to be paid off in cash in March.

H.M.Jr: Ah - but Dan says that's not in the picture but I - I will say that.

B: Yes - yes.

H.M.Jr: All I can say is this - what I said before - I mean I don't want - I don't want to at this time say that we're going to ask for money in January for relief. I don't - I don't want to say that.

B: No I see - yes.

H.M.Jr: All I can say is that the Treasury has gone over these estimates very very carefully......

B: Yes.

H.M.Jr: ...and we've come to the decision that at this time in order to maintain our balances at the strength that we want it that we feel we need 300 million new money.

B: Well I think that's all right. I don't think anybody will really misunderstand that.

H.M.Jr: And I'll simply say we've made a very careful study and estimating as intelligently as we can from now until the 15th of March that's what we need.......

B: Yes - yes.

H.M.Jr: ....to maintain a healthy balance.

B: Yes, well I think that's just the way to say it and I think that's all right.

H.M.Jr: And I don't want to say that the President is going to ask - send a message up.

B: No, of course not. You shouldn't do that.

H.M.Jr: Well they know it. They - anybody can take out a pencil and paper and figure we'll be out of relief money by the first of February.

B: Yes - yes.

H.M.Jr: What?

B: Yes, well that's all right. I just wanted to be sure.......

H.M.Jr: No, I will say that we've made very careful estimates and in order to keep a healthy balance....

B: Yes.

H.M.Jr: ......on hand till the 15th of March the best estimates that we could make is that we ought to have 300 million more cash.

B: Yes - yes.

H.M.Jr: How does that sound to you?

B: I think that's all right. There is one additional explanation of these Treasury bills.......

H.M.Jr: Yes.

B: ......that the market hasn't quite gotten on to yet.....

H.M.Jr: Yes.

B: ......and that is that the main reason for starting those was to have a market maturity.

H.M.Jr: Yes.

B: That would be paid off in taxes.

H.M.Jr: Yes.

B: And I think you could perhaps mention that....

H.M.Jr: Good.

B: .....in addition.

H.M.Jr: Good.

B: That would clear that up a little I think.

H.M.Jr: Good.

B: But I think that's all right.

H.M.Jr: But playing on the safe conservative side I'd feel a lot happier if you'd take the extra 300.

B: Well then you ought to take it.

H.M.Jr: And after all things across the water are too uncertain.

B: Yes - yes - yes.

H.M.Jr: And you know this billion dollar balance at present costs us only about a million and a half dollars.

B: That's right - yes - yes.

H.M.Jr: But where can you get a cheaper insurance market?

B: That's right - yes.

H.M.Jr: What?

B: That's all right.

H.M.Jr: All right.

B: Yes.

H.M.Jr: I'll call you up a little later, Burgess.

B: All right - fine.

H.M.Jr: I'll call you up a little - I want to ask you something else a little later.

B: Very good.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Goodbye.

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H.M.Jr: What?

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B: I think that's all right. There is one additional explanation of these Treasury bills.........

H.M.Jr: Yes.

B: ....that the market hasn't quite gotten on to yet....

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B: ....and that is that the main reason for starting those was to have a market maturity.

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B: And I think you could perhaps mention that....

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B: That's right - yes - yes.

H.M.Jr: But where can you get a cheaper insurance market?

B: That's right - yes.

H.M.Jr: What?

B:	That's all right.
H.M.Jr:	All right.
B:	Yes.
H.M.Jr:	I'll call you up a little later, Burgess.
B:	All right - fine.
H.M.Jr:	I'll call you up a little - I want to ask you something else a little later.
B:	Very good.
H.M.Jr:	Thank you.
B:	Goodbye.
H.M.Jr:	Goodbye.

November 30, 1936.
11:03 a.m.

Operator: Go ahead.

H.M.Jr: Hello

Earl Bailie: Hello Henry.

H.M.Jr: Hello - Earl?

B: Good morning Henry.

H.M.Jr: How are you?

B: I'm fine. I apologize for calling you in business hours but I wanted, while the conversation was fresh in my mind, ...

H.M.Jr: Yes.

B: ....to tell you about my conversation last night.

H.M.Jr: Swell.

B: My little friend came to dinner.

H.M.Jr: Yes.

B: And I got a chance......

H.M.Jr: Good.

B: ...during the course of the evening.......

H.M.Jr: Yes.

B: ....to say to him this: "Will you tell me what all this stuff in your paper is about a row between my friend and this other fellow?"

H.M.Jr: Yes.

B: And he said, "You know I don't know. I've been meaning to ask Arthur." He said, "I don't know a thing about it."

H.M.Jr: No.

B: Yes, and I said, "You mean to tell me you're as much in the dark as I am then as to whether there's anything in it or not" and he said, "Absolutely. I meant to ask Arthur before he got off on his holiday but," he said, "I didn't see him. I didn't see him after the second article."

H.M.Jr: Yes.

B: "And, therefore, didn't get a chance to."

H.M.Jr: Well do you believe that?

B: You know I can't decide whether to or not.

H.M.Jr: Well you know when I.........

B: I couldn't sleep last night for trying to decide whether I was being kidded.

H.M.Jr: Well I'll tell you why I don't believe it. The last time that thing appeared - whenever it was - a month ago - I called up the man that did the writing, see?

B: Yes.

H.M.Jr: He said, "Well I've been expecting a call from you" - or something like that.

B: Yes.

H.M.Jr: And he said, "But don't think for a minute that I didn't show it to your personal friend first before I did it" - before it went in the paper.

B: Yes.

H.M.Jr: He said, "Don't think for a minute that your personal friend didn't see it before it went in the paper."

B: That was after the first but not after the second.

H.M.Jr: Well I'm not talking about the recent things. I'm talking about the ones that happened.....

B: The ones that went before.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: Oh some months ago. Some months ago you know?

B: Yes, I remember perfectly well.

H.M.Jr: So I don't believe, in view of what happened, that he would write this time No. 1 or No. 2 without showing it to Arthur.

B: I wouldn't have thought so either and yet our friend here in New York is usually very frank.

H.M.Jr: Yes, well....

B: So that if he - he must have decided not to be frank before I started to talk to him.

H.M.Jr: Ah-ha. Well then you - you got no further.

B: I got no further at all and, as I say, I'm still completely puzzled as to whether or not I was given a ride- which was the first time he'd ever taken me for one.

H.M.Jr: Yes.

B: Or whether it was really true that he - they didn't know - just as he said.

H.M.Jr: Well I'm afraid maybe being down here so long I'm of a suspicious nature and I think you were being taken for a ride.

B: (Laughter) Well I got home without losing my life anyway.

H.M.Jr: All right now while I've got you on the phone in view of our conversation that we had on Public Utilities......

B: Yes.

H.M.Jr: ....read Drew Pearson and Bob Allen - to-day's column. It's in the Washington Herald this morning.

B: The morning Washington Herald.

H.M.Jr: Yes.

B: I will.

H.M.Jr: To-day's Washington Herald.

B: O.K.

H.M.Jr: I think you'll find it's very interesting.

B: Well I shall do so promptly......

H.M.Jr: And...

B: .....and I'm much obliged to you for the suggestion.

H.M.Jr: Yes, it's very interesting and after you've read it - no hurry - I'd like to just laugh with you about it.

B : Righto.

H.M.Jr: You know what they do. They get the story and then in order to cover up and not make it too obvious they change it a little bit.

B: Naturally.

H.M.Jr: But they certainly got what you and I were talking about.

B: (Laughter) Well I will - I'll read it and then sometime we can chat about it.

H.M.Jr: Righto.

B: Do you get back up on the farm again Henry?

H.M.Jr: Not till Christmas now.

B: Not till Christmas.

H.M.Jr: No.

B: O.K. well I'll be talking to you before then.

H.M.Jr: Well I appreciate - I'm awfully afraid they put sleigh-bells on and everything when they took you out.

H.M.Jr: I mean I hope I'm wrong because it's sort of running my own friend down.

B: Yes. Well he was in grand form last night.

H.M.Jr: Was he?

B: He was looking forward to going abroad after the first of the year on quite a trip.

H.M.Jr: I see.

B: And they were just as nice as they could be.

H.M.Jr: Good. Well in the meantime everything is all right.

B: O.K. yes.

H.M.Jr: Thank you very much.

B: Goodbye.

H.M.Jr: Goodbye.

November 30, 1936.
4:32 p.m.

H.M.Jr:	Hello.
Operator:	Mr. Cochran
H.M.Jr:	Yes.
O:	Go ahead.
H.M.Jr:	Hello
O.O:	Go ahead please.
C:	Hello
H.M.Jr:	Hello Cochran.
C:	Hello Mr. Morgenthau.
H.M.Jr:	How are you?
C:	All right, sir. How are you?
H.M.Jr:	Very well.
C:	Mr. Morgenthau, it was - it's been suggested that you might want to take up another problem over here the same way you handled the currency question.
H.M.Jr:	Yes.
C:	So I just wanted to phone you from home tonight....
H.M.Jr:	Yes.
C:	.....to tip you off confidentially that this matter has come up in a way that may make it embarrassing or hard to handle later.
H.M.Jr:	For us to handle?
C:	It might make it difficult to handle later.
H.M.Jr:	I see.
C:	This question has been discussed on a few occasions when our friend Bill was with officials.....
H.M.Jr:	Yes.

C: .....and this morning he was called over to the Ministry of Foreign Affairs ....

H.M.Jr: Yes.

C: ......and they asked him to learn whether you people at Washington would welcome an approach by these people here to settlement of the war debt through a - on account of what they call the "commercial side."

H.M.Jr: They do - on what?

C: What they call the commercial side - that's the foreign stocks......

H.M.Jr: I - I don't quite get that.

C: ......that's for sale over here....

H.M.Jr: Wait a minute - say - say it again. I don't quite get it.

C: They call it the commercial side of the war debt.

H.M.Jr: Now what is that?

C: That was by 400 million dollars worth of surplus stocks which our Army left here and sold to them.

H.M.Jr: Ah-ha.

C: You see the whole debt amounted to over four billion dollars......

H.M.Jr: Yes.

C: .....as funded, while this item is only 400 million dollars.

H.M.Jr: Yes.

C: And what they want to know is whether if they made a nice suggestion now....

H.M.Jr: If they what?

C: ....something on that stock, on that commercial side.....

H.M.Jr: Yes

C: ......would we welcome it.

H.M.Jr: Ah-ha.

C: See?

H.M.Jr: Well what I imagine will happen is this.....

C: Tomorrow they'll wire him - tomorrow or next perhaps - has wired in today asking for instructions.

H.M.Jr: They - they wired for instructions?

C: Yes,..

H.M.Jr: Today?

C: Yes.

H.M.Jr: Well that undoubtedly will come to me.

C: That - that will . Of course you can't tell them that I phoned you but I thought you might inquire of the Secret Service - but that's it.

H.M.Jr: Now just a moment. It just so happens that Mr. Bell is in my office and he knows more about this war debt than anybody else, see? Just let me speak to him a minute. Just stand by. (Pause for side conversation). Just stay on the wire please.

C: Yes, all right.

(Conversation aside with Bell - long pause)

H.M.Jr: Hello

C: Hello

H.M.Jr: Bell has - he understands what this is, see?

C: Yes.

H.M.Jr: And I - the American papers carried that Bullitt saw these people.

C: Well that's the trouble, you see. They're getting a lot of publicity to it.......

H.M.Jr: Yes.

C: ....and I'm afraid that they may let it out that they're approaching us on this narrow basis.

H.M.Jr: Yes.

C: And where this constitutes only one tenth of the total debt....

H.M.Jr: Yes.

C: The - the next approach to war debts you could never get it broadened again for the whole debt probably.

H.M.Jr: I get it.

C: See?

H.M.Jr: Well I appreciate your calling me and I'll - I think I can - I'll - I'll look into it.

C: Fine. Well I just wanted to let you know that it came up in that way.

H.M.Jr: Well -

C: But I - while it isn't -

H.M.Jr: They opened -

C: - any desire on their part to reopen it but ....

H.M.Jr: Well - I mean did the French open it or did we open it up?

C: They - they took this step; I don't know just where - where the original one started.

H.M.Jr: Yes.

C: But anyway they made the important approach to-day.

H.M.Jr: I see.

C: And if we could just encourage them to - to in their notes say they want to open negotiations later, but - it'll protect them from anything like this, -

H.M.Jr: I see.

C: - putting it on that narrow basis.

H.M.Jr: Ah-ha.

C: See?

H.M.Jr: O.K.

C: All right, fine; that's all. Things are quiet here, better to-day than they have been.

H.M.Jr: Good. Well, things here - we've got a big financing on next Monday.

C: I notice you have that on schedule.

H.M.Jr: It's about a billion and a half.

C: Yes - yes.

H.M.Jr: And I don't look for any trouble with it.

C: Oh, you ought to get that all right.

H.M.Jr: All right.

C: Now, don't mention me of course in this.

H.M.Jr: What's that?

C: I - I say you'd better not mention that I called you on it.

H.M.Jr: Oh no, no, no - I'll just say that it was on the - in fact I just got through a Press Conference and they asked me about it. I'll call up Judge Morre and say I was asked at my Press Conference, "What is there to it?"

C: Yes, yes.

H.M.Jr: See?

C:	Well it - it ought to be over there by this time.
H.M.Jr:	O.K.
C:	Fine.
H.M.Jr:	Thank you.
C:	All right, sir.
H.M.Jr:	Goodbye.
C:	Goodbye.

November 30, 1936
5:40 P.M.

H.M.Jr: How are you?

R. Walton Moore: Living.

H.M.Jr: Well, I'm living. On this request of yours to give you a memorandum on - on silver - Key Pittman, see? Of course, what Key wants to know is what's going to happen about silver legislation and the price of silver.

M: Yes

H.M.Jr: And all during the campaign the President and I steered clear from it.

M: Yes

H.M.Jr: And I frankly can't tell you what we're going to do.

M: Suppose I tell Key Pittman this; I'll just hear him talk and I'll tell him that any of the questions that may - he may propound he ought to take up with you or the President.

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

M: I think so.

H.M.Jr: I don't mind your shoving it over here a bit.

M: Yes.

H.M.Jr: But I didn't want to not answer your letter -

M: Yes

H.M.Jr: - but quite frankly it all gets down to how much are we going to pay for domestic silver and I swear I don't know.

M: Well, that's what Key wants to know: how much money you're going to pay him -

H.M.Jr: Sure; well I don't know.

M: - for Nevada silver.

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

M: By the way, the newspapers, some of them have been saying that the President may come back; he may think it's necessary for him to come back here before the end of his vacation. I sent him a telegram today. McIntyre phoned me from Florida -

H.M.Jr: Yes

M: - and he's in constant touch with the White House and he thought it'd be well to send the President a telegram saying there are no immediate problems in the State Department, and so far as I can hear there were no problems anywhere else that would require him to be here before the middle of the month.

H.M.Jr: Ah-ha. Well -

M: I hate - I hate to see him be denied the opportunity to get some real rest.

H.M.Jr: Yes

M: Don't you think that he -

H.M.Jr: Oh yes. I - I got a call in for him. He said he was going to talk to me a little later, and I'm - I want to talk to him about our December financing - the President.

M: Well, you - you don't think it's necessary for him to come back here at once?

H.M.Jr: I never saw the place so quiet.

M: What's that?

H.M. Jr: I say it's - everything seems very quiet.

M: I think so.

H.M.Jr: Yes.

M: And I'm going - I hope - I hope you'll tell him when you do talk to him that that's the general feeling here.

H.M.Jr: Righto.

M: All right.

H.M.Jr: Thank you.

Treasury Department
Division of Research and Statistics

Date Nov. 30 1936

To: Secretary Morgenthau

From: Mr. Haas

Attached is Moody's Bond Survey for November 23, 1936 which contains the article I mentioned to you this morning. It discusses the problem of handling gold exports and imports and their relations to the Stabilization Fund. It is a short article beginning on the first page and ending on page 2. I think you will be interested in reading the article in its entirety.

MOODY'S BOND SURVEY

VOLUME 28, No. 47 | NOVEMBER 23, 1936 | ESTABLISHED 1909

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Entered as second-class matter January 18, 1936, at the post office at New York, N. Y., under the Act of March 3, 1879.

Bond Review and Outlook

High grades and Governments continued last week their monotonous procession to new high prices.

There is no change in their outlook. In fact, the year end dividend flood adds one more strength factor to the high grade market.

Medium grades are likely to continue irregular for a period.

* * * *

Foreign Funds

Drastic Governmental action in regard to the movement of foreign funds is not to be expected. There appears in fact little cause for present concern by investors over adverse market developments in connection with foreign funds in this country and in domestic markets.

There is no question but that the great influx of capital into this country, which has occurred on a considerable scale since early 1934 when the dollar was fixed at its present gold content, has had a considerable effect upon the level of American stock and bond prices. Economic maladjustments abroad, foreign political uncertainties, the strength of recovery prospects here and the repatriation of funds which had previously fled from the United States, all have been instrumental in causing the large influx of foreign funds which has undoubtedly tended to raise the price structure of our securities markets to a higher level than would otherwise have been the case.

The total volume of foreign funds in this country is in the aggregate around $7 billions. Foreign holdings of domestic securities at the end of 1935 were about $3 billions (of which about two-thirds consisted of common stocks). At the end of last year there was also about $2 billions additional long term investments consisting of fixed and non-marketable assets. During the first nine months of this year gold imports totaled around $800 millions, indicating a comparable increase in funds here. The balance is represented by various short term items.

Inevitably, any sudden or large withdrawal of these sums would exert a downward pressure on the domestic security markets. There is, however, no present basis to expect such a development. The foreign situation remains exceedingly disturbed. There are signs of culmination of the British boom. Prospects of recovery here continue favorable, and comparison with almost any foreign outlook renders the more attractive the domestic prospect. Furthermore, as previously pointed out in the Bond Survey, the extensive dishoarding set in motion by the Gold Bloc devaluation is pouring a considerable further volume of new capital on the markets of the world, and a substantial portion thereof may be expected to come to this country.

Undoubtedly the concern of the Administration over foreign funds is twofold; first, over the expansionary effects they may have upon the domestic economy; second, over the deflationary effects their sudden and large withdrawal could bring about in the future.

IN THIS ISSUE

DAILY BOND YIELD AVERAGES

(Based on Closing Prices)

	Nov. 14, 1936	16	17	18	19	20	1936 High	1936 Low	1935 High	1935 Low
120 Corp.	3.73	3.70	3.70	3.69	3.69	3.69	4.14	3.69	4.15	4.15
Aaa	3.14	3.15	3.15	3.14	3.13	3.14	3.42	3.13	3.80	3.42
Aa	3.30	3.30	3.30	3.29	3.28	3.29	3.63	3.28	4.26	3.63
A	3.85	3.84	3.84	3.82	3.82	3.82	4.30	3.82	4.83	4.31
Baa	4.53	4.52	4.51	4.50	4.51	4.53	5.30	4.50	6.40	5.22
40 R.R.	4.01	4.00	3.99	3.99	3.99	4.00	4.65	3.99	5.37	4.67
Aaa	3.37	3.36	3.36	3.36	3.36	3.36	3.70	3.36	3.82	3.69
Aa	3.49	3.49	3.49	3.49	3.47	3.48	3.88	3.47	4.36	3.88
A	4.05	4.04	4.03	4.01	4.01	4.02	4.67	4.01	5.11	4.46
Baa	5.12	5.10	5.09	5.08	5.10	5.21	6.36	5.04	8.46	6.40
40 P. U.	3.74	3.74	3.73	3.72	3.72	3.72	4.08	3.72	5.13	4.08
Aaa	3.12	3.13	3.13	3.12	3.11	3.12	3.32	3.11	3.74	3.32
Aa	3.35	3.34	3.33	3.32	3.32	3.33	3.72	3.32	4.48	3.73
A	3.96	3.95	3.94	3.92	3.91	3.91	4.26	3.91	5.85	4.25
Baa	4.53	4.54	4.52	4.51	4.52	4.52	5.01	4.51	6.98	5.03
40 Ind.	3.37	3.38	3.37	3.36	3.36	3.36	3.66	3.36	4.35	3.69
Aaa	2.92	2.96	2.95	2.94	2.93	2.93	3.24	2.90	3.87	3.21
Aa	3.07	3.08	3.08	3.07	3.06	3.05	3.32	3.05	4.20	3.27
A	3.55	3.54	3.54	3.53	3.53	3.53	3.97	3.53	4.61	3.97
Baa	3.93	3.93	3.92	3.91	3.91	3.92	4.28	3.91	4.81	4.34
40 For.	Daily averages discontinued except Fridays of each week					5.69	6.31	5.58	6.97	5.78
A						5.37	5.89	5.36	6.90	5.61
Baa						6.82	7.85	6.80	8.69	6.36
Ba						8.66	9.53	8.59	10.40	8.77

U. S. GOVERNMENT BOND YIELDS AND PRICES*

	14	16	17	18	19	20	1936	1936	1935	1935
							High	Low	High	Low
Yield	2.06	2.08	2.07	2.06	2.04	2.05	2.57	2.04	2.83	2.44
							Low	High	Low	High
Price	112.32	112.36	112.40	112.60	112.71	112.62	107.77	112.71	106.66	109.30
Government Guaranteed Obligations**										
Price	104.50	104.42	104.58	104.71	104.83	104.67	100.92	104.82	98.41	102.61

*Average of 5 long term Treasury bonds. **Average of 4 fully guaranteed issues.

The Administration is probably attempting to develop a plan that would tend to cushion the domestic economy against the effects of capital movements. What may reasonably be anticipated is a request to Congress for an extension and enlargement of the powers of the Stabilization Fund. Gold imports might be withheld from the banking system by the Fund in order to avoid further increases of member bank reserves. Gold exports might be supplied by the Fund, thus obviating a reduction in bank reserves. The authority under which the Fund operates expires January 30 next. The Administration will undoubtedly desire to have the Fund continued. It will very probably desire to have its powers enlarged as above.

Until many existing uncertainties can be cleared away, a mechanism to act in the field of control of capital inflow and outflow seems a necessary part of monetary organization. The chief new power which might be requested for the Fund would be authority to borrow money. Such power would enable it to absorb incoming capital in a way that would prevent bank reserves from becoming enlarged and the credit structure from becoming affected. As it stands the Fund can offset the effects of a gold outflow but not those of a gold inflow. Such action could be taken by either the Treasury or the Federal Reserve System, but this method would be, in some respects, undesirable and decidedly cumbersome.

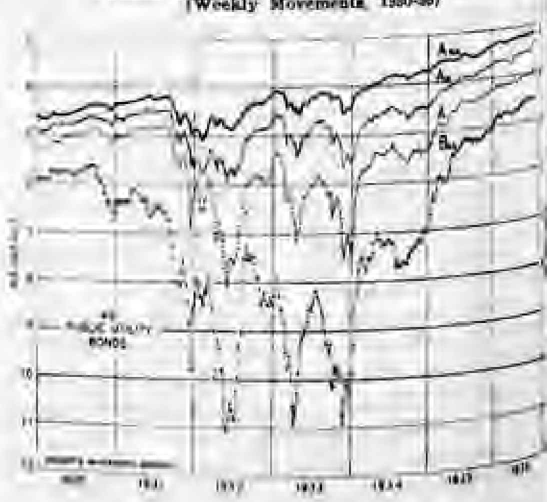
In essence the Stabilization Fund would be given a long period of life to serve during the present transitory phase of monetary affairs. The Fund would be concerned with international capital movements and the external position of the dollar. The Federal Reserve System would deal with credit and monetary problems intranationally. The two would cooperate under the broad direction of the Treasury. This would constitute a monetary organization almost identical with that which has functioned successfully for some time in Great Britain.

The focusing of public attention upon the matter of foreign funds here may well be a means for preparing the way for a request for desired legislative action. Certainly nothing new has occurred in regard to foreign funds here and the situation is one that has been recognized for a long period of time.

We see no threat to the securities markets either in the discussions emanating from Washington regarding foreign funds nor in the proposals likely to be made in January for extension of the life of the Stabilization Fund and probably for enlargement of its powers. Should, in fact, the Administration be successful in making of the Stabilization Fund a cushion between foreign developments and the domestic economy, the result would be entirely favorable. Chances of curbing an unhealthy boom would be greater. Dangers of sudden disturbances from foreign causes would be lessened.

PUBLIC UTILITY BOND YIELDS BY RATINGS

(Weekly Movements, 1930-36)



Interest Rate Potentialities

Thus far in the recovery monetary factors have pointed to continuing declines in all types of interest rates; these factors have been repeatedly set forth in the Survey. These factors are still operative and no reason has appeared to warrant any expectation of an early change.

Some interest rates, however, have been much more responsive to these monetary factors than others. It now seems a fair conclusion that those most responsive rates already have reflected fairly adequately the monetary factors working toward ease and may not decline much further. Certain other rates, however, have been laggard and seem apt to decline further. The outlook for various rates suggested by this line of thought may be set forth as follows:

Open market short term rates probably are at, or have seen, their low. These include the Treasury bill rate and the rates on bankers' acceptances and commercial loans. The next movement in these probably will be upward, although such a development is apt to be quite slow and no movement may be seen for some time to come.

Call and time money rates are in nearly the same position, but while they are unlikely to decline, their rise should be slower than the above-mentioned rates. This is true because they have been pegged by the banks and do not reflect competitive money market conditions to the extent that, for example, the Treasury bill rate does.

The long term money rate, measured by yields on high grade bonds, seems likely to stabilize somewhere around present levels. It is less sensitive than short term open market rates and should not be affected even if such open market rates should rise slightly in the course of the next six to nine months.

Rates charged by banks to customers have declined somewhat but are still laggard. Those outside New York City and Chicago seem apt to decline further in the average. The averages in New York City and Chicago may well decline a little more, but are more nearly comparable to the long term rate in their position.

Mortgage rates have been distinctly laggard and should continue to decline for some time to come.

Installment and consumer credit rates generally should decline further under the pressure of increasing competition.

The foregoing carries no implication of nearby change in the underlying easy money structure. It is simply an attempt to compare the outlook for various kinds of interest rates.

Individual Bond Recommendations

Chicago, St. Louis & New Orleans Railroad Co. Memphis Division First Mortgage 4s, 1951

An exchange into Illinois Central Railroad Company Refunding 4s, 1955 would improve quality slightly and marketability and increase current and maturity yields.

Rating	Issue	Call Price	Recent Price	Yield Current	Yield Matur.
From					
Bas	Chic., St. L. & N. O. R.R. Memphis Div. 1st 4s, 1951	N.C.	99	4.04%	4.09%
nto					
A	Illinois Cent. R.R. Refunding 4s, 1955	107¾	93½	4.28	4.50

The above recommended exchange from Chicago, St. Louis & New Orleans Railroad Company Memphis Division First Mortgage 4s, 1951 would improve marketability (in 1935 only $186,000 Memphis 4s were traded on the N. Y. S. E. as against $3,132,000 Refunding 4s) and increase current and maturity yields. Moreover, it is believed that quality would also be improved. During recent years the bonds ranged in price as follows:

	1936	1935	1934	1933
Memphis 4s	[illegible]	88 -75	[illegible]	77¼-45
Refunding 4s	[illegible]	[illegible]	83¾-74	60 -45

Although the Memphis 4s are secured by first mortgage whereas the Refunding 4s are for the most part secured by junior mortgages, the latter bonds appear better protected than the former, as they cover very important, heavy traffic mileage, whereas the former cover a section of the system which handles a relatively little traffic. The Memphis Division 4s are legal for savings banks in New York and Connecticut, and the Refunding 4s are legal for savings banks in New York and Massachusetts.

Department of Water & Power of the City of Los Angeles, California Electric Plant Revenue Refunding 4s, 1939-75

These tax-free bonds are considered interesting for income and suitable for medium grade investment purposes.

Rating	Issue	*Yield Basis
A	Elec. Plant. Rev. Ref. 4s, 1939-75 (Opt. 1945)	3.50%-3.55%

*For maturities subsequent to first callable date.

The Department of Water & Power of the City of Los Angeles, California, Electric Plant Revenue Refunding 4s, 1939-75 are considered an interesting medium grade municipal holding, which are not without possibilities of improvement in investment quality over a period of time. Although unsecured by lien on any specific property and in no sense an obligation of any authority with power to levy ad valorem taxes, the issue is afforded reasonable protection by earnings of the Bureau of Power & Light, which are pledged for payment of both principal and interest on this issue together with about $31,000,000 bonds, which have an equal claim on revenues but are also general ad valorem tax obligations of the city of Los Angeles.

Principal and interest requirements, including both general city bonds and electric plant revenue bonds outstanding as of June 30, 1936 are calculated as follows:

Year Ending June 30th	Principal	Approximate Interest	Total
1937	$1,332,000	$2,352,500	$3,684,500
1938	1,332,000	2,291,000	3,622,000
1939	1,332,000	2,229,500	3,561,500
1940	1,611,000	2,156,925	3,767,825
1941	1,622,000	2,083,725	3,705,725
1942	1,634,000	2,010,150	3,644,150
1943	1,646,000	1,936,100	3,582,100
1944	1,408,000	1,874,060	3,282,060

The operating income of the city plant, after operating and maintenance expenses, but before depreciation, has been as follows (years ended June 30):

1936	$8,016,904	1931	$7,712,890
1935	7,897,135	1930	7,582,632
1934	7,467,874	1929	7,308,683
1933	7,472,491	1928	6,534,775
1932	7,774,490	1927	6,154,109

The above accounts do not reflect the changes which will occur as the result of the induction of power from Boulder Dam, which was first received in volume around October 15, 1936. Formerly the Department generated about one-third of its requirements for electric energy, purchasing the remainder from Southern California Edison Company, Ltd. The Department now competes within the city limits with the Los Angeles Gas & Electric Corporation, which sells natural gas throughout the city and does about 35 per cent. of the electricity business. Both the Department and the corporation charge the same rates for electric energy delivered within the city limits.

Plans call for the acquisition of the Los Angeles Gas & Electric Corporation's city electric distributing system and for certain local properties of Southern California Edison Company. Such plans have a direct bearing on the position of the bonds of the Department of Water & Power under discussion.

If acquisition of the Los Angeles Gas & Electric Corporation properties is not consummated, so that the operating accounts of the Bureau of Power & Light would be affected in the future solely by the influx of hydro-electric energy from Boulder Dam, it is confidently expected that the debt service would be adequately covered by the prospective earning power of the existing facilities. Naturally, net income would be expected to decline moderately during the first years of operation under the contract with the Federal government for the purchase of power from Boulder Dam, since operating expenses would be increased, but this tendency should be offset by a normal growth in the area and increased use of electric energy.

If the city purchases the Los Angeles Gas & Electric Corporation properties, the situation would be changed to a certain extent. Under present market conditions it is likely that the purchase price might be raised by the issue of 40-year serial bonds, bearing as low as a 3½ per cent. coupon and having graduated principal maturities. Under such an arrangement, debt service on the new issue would add to the fixed charges some $2,170,000 annually. Such an addition could be covered by past earnings of the existing system, but with smaller provisions for depreciation. On the other hand, against this rise in principal and interest requirements, there should be about a 35 per cent. rise in gross operating revenues without as rapid an increase in operating expenses.

Thus, in either eventuality the Electric Plant Revenue Refunding 4s, 1939-75 appear to occupy a reasonably sound position from the standpoint of earnings protection. Outstanding in the amount $22,799,000, of which only $1,851,000 mature prior to the optional date in 1945, the bonds were issued last year to refund notes formerly held by the Reconstruction Finance Corporation. Although the maturities prior to the optional date are not without interest as short term holdings, the main interest is in the later maturities, which appear attractive for income among medium grade municipals.

Cities Service Company Debentures

Among speculative issues these debentures are considered interesting for income. Purchase and retention are recommended where a large degree of risk can be assumed for the liberal yields afforded.

Rating	Issue	Recent Price	Yield — Current	Yield — Maturity
B	Debenture 5s, 1950....	75	6.67%	8.00%
B	Debenture 5s, 1969....	72¾-73½	*6.80	*7.09
B	Debenture 5s, 1958....	72¾-73¼	*6.82	*7.50
B	Debenture 5s, 1963....	72¼-73	*6.85	*7.30
B	Debenture 5s, 1966....	74¼	6.73	7.08

*Computed on the asked price.

The position occupied by Cities Service Company Debentures characterizes them as distinctly speculative, but they are regarded as possessing some interest in this category. The very nature of the system, with its substantial reliance on oil and natural gas operations, gives a permanently speculative background to the holding company's debentures.

Although directly and indirectly controlled subsidiaries of Cities Service Company numbered 116 at the end of 1935, it is estimated that over 70 per cent. of 1935 consolidated gross revenues of $181,951,146 was derived from earnings of three principal subsidiary groups. These three are the Empire Gas & Fuel Company (Del.), Arkansas Natural Gas Corporation and the Cities Service Power & Light Company. The first two are holding companies for oil and natural gas subsidiaries, and the third is the vehicle through which the major part of the system's utility properties are controlled.

The following table indicates the derivation of consolidated gross revenues, and the system's earning power during the recent period of deflation and subsequent recovery. Incidentally, it should be observed that earnings for 1932 are the first to include the results of Federal Light & Traction Company and subsidiaries, and that 1935 gross revenues from crude and refined oils are not comparable with those for 1934 by virtue of the exclusion in the later year of gross revenues of Louisiana Oil Refining Corporation and subsidiaries (in bankruptcy). Gross revenues for 1934 adjusted to an approximately comparable basis with 1935 would have been about $160,200,000, and revenues from crude and refined oils about $82,400,000.

	1935	1934	1933	1932	1930
	—000 Omitted—				
Gross Revenues:					
Electric	42,157	39,678	Not stated	Not stated	60,748
Natural gas......	34,344	31,511	......	......}	42,497
Manufactured gas	2,161	2,217	......	......}	
Crude & ref. oils.	99,114	96,275	......	......	116,971
Misc. util. etc....	4,175	4,154	......	......	4,584
Total	181,951	172,835	163,997	168,922	304,750
Depreciation	21,867	22,397	17,744	18,367	Not stated
Other Income......	17,264	17,221	†8,369	†6,830	8,276
Total Income	45,615	39,297	42,041	42,427	*84,883
Int. Disct. etc.	37,164	36,990	37,928	36,961	31,078
Times chgs. earned	1.16	1.06	1.10	1.15	*2.72

* Before depreciation. † Includes discount on sinking fund bonds and other bonds held: 1932, $3,124,767; 1933, $2,601,191; 1934, $1,796,404; 1935, $1,877,225.

The improvement shown in 1935 revenues from natural gas and electric operations and in oil operations adjusted to a comparable basis with 1934, is distinctly gratifying. The continuance of this trend in the current year is indicated by results for the first nine months of 1936 when gross revenues were $141,924,970, compared with $133,066,285 for the same period in 1935. The factors principally responsible for the gains in electric and natural gas revenues in 1935 were increased demands for industrial use, promotional activities largely in the direction of appliance merchandising, and the improvement in general economic conditions. In 1936, the abnormal severity of the winter brought about a sharp increase in gas sales for heating uses.

The reasons for the continuing gains in revenues from oil, both in 1935 and in 1936, have been twofold. First, consumption of all oils has been measurably enlarged, and second, the higher and more stable price structures for crude and refined products have assured more satisfactory "spreads". Since a large portion of retail marketing costs is fixed, the increase in volume of commodities sold has had enlarged significance.

In the tabulation incorporated below are given the changes in the various earnings statement items for the stated periods in 1936 over 1935.

	First Quarter	Second Quarter	Third Quarter	Total
	—000 Omitted—			
Gross Revenues	+5,496	+767	+2,596	+8,859
Res. for Cont. (Ded.)	+2,100	+500	+235	+2,375
Other Income	+282	+84	+340	+707
Total Income	+1,528	−346	+395	+1,677
Subs. Int. & Pfd. Divs.	−103	−116	−42	−262
Min. Int.	+675	+350	+315	+1,340
Co's. Int.	−198	−103	−184	−509
Net Income	+1,141	−527	+487	+1,101

It will be observed from the above figures that the most significant change was in the first quarter of 1936, and that a decrease in total income was in fact reported in the second quarter of 1936, with only a small increase in the third quarter. The relatively poor showing of the second and third quarters in 1936 is primarily accounted for, in the first place by comparison with extremely good results for the same periods in 1935, and by the fact that the second quarter is normally one of seasonally lower operations and profits. Incidentally the item "Reserve for Contingencies," aggregating $2,875,000 for the first nine months of 1936, appears to be provided primarily for possible levies for taxes on undistributed earnings, and, to an undetermined extent, as a levelling device to stabilize net earnings.

Barring a major disturbance affecting prices for crude and refined oils during the coming winter period of slackened demand, it is expected that revenues of refining and marketing subsidiaries will continue to equal or exceed results for comparable 1935 and 1936 periods. While it is possible that declining production in the Oklahoma City oil field may, over a period, result in lower aggregate revenues from crude oil, expanding production in Rodessa and other fields may well absorb the effects on consolidated income. Since natural gas revenues were increased to an unusual degree, as previously pointed out, by the abnormally severe winter of 1935-36, some decline would no doubt be recorded in revenues if milder weather should be experienced in the coming months. The trend of electric utility operations of the system is expected to continue upward, since all but a nominal portion of revenues is derived in areas free from governmental competition and such moderate rate reductions as are effected from time to time can apparently be absorbed without adverse effects.

Refinancing by companies in the Cities Service System has to date been limited to $10,000,000, and it is believed that approximately $140,000,000 more of subsidiary debt could readily be refunded, with a saving in annual charges of about $1,500,000.

The income statements of Cities Service Company alone do not as yet reflect the improvement in system earnings. For example, in spite of the fact that earnings of the three principal subholding companies have covered preferred dividend requirements, no dividends have been paid and Cities Service Company has received no return on its substantial holdings of those preferred stocks. Earnings have instead been applied to the reduction of interest charges through liquidation of bank loans and debt to Cities Service Company, and the retirement of bonds. Income of Cities Service Company has been reduced by reason of the two latter policies. Thus, excluding from 1935 earnings of the holding company unearned common dividends from subsidiaries and the dubious item of "Discount on Sinking Fund Bonds and Other Bonds Held," the balance after interest charges of $10,747,998 was only $1,939,915. It is believed that Cities Service Company will be able to continue drawing down sufficient income from subsidiaries to meet interest on its obligations.

Financial circumstances of the system continued to improve during 1935, although substantially the entire decrease in current liabilities from $60,3[illegible] 096 to $48,109,858 resulted from the lengthening of bank loan maturities, for non-current notes payable increased $11,215,000. Current assets increased approximately $6,300,000 to $88,556,1[illegible] practically all of the rise being in cash. The cash balance of Cities Service Company alone increased during 1935 by $8,700,000 to $13,196,674, and notes payable were eliminated. This betterment resulted largely from repayment of advances by subsidiaries. It is anticipated that the working capital position of the system and the parent company have been strengthened during 1936 by increased net income and by the net proceeds to the system of over $8,000,000 from the Arkansas Louisiana Gas Company financing.

Considering the very moderate margin of protection for system fixed charges, it is important to observe the large amounts of outstanding subsidiary bonds, and preferred and common stocks, having a claim on consolidated earnings prior to interest charges of the holding company. Subsidiary securities in the hands of the public at December 31, 1935 totalled over $403,348,049 compared with outstanding debentures of $186,904,263.

Many of the practices of the system have been those which the Holding Company Act was designed to alter, and to the extent of its utility operations the group is subject to the adverse potentialities of the Act. However, 55 per cent. of gross revenues was derived from oil operations alone and a considerable added amount from natural gas properties which are not yet classified as utilities, so that the continued existence of the company is less in jeopardy than that of a strictly utility system. In addition there is at least a fair possibility that the Holding Company Act may be ruled unconstitutional or that the Act, either by enactment or in practice be modified into a device for temperate regu-on.

n the basis of the system's earning power and spects over the visible future and its indicated edom from financial involvement, the company's entures are considered interesting for income ong speculative issues. Nevertheless, in view of narrow margin of earnings over charges, the importance of oil earnings and adverse potentialities of the Holding Company Act, the bonds must be recognized as a holding subject to fairly wide price swings such as those witnessed during the past two weeks. Therefore, the debentures are recommended only where a large degree of risk can be assumed in return for the liberal yield afforded.

New Issues—Offered and Proposed

gentine Republic
ternal Sinking Fund 4½s, 1971

Moderately attractive at current prices slightly above the offering, these recently offered bonds appear satisfactory for income purposes on a strictly long range basis.

ating	Amount	Call Price	Offering Price	Maturity Yield
Baa	$23,500,000	*100	92⅜	4.96%

On any interest date on 30 days' notice as a whole or in part (least $5,000,000).

The above bonds of the Argentine Republic were blicly offered on November 19. Main details of e issue appeared in the Bond Survey of Novem-r 16, 1936 (page 147). The new issue (rated a, the proceeds of which will be used for the demption of the External 6s, 1958, are the direct, secured obligation of the Argentine government, hich established a record of prompt debt pay-ent during the depression years.

Under existing conditions the yield afforded on e new bonds would appear slightly to over-esti-ate the regard in which Argentine credit is *now* eing held in this country. However, some demand or the bonds is expected to develop from London here Argentine 4½s are currently selling on 4.65 er cent. yield basis. Furthermore, some market pport, if necessary, is likely to be forthcoming, nce the bonds are the first of a series of proposed efunding bonds, and any wide recession from the ffering price would naturally militate against the uccess of subsequent flotations.

At the offering price the bonds appear moder-tely attractive as a sound, medium grade invest-ent, but appear in need of some seasoning. Mod-rate commitments are endorsed for income on a trictly long range basis.

Koppers Company
First Mortgage & Collateral Trust 4s, 1951

These recently offered bonds constitute a well protected medium grade investment. They are considered moderately attractive for purchase where an issue of this type is desired.

Rating	Amount	Call Price	Offering Price	Maturity Yield
A	$25,000,000	*104	100	4.00%

* Except for sinking fund to November 1, 1939; at lower prices thereafter.

The above bonds of Koppers Company (formerly Koppers Gas & Coke Company) were publicly offered on November 18. Main details of the issue appeared in the Bond Survey of November 9, 1936 (page 156). The call feature, which was made known by amendment to the registration statement, provides that the bonds are callable except for sinking fund at any time as a whole or in part at 104 to November 1, 1939, and at lower prices thereafter. The bonds are also callable for sinking fund on any November 1, beginning with 1938, on thirty days' notice at 102 to November 1, 1939, and at lower prices thereafter.

The new bonds (rated A) constitute a well protected medium grade industrial holding. The company's balance sheet is satisfactory, and interest requirements are covered by a good margin. Even in depression periods the company should be able to earn interest requirements by a satisfactory margin. The outlook over the next few years is for wider interest coverage, and consequent improvement in investment strength for the bonds. The bonds were in demand at the offering price, and shortly went to a three point premium.

Southern Natural Gas Company
First Mortgage 4½s, 1951

Although currently priced approximately in line with similar issues, these bonds do not appear particularly attractive among medium grade utilities.

Rating	Amount	Call Price	Offering Price	Maturity Yield
Baa	$15,000,000	*105	100	4.50%

*On thirty days' notice to and including October 1, 1941, and at lower prices thereafter.

There were offered on November 18 at par $15,000,000 First Mortgage 4½s, 1951 of Southern Natural Gas Company. A detailed description of the issue appeared in the Bond Survey of November 9, 1936 (page 157). Since their offering the new bonds (rated Baa) have advanced in price to current levels of 100½ bid-101 asked.

The issue is medium grade, and is not considered suitable for strictly conservative investment purposes. Although currently priced about in line with issues of similar quality, the new bonds are not considered particularly attractive. They do not meet savings' banks requirements in any of the more important states.

Consumers Power Company

A registration statement has been filed for an issue of bonds of the above company, the offering to be made probably on or after November 30. Main details of the proposal follow:

Amount: $12,000,000.

Description: First Mortgage 3¼s, Series of 1936, due 1966.

Purpose: For reimbursing company for acquisitions and capital expenditures.

Call Feature: In whole or in part on any interest date on thirty days' notice at par plus a premium of one quarter of one per cent. for each year or fraction of unexpired life, except that they are redeemable at par on or after November 1, 1936.

Sinking Fund: A sum equal to at least ½ of 1 per cent. of aggregate principal amount of funded debt is to be deposited each November 1, and May 1, with trustee as sinking fund. At least $125,000 semi-annually of such funds must be used to purchase bonds of this or other series at not exceeding call price. Moneys in excess of $125,000 may be used to reimburse company for property additions through purchase or construction.

Nature of Business: Consumers Power Company, which is the most important subsidiary of the Commonwealth & Southern Corporation, serves substantially all of the lower peninsula of the State of Michigan excepting the Detroit area. Its income obtains predominantly from the sale of electrical energy—approximately 71 per cent. of total gross deriving from this source, with gas sales accounting for nearly 22 per cent. and heating and water representing virtually all of the small balance of income. The region is very highly industrialized and revenue fluctuations tend to be wide in consequence.

Security: New issue will be secured equally with three other series (3½ per cent., 3¾ per cent. and 4 per cent.) aggregating $101,396,000 by a first mortgage on the assets carried at $218,574,672 against which there is a depreciation reserve of $16,441,036. Fixed assets include $2,685,979 of unamortized expenditures of a non-recurring character, as well as intangibles. Bonds will represent approximately a 57 per cent. mortgage on depreciated fixed capital.

Interest Protection: Coverage in twelve months ended October 31, 1936 for total charges amounted to 2.. times. Interest requirements on the debt to be outstanding would be covered 2.62 times on the basis of the ... reported earnings.

Additional Bonds: Additional bonds may be issued to refund or discharge underlying bonds in equal principal amount and to extent of 75 per cent. of expenditure for purchase or construction of new property provided net earnings before depreciation are at least twice interest charges on total funded debt.

Capitalization: On October 31, 1936, capitalization was represented by $101,396,000 funded debt, $70,... preferred and $34,284,725 common stock, constituting a ratio of 49 per cent. funded debt and 51 per cent. capital stock. Ratio after this financing will be 52 per cent. funded debt and 48 per cent. capital stock.

Financial Condition: October 31, 1936—Current assets $... 326,789; current and accrued liabilities, $6,...; ... $1,403,344; floating debt, $1,700,000.

Legality: Bonds of same mortgage meet legal requirements in New York, Massachusetts, Maine, New Hampshire, California, New Jersey and other states.

Opinion: The new bonds will be high grade and suitable for conservative investment purposes. Rating Aa (subject to change only in case of amendments to the registration statement which would affect the security of the issue).

B. F. Goodrich Company

A registration statement has been filed for an issue of bonds of the above company, the offering to be made probably on or after November 27. Main details of the proposal follow:

Amount: $27,000,000.

Description: First Mortgage 4¼s, due December 1, 19..

Purpose: $17,571,000 of the net proceeds of this issue will be used to redeem company's outstanding First Mortgage 6½s, 1947 on February 1, 1937 at 107. The balance will be used for general corporate purposes, including additional working capital.

Call Feature: Redeemable as a whole or in part at any time on thirty days' notice (except for sinking fund) at ... to December 1, 1939 with successive reductions of ... per cent. on December 1 in each of the years 1939, ... 1947, 1951 and 1955. Also callable for sinking fund at 103½ to December 1, 1938, and at lower prices thereafter.

Sinking Fund: Beginning December 1, 1937 and each year thereafter the company will pay into a sinking fund an amount sufficient to retire a minimum of $675,000 principal amount of this series, and an additional $135,000 principal amount, if consolidated net earnings for the preceding calendar year exceed $7,000,000.

Nature of Business: B. F. Goodrich Company is one of the four leading tire and rubber producers, ranking approximately equal in size with Firestone Tire and Rubber Company and United States Rubber Company, each of which is of more moderate scope than Goodyear Tire & Rubber Company. About 60 per cent. of the company's sales comprise tires and rubber, about 16 per cent. rubber ...

canvas footwear (made by the Hood Rubber Company), and the remaining 25 per cent. consists of belting, hose, molded goods, druggists sundries, etc. In the three years ended with 1935 General Motors Corporation purchased from Goodrich an average of approximately 2,000,000 tires annually or about 25 per cent. of the company's output. The company supplies its own cotton tire fabric requirements, but unlike Goodyear, Firestone and United States Rubber does not control any rubber producing properties.

urity: The new bonds will be secured by a first mortgage on substantially all of the fixed assets now owned or heretofore acquired by the company, and also by the pledge of all of the outstanding capital stock of Hood Rubber Company, Inc. Goodrich Silvertown, Inc., and Philadelphia Rubber Works Company. Also pledged as security to the new bonds are certain stocks and bonds of Canadian Goodrich Company, which represent a substantial portion of this company's total capitalization.

nings Coverage: Net income (adjusted to eliminate non-recurring credits and debits) available for interest on funded debt and Federal income taxes would have covered interest requirements on the company's capitalization, after issuance of the new bonds, 3.85 times in the six months to June 30, 1936 and 2.40 times in the fiscal year 1935 as against 1.83 times in 1934 and 1.53 times in 1933.

itional Bonds: Additional bonds not exceeding $18,000,000 may be issued in other series ranking equally with this issue, subject to certain restrictions.

nce Sheet: A consolidated balance sheet of June 30, 1936, which did not give effect to the issuance of the new bonds and the addition of between $8,000,000 and $9,000,000 of new treasury funds, revealed a fairly satisfactory position. Current assets of $77,484,000 compared with current liabilities of $20,077,000. Cash amounted to $8,745,000. Notes payable to banks of $8,332,000 on June 30, 1936 are reported to have been substantially reduced since that time. Current liabilities also included $1,989,000 of Hood Rubber Company bonds, due December 1, 1936.

nion: The new bonds will represent good medium grade quality. Rating, Baa (subject to change only in case of amendments to the registration statement which would affect the security of this issue).

Kansas City Southern Railway Company

he Kansas City Southern Railway Company recently ap-
l to the Interstate Commerce Commission for authority
ssue $2,195,000 of Equipment Trust Certificates, Series
bearing annual dividends of 3 per cent. and maturing in
en annual installments of $213,000 each on January 1,
and on each January 1 thereafter to and including the
maturity. The certificates will be dated January 1, 1937
dividends will be payable semi-annually July and Jan-
1 of each year.

he proceeds from sale of the certificates will be used
urchase ten steam freight locomotives; 800 steel box
100 steel coal cars; four steel passenger coaches; one
dining car. The total cost of the equipment to be pur-
d is approximately $3,993,736 indicating a cash payment
per cent.

Of the total issue $1,917,000 certificates (the last nine
urities) will be purchased by the Bankers Trust Company,
ee for Kansas City Southern Railway First 3s, 1950 with
in a fund representing part security for the latter bond.
balance of the certificates or $1,278,000 will be sold at competitive bidding and will probably later be offered to the public.

The Series F Certificates will probably be rated Aa, indicating good investment quality. Their attractiveness however, will depend on the price at which the various maturities are offered for public subscription.

Oklahoma Gas & Electric Company

A registration statement has been filed for an issue of bonds and an issue of debentures of the above company, the offering to be made probably on or after December 3. Main details of the proposal follow:

DETAILS OF FIRST MORTGAGE 3¾s, 1966

Amount: $35,000,000.

Description: First Mortgage 3¾s, due December 1, 1966.

Purpose: Together with $9,500,000 debentures for refunding of present mortgage bonds and debentures to be retired as follows:

Issue	Price	Date	Amount
Oklahoma Power Holding First 5¼, 1948	103½	Jan. 11, 1937	$832,500
Oklahoma Gas & Electric First 5s, 1950	103	Mar. 1, 1937	$4,500,000
Debenture 6s, A, 1940	101½	Jan. 11, 1937	7,217,000

Call Feature: As a whole or in part on any date on thirty days' notice at 107½ prior to December 1, 1941, and at lower prices thereafter.

Sinking Fund: None provided. A maintenance fund requires the expenditure of an amount equal to 15 per cent. of gross operating revenues annually for maintenance, retirements or the purchase of bonds.

Nature of Business: Oklahoma Gas & Electric Company, a subsidiary of Standard Gas & Electric Company, is engaged exclusively in the sale of electricity. The operating field with a total estimated population of 590,000 embraces 214 communities in central and eastern Oklahoma including Oklahoma City (185,390) and 23 in western Arkansas, including Fort Smith (28,870). The territory has experienced considerable growth, particularly along industrial lines. In recent years the production and refining of oil has been of increasing importance in Oklahoma area, and it is estimated that during the period from 1930 to 1935 inclusive the company derived 16 per cent. of total revenues from electric sales to the petroleum industry. As last reported, industrial revenues represented 31 per cent. of the total.

Security: New 3¾ series will be secured by a first mortgage lien on all property. Net fixed assets exclusive of intangibles will be mortgaged to the extent of 55.7 per cent. and bonded to the extent of 68.3 per cent. Book values which include intangibles of $7,100,000 are to a large extent stated on the basis of appraisals made by Byllesby Engineering & Management Corporation, an affiliate.

Interest Protection: Earnings (with maintenance and depreciation adjusted to 15 per cent. of gross revenues) for the twelve months ended September 30, 1936 were equal to 3.62 times annual requirements on the First 3¾, 2.8 times requirements on all funded debt and approximately 2.35 times estimated fixed charges. On the same basis average earnings for the past three calendar years were equal to 3.10 times, 2.45 times and 2.00 times respectively.

Additional Bonds: Additional bonds of this or other series may be issued for refunding purposes and also up to 66⅔ per cent. of the cost or fair value, whichever is less, of permanent additions in the process of construction on or constructed after December 1, 1936, subject to certain restrictions.

Capitalization: Giving effect to financing capitalization will consist of $35,000,000 First 3¾s, 1966, $9,500,000 4 per cent. Debentures, 1946, and $36,069,500 capital stock. First Mortgage bonds will comprise 43.4 per cent. of total, Debentures 11.8 per cent. and capital stock 44.8 per cent.

Financial Condition: On September 30, 1936, current assets amounted to $3,985,225 as against current and accrued liabilities of $2,528,000, the latter excluding consumers' deposits of about $800,000.

Tax Status: Company agrees to refund the Pennsylvania 5-mills tax, Massachusetts income tax not exceeding 6 per cent. and, in the case of corporations other than those incorporated under Oklahoma laws, the Oklahoma income tax not exceeding 6 per cent. According to a recent decision of the District Court of Oklahoma County, the Oklahoma income tax is void as applied to non-resident bondholders.

Opinion: The new mortgage bonds will represent sound quality and will be suitable for general investment purposes. Rating, A (subject to change only in case of amendments to the registration statement which would affect the security of this issue).

DETAILS OF DEBENTURE 4s, 1946

Amount: $9,500,000.

Description: Debenture 4s, due December 1, 1946.

Purpose: Together with $35,000,000 First 3¾s, 1966 [illegible] refunding of present bonded debt outstanding [illegible] $44,500,000.

Sinking Fund: Commencing December 1, 1937, an amount sufficient to retire $475,000 principal amount of debentures annually.

Call Feature: As a whole or in part at any time on [illegible] day's notice at 104 prior to December 1, 1938, the premium decreasing one half per cent. on December [illegible] 1938 and each December 1, thereafter to and including December 1, 1945. Bonds may be retired at par [illegible] after December 1, 1945.

Security: Debentures are a direct but unsecured obligation of the company.

Tax Status: Company agrees to refund Pennsylvania [illegible] tax and Massachusetts income tax not exceeding 6 per cent.

Other Details: See description of First 3¾s, 1966.

Opinion: Debentures will be of good medium grade. Rating Baa (subject to change only in case of amendments [illegible] the registration statement which would affect the [illegible] ion of these debentures).

Review of Previous Recommendations

Allis-Chalmers Manufacturing Company Convertible Debenture 4s, 1945—*Institutional holders are again advised to effect sale. Holders in a position to own shares are advised to convert into stock.*

The company has called for redemption on December 24, all of its outstanding Convertible Debentures of 1945. The bonds are called at 103.

The bonds are convertible at the rate of 28.6 shares of stock for each $1,000 bond. Directors recently declared an extra dividend of 50 cents per share of stock and a regular quarterly dividend of 37½ cents per share, both payable December 24 to stockholders of record November 30. After these dividends total distribution for the year will have aggregated $1.50 per share, or about half estimated 1936 earnings.

Possibility of early call was mentioned in the Survey of October 26, 1936 (page 179) when sale of the bonds by institutional and other conservative holders was advised.

The bonds recently sold at 193¾, approximately in line with their conversion value in terms of the common stock, which recently sold at 68¼. If there is no intention on the part of the holder to convert to stock, there is no longer any reason for delay in effecting sale.

Duluth, South Shore & Atlantic Railway Company Bonds—*Net earnings of the company for the current year are likely to be the best in ten years. Senior interest charges on bonds held by the public will probably be earned over one and three-quarters times in the current year. Retention of various senior issues appears warranted.*

Duluth, South Shore & Atlantic Railway Company, a subsidiary of the Canadian Pacific Railway Company will, for the current year, make the best net showing in about ten years. As shown below, interest charges on senior bonds held by the public (as distinguished from junior bonds held by the Canadian Pacific Railway, which has received no interest for a long period of years) were covered 1.58 times in the twelve months ended September 30, 1936.

	*1936	193[illegible] (000's Omitted)	[illegible]
Gross Revenues	$3,771	$2,580	[illegible]
Net Operating Income	682	[illegible]	[illegible]
Other Income	87	17	[illegible]
Total Income	669	[illegible]	[illegible]
Balance Avail. for Charges	542	[illegible]	[illegible]
Senior Charges	346	[illegible]	[illegible]
†Junior Charges	604	604	[illegible]
Times Senior Charges Earned	1.58	1.11	[illegible]
Times all Charges earned	0.57	0.40	[illegible]

* Twelve Months ended September 30, 1936. † Deficit [illegible] terest on bonds owned by Canadian Pacific.

The substantial improvement in earnings that occur[illegible] in recent years reflects the greatly increased [illegible] activity and the consequent larger demand for [illegible] which is Duluth's chief traffic item. Last year [illegible] 42 per cent. of the tonnage handled consisted of [illegible] ore. This year the percentage will be considerably [illegible] Increased traffic in products of forest tonnage also [illegible] materially.

Chief Commodities Carried

	Iron Ore Tons	Iron Ore Revenues	Lumber Tons	Lumber Revenues	Logs Tons	Logs Revenues	Pulpwood Tons	[illegible]
	(000 omitted)							
1928	1,064	$565	436	$653	766	$209	[illegible]	[illegible]
1929	1,161	640	421	607	667	221	[illegible]	[illegible]
1930	712	379	303	455	552	246	[illegible]	[illegible]
1931	615	255	174	264	121	68	[illegible]	[illegible]
1932	168	92	116	171	12	8	[illegible]	[illegible]
1933	531	294	150	215	11	10	[illegible]	[illegible]
1934	755	376	183	236	128	65	[illegible]	[illegible]
1935	777	472	230	240	175	73	[illegible]	[illegible]

Outstanding is the fact that this year's iron ore [illegible] nage and the revenue derived from the transport[illegible] thereof will probably exceed corresponding figure[illegible]

1928 and 1929. This rapid recovery of ore tonnage and ore revenues to the 1928, 1929 levels presumably reflects improvements made to the South Shore Dock Company property at Marquette, Mich. During 1930-1932 about $1,250,000 was spent on the ore dock properties.

The Marquette, Houghton & Ontonagon Railroad Company General Mortgage 6s and the Duluth, South Shore & Atlantic Railway Company First Mortgage 5s both mature January 1, 1937. So far there has been no indication as to what the management intends to do about these maturities. Duluth, South Shore & Atlantic Railway Company by itself is not in a position to effect a refunding operation and whether or not the parent Canadian Pacific Railway Company will lend its financial support is not clearly indicated. Probably the most reasonable expectation is that extension of maturity will be proposed. In this connection it is of interest to note that the Marquette, Houghton & Ontonagon General Mortgage 6s, 1937, originally matured April 1, 1925. When they came due they were extended for ten years to April 1, 1935. At the latter time most of the bonds were further extended to January 1, 1937, but holders of $71,000 principal amount who did not accept the extension were paid off in full.

Inasmuch as the Duluth, South Shore & Atlantic Railway Company last year more than earned its senior charges and will again this year more than earn senior charges, it is possible that the Canadian Pacific Railway Company would purchase bonds of holders not accepting an extension, assuming extension of maturity is proposed. There is, of course, no certainty in this connection. Much would depend upon the amount of bonds involved.

In view of the fact that senior interest charges on bonds outstanding in the hands of the public are being covered with a good margin, a continued interest in the three senior issues listed below seems reasonable—for income at least, if not further price appreciation.

With respect to the South Shore Dock Company First Mortgage 5s, which mature annually in varying amounts to and including December 1, 1945—little risk attaches to an interest therein as the Canadian Pacific Railway in effect guarantees the payment of principal and interest.

Recent prices for the bonds of the company outstanding with the public follow:

Rating	Issue	Recent Price
A	South Shore Dock Co. First 5s to 1945	100 bid
B	Marq. Hough. & Ont. R. R. Gen. 6s, 1937	98-100
B	Dul., S.S. & Atlantic Ry. First 5s, 1937	81¼

isiana & Arkansas Railway Company First Mortgage 5s, 1969—*Charges are likely to be earned close to one and three-quarter times this year. Working capital position is strong. Retention of First Mortgage Bonds for income and moderate price appreciation recommended.*

Louisiana & Arkansas Railway Company, one of the few railroad companies to earn fixed charges fully in each year and in each month of the depression period, is doing considerably better this year than last year. As shown below, fixed charges were earned 1.70 times in the first nine months of 1936 compared with 1.48 times in the same period of 1935.

Although gross and net results in October were poor because of strike difficulties the probability is that the 1936 coverage for fixed charges will be better than that of 1935 when fixed charges were earned 1.55 times. In 1934 charges were earned 1.37 times, 1.18 times in 1933, 1.08 times in 1932 and 1.80 times in 1931.

Nine Months Earnings:	1936	1935
Gross Revenue	$4,309,056	$3,467,954
Maintenance of Way	665,733	468,172
Maintenance of Equipment	881,742	771,444
Transportation Expense	1,056,830	878,810
Net Railway Operating Income	1,016,810	805,282
Other Income	81,216	75,279
Total Income	1,068,026	880,561
Balance for Fixed Charges	1,054,545	858,131
Fixed Charges	619,780	585,005
Times Charges Earned	1.70	1.48

There has been no official statement regarding the termination of the strike. However, traffic recently was considerably heavier than a month ago. Whereas it reached a low point of 1,383 cars in the week of September 26, it recovered to 2,382 cars in the week of October 31. During the worst week carloadings were 35.7 per cent. below those of the same week last year, but for the latest week reported (week ended October 31) carloadings were only 0.6 per cent. below those of a year ago.

Working capital position has been considerably improved this year. At the end of September current assets were $3,155,000 including $1,750,000 cash compared with current liabilities of $808,000. On September 30, 1935 current liabilities were moderately in excess of current assets. Working capital at the end of September, 1936 amounted to $2,347,000, close to three times annual fixed charges.

Funded debt is represented largely by the First Mortgage 5s, 1969 (rated Baa). Although the current level may seem high in relation to the price of 15¼ established in 1932 on the New York Stock Exchange, there seems no reason to sell in view of the strong working capital position and the satisfactory coverage for fixed charges.

The bonds no longer have great price appreciation possibilities, but they could advance five or six points as they are callable only at 103. They were last recommended in the Bond Survey of October 19, 1936 (page 185) and recently sold at 97½.

Louisiana Power & Light Company First 5s, 1957—*Retention of these bonds for income is recommended, despite the fact that they currently sell somewhat above their call price.*

The earnings of the Louisiana Power & Light Company, both gross and net, have enjoyed inordinate expansion over the elapsed portion of the current year; the gain in gross having averaged over 22 per cent. in the first nine months and in net to over 31 per cent. As a result of this experience the coverage for fixed charges rose from 1.92 times in the calendar year 1935 to 2.27 times in the twelve months ended September 30, 1936. The enlargement in the margin of protection for charges was particularly gratifying in view of an increase of over 25 per cent. in the appropriation for depreciation.

The magnitude of this improvement is in part attributable to the vastly increased sales of power to other utilities, who were obliged to buy additional blocks of power because of the impairment in the efficiency of their hydro-electric generating facilities due to low water conditions. While under more normal climatic conditions this factor will have a diminishing influence upon future earnings, the substantially increased demands for power in that general area suggests the continuation of a high level of earnings. The working capital position of the company continues strong.

The First 5s, 1957 (rated A) are regarded among the more desirable of the medium grade issues. Although selling somewhat above their redemption price (which will be 104¼ after November 30, 1936), redemption over the near future is considered unlikely and the bonds are considered worth holding for income. Most recently reviewed in the Bond Survey of March 23, 1936 (page 491), the bonds recently sold at 105¾.

New York, Susquehanna & Western Railroad Company Bonds —*It is suggested that holders of First Refunding 5s, 1937 and Second Mortgage 4½s, 1937 assent to proposed plan of maturity extensions. Retention of the General Mortgage 5s, 1940 appears a reasonable course.*

New York, Susquehanna & Western Railroad Company, controlled through stock ownership by Erie Railroad Company, is asking holders of maturing bonds to consent to a plan of maturity extension whereby the First Refunding Mortgage 5s, due January 1, 1937 (rated Ba) and Second Mortgage 4½s, due February 1, 1937 (rated Ba) would be extended at the same rates of interest to August 1, 1940 (the maturity date of the junior General Mortgage 5s, 1940) with interest for the 3½-year period guaranteed by the Erie Railroad Company.

The company states that it "is unable to provide in the usual manner by the sale of securities, or otherwise, sufficient cash for the payment of these First Mortgage Refunding bonds and Second Mortgage bonds at maturity" and asks holders of the bonds to consent to the maturity extension and to signify such consent by deposit of the bonds with the New York Trust Company of New York. As an incentive to early deposit semi-annual interest due January 1, 1937 on the First & Refunding Mortgage 5s and interest due February 1, 1937 on the Second Mortgage 4½s is offered bondholders as of the date of deposit.

There are outstanding with the public $3,744,000 First & Refunding Mortgage 5s and $447,000 Second Mortgage 4½s. The poor credit position of the Susquehanna, which in no recent year earned fixed charges fully, prevents a normal refunding operation. The parent, Erie Railroad Company, too, is not in a position to lend much financial assistance. As a result, the proposal to extend maturities appears reasonable and consent thereto by bondholders advisable. After all, if holders of a substantial amount of bonds should not accept maturity extension, financial difficulties would be a possibility, although in this connection the thought does present itself that some minority holders of New York, Chicago & St. Louis Railroad Company 6 per cent notes, due originally October 1, 1932 and subsequently October 1, 1935 did have their bonds purchased at close to 100 by the Virginia Transportation Company, a subsidiary of the Chesapeake & Ohio Railway Company. It will be recalled in this connection that the Chesapeake & Ohio Railway Company has a large stock interest in the Erie Railroad Company as well as the Nickel Plate.

Although nothing definite has been said by either the Susquehanna or the Erie with respect to what will be done in 1940, it is possible to infer that the Erie management hopes that by 1940 its earnings and financial position will permit a successful refunding operation at that time. All such thoughts are, however, purely conjectural at this time.

The First & Refunding Mortgage 5s, 1937 recently sold at 92½, the Second Mortgage 4½s, 1937 at 88¼.

The General Mortgage 5s, 1940 (rated Ba) selling at 70, may quite possibly be benefited marketwise by the management's proposal to extend the maturities of the maturing senior bonds, particularly if, as seems probable, holders of most of the maturing bonds agree to the extension.

NEW DOMESTIC CORPORATE ISSUES ($,000,000)

The volume of refunding operations continues very high. In 1935 and 1936 combined, more than 10 per cent. of the entire corporate debt of the United States will have been replaced by new issues, in most cases bearing lower coupons.

	Bonds New	Bonds Refunding	Bonds Total	Stocks	Productive Issues (Bds & Stks.)
1926	2,667	687	3,354	1,220	1,801
1927	3,182	1,586	4,768	1,738	1,781
1928	2,385	1,064	3,449	2,492	1,496
1929	2,078	542	2,620	4,756	1,787
1930	2,980	451	3,431	1,638	1,938
1931	1,239	789	2,028	946	786
1932	325	116	620	26	302
1933	40	187	227	158	108
1934	144	211	455	35	74
1935	324	1,792	2,116	151	94
1935-Jan	3	3	6	2	3
Feb	1	33	30	...	1
Mar	4	113	120	...	...
Apr	17	118	130	24	2
May	88	93	121	6	15
June	14	115	129	...	11
July	37	463	500	26	3
Aug	29	106	185	34	17
Sept	43	230	273	4	12
Oct	70	164	234	19	4
Nov	82	316	347	4	4
Dec	66	88	133	34	8
1936-Jan	61	301	362	[illegible]	[illegible]
Feb	4	170	175	21	[illegible]
Mar	46	525	571	33	[illegible]
Apr	102	493	595	62	[illegible]
May	19	355	365	62	[illegible]
June	123	326	449	73	[illegible]
July	39	222	262	35	16
Aug	146	55	201	33	12
Sept	48	155	205	48	15
Oct	80	348	409	57	15
1936-10 Mos.	643	2,647	3,290	395	99
1935-10 Mos.	356	1,431	1,787	113	9

NEW AND REVISED RATINGS

NEW RATINGS

Consumers Power Co.:
*1st 3¼s, 1966 .... Aa

Galesburg Sanitary District, Illinois:
General obligations .... A

Gulf, Mobile & Northern Railroad Co.:
Equip. 2¾s to 1946 .... A

Hardeman County, Tennessee:
General obligations .... Ba

Montana Power Co.:
*1st & ref. bonds, 1966 .... A

Ohio Associated Telephone Co.:
*1st 4½s, 1966 .... Baa

Oklahoma Gas & Electric Co.:
*1st 3¾s, 1966 .... A
*Deb. 4s, 1946 .... Baa

Piedmont & Northern Railway Co.:
1st 3¾s, 1966 .... A
Deb. 1¾s-3¼s, serially to 1946 .... Baa

Pittsburgh & West Virginia Railway Co.:
Equip. 3¼s to 1946 .... A

Proviso Township High School District #209, Cook County, Illinois:
General obligations .... Ba

Toledo, Peoria & Western Railroad:
1st 4s, 1966 .... Baa

Western Light & Telephone Co.:
1st lien coll. 5s, 1954 .... Baa

Wheeling & Lake Erie Railway Co.:
Equip. trust 3¼s to 1941 .... Aaa

RATINGS RAISED

West Virginia Water Service Co.:
1st 4s, 1961 .... Baa to A

RATINGS REDUCED

Consumers Power Co.:
1st 3½s, 1965 .... Aaa to Aa
1st 3½s, 1966 .... Aaa to Aa
1st 3¼s, 1970 .... Aaa to Aa
1st 4s, 1944 .... Aaa to Aa

*This rating has been assigned after information in the registration statement filed with the SEC has been examined (where registration statements are not required, other information has been examined), but registration statements are, in practice, subject to amendment any time prior to the offering. The rating may be subject to change if any amendment to the registration statement should be filed which affects the quality of the proposed new issue.

NOTE—Our opinions and reports are based on information believed to be reliable, but they are not guaranteed.

Printed in U.S.A.

November 30, 1936.
10:10 A.M.

Present: Mrs. Klotz
Mr. Bell
Mr. Upham
Mr. Haas
Mr. Taylor
Mr. Seltzer
Mr. Murphy
Mr. Lochhead
Mr. Harris
Mr. Gaston

H.M.Jr: Now where's Bell? - Can you give us some idea of the estimates?

Bell: We will need new cash to run us up till March 15 - about 350 to 400 million dollars. I put in this estimate -

H.M.Jr: Excuse me. Why don't Seltzer change places with Cy Upham? Then you can hear better.

I'm sorry; go ahead.

Bell: This estimate contemplates 400 million dollars of new money: 200 million in December on Treasury bills and a hundred million in January on Treasury bills; then it contemplates 500 million in December, on December 15, in longer terms, 400 million of which will be used to retire the maturing Treasury bills. That will give you a balance of about 900 million going out of December, 800 million dollars going out of January, and 600 million dollars going out of February, which would be reduced to - about the 12th, down to about 500 million. Then your taxes begin coming in.

H.M.Jr: 12th of February?

Bell: No, 12th of March.

H.M.Jr: Oh. You said -

Bell: I said we go out of February with 600 million approximately. Then, until about the 12th of March, at which time you begin to receive your taxes, the balance will be further reduced by 100 to 125 million, so that your balance just before the 15th of March will be around 500 million dollars. Make it clear?

H.M.Jr: Yes, I got it.

Bell: Now, on March 16, 100 million dollars of the Treasury bills issued in December for new cash would mature; on March 17 and 18, another 100 million on each of those days will mature.

H.M.Jr: Yes.

Bell: So that the 300 million in new cash would mature March 16, 17, and 18.

H.M.Jr: Well, I haven't agreed to that yet.

Bell: No, you haven't. I say this estimate contemplates -

H.M.Jr: I mean I haven't agreed - I wouldn't have all the 300 on the 16th, but - but whether it's on one day or three days, this thing needs -

Bell: That's the picture.

H.M.Jr: Let me see if I've got it. If we sell 300 million dollars worth of bills into the 16th of March and take a hundred million dollars new money, your best estimate is that on the 13th of March we'll have about 500 million dollars cash money.

Bell: That's right.

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

Bell: Oh yes it is.

H.M.Jr: No - no - no; not with conditions as they are.

Now let me ask you some questions if you don't mind. - Everything that goes on in this room today is extra extra confidential; just can't be any - I mean I don't have to say it, but if I didn't, well, you might say, "Well, you didn't tell us," and so this is triple X, triple extra.

How much are you counting on windfall tax - on the index?

Bell: I'm counting on the 80 million. But George's estimate puts it in December. I've spread it over January, March - - December, January and February.

Haas: We put it, but we were not so sure it's going to be gotten, because it might be litigated and all that sort of thing. I - but I don't think in our estimates we - in our estimates we cannot take that into account, but I think for practical purposes you should take it into account.

H.M.Jr: What?

Haas: In other words, if you are going to have difficulty in collecting the tax because of legal obstacles - I don't think we can take those things into account in making our estimates, but I think you should here in figuring your financing.

H.M.Jr: Then how much you figuring on for Social Security?

Bell: Well, the estimate is 35 million in January and 50 million in February; about 50 million in March. I've taken about half of it in each case.

H.M.Jr: I see.

Bell: But this has flexibility in case those revenues do not come in. We've got to put about 300 million dollars maturity in June, so that if we do not get the windfall taxes we can begin middle of January to put bill maturities into June up to 300 million dollars, which will replace all the revenue you lose in windfall and Social Security taxes.

H.M.Jr: That still isn't enough.

Bell: Well, you're going to get eleven hundred million dollars in taxes in March.

H.M.Jr: Says who?

Bell: (Points to Haas)

Haas: That's a little more firm than the windfall.

H.M.Jr: Well, how firm?

Haas: I think that is our usual grade of estimate.

Bell: Their estimates indicate that they'll get over twelve hundred million.

H.M.Jr: When - the 300 million bills we are selling now into the 15th of March; when is the last week on that?

Bell: January 13.

H.M.Jr: Then if we wanted to sell into June we could start right then, go right on.

Bell: Yes.

H.M.Jr: Are you pretty sure on your 500 million?

Bell: Reasonably sure. I've kept the relief expenditures up on February - 210 million is the lowest.

H.M.Jr: Let me ask you this. How much do you figure that Wallace is going to shoot out on these checks, huh?

Bell: Very little of -

H.M.Jr: Three A checks.

Bell: Well, that's all the General; I'm keeping General up around 300 million.

These estimates are all lined up for the better picture, including 500 million dollars extra for relief.

H.M.Jr: That's in?

Bell: Yes, sir.

H.M.Jr: Well, what harm would there be - instead of taking extra hundred, let's say we took - well, the top would be three hundred.

Bell: What do you mean?

H.M.Jr: 300 million extra cash on December 15, making it seven instead of -

Bell: Five.

H.M.Jr: - of five.

Bell: No harm except your balance would be large.

H.M.Jr: Well, a large balance will give us - more or less increase excess reserves?

Bell: Well, it doesn't hurt your excess reserves in the first instance. It may take money out of the money market and pile it up in the Federal Reserve Banks.

Seltzer: It depends on how you handle your proceeds. If you leave them with the country banks, it will be increased when you spend.

Bell: When you spend, though, the first instance doesn't affect your excess reserves.

Seltzer: It is the spending.

Bell: You have that in either case.

H.M.Jr: Well, I feel that, for the market's sake, this afternoon I want to - I want to say this afternoon how much new money we are going to take. I want to settle it down, see? What?

Bell: Yes, I understand.

H.M.Jr: Wayne, would you ask Dan any questions. Dan's on the witness stand. What would you do?

Taylor: I wouldn't go above 200, for two reasons, one which isn't as important as the other: that you one time said that you are going to take only 750 million for the balance of the fiscal year.

H.M.Jr: Net 750. We've already asked for - how much?

Bell: 470 million.

H.M.Jr: We already have?

Bell: Yes.

Taylor: I'd keep a hundred of that out. On this question of balance, for psychological reasons I wouldn't use up the new money. I also think you can go down on your balance; not materially, but I think you can go down on it.

So, by a very mathematical system of reasoning, I have come to figure a maximum of 200.

H.M.Jr: Are you through?

Taylor: (Nods affirmatively).

H.M.Jr: George?

Haas: I don't know, I was leaning towards a somewhat larger balance than Dan has suggested. But I think you can go perfectly safe on his suggestion. But I think if you want to be absolutely safe - I think it would be better to continue with your current practice of being somewhat higher, because after all your expenditures in "toto" are so much larger in recent times than they have been, that I think that while you probably can go through with this, it would be a very serious situation if something occurred that you couldn't meet your situation and had to come out with some extra financing.

Gaston: If you speak about 750 million of new money, does that include - that did not include the 500 million for drought relief, did it?

Bell: No.

Gaston: So that you've got 12 hundred leeway, less your four hundred and something, which would give you eight hundred; but you have got to count your savings bonds borrowing, which will amount to about, perhaps, 300 million out of that. That would leave perhaps four or five hundred million dollars. And incidentally, you'll have about 60 to 75 million of savings bonds between now and March 1.

H.M.Jr: In your estimates, first, was the - - The President asked for 500 million. When you said the net borrowing would be 750 for this fiscal year, did that include 500 million dollars that the President would ask Congress for?

Bell: No, it didn't.

H.M.Jr: It did not?

Bell: No.

Gaston: No, it did not.

H.M.Jr: Just a minute, Herbert, please; just a second.

It did not?

Bell: No, sir.

H.M.Jr: Then did you in your estimate - you do include the savings bonds?

Gaston: You've got them for 25 million.

H.M.Jr: You've got -

Bell: I've got them down for 20 million a month.

H.M.Jr: But they are down.

Gaston: Oh, they're down.

H.M.Jr: But the 500 million which we are going to ask for for relief was not included?

Bell: No, sir. It was only mentioned in the budget message. The 500 million was not in any of our budget statements. To get a true picture and - if the President asks for and spends 500 million, the 750 would be increased to a billion, 250.

H.M.Jr: The 750 would be increased to a billion, 250. Right?

Bell: That's right.

H.M.Jr: All right, then, I say - I say, with the market conditions as they are, we ought to make this new money either 700 or 750.

Bell: I have no quarrel with that.

H.M.Jr: Whether it's 700 - The market expects 300 million of new money.

Bell: 300 million new money would make about 770 million. Your Treasury bills, see, don't count.

H.M.Jr: No.

Bell: They mature within the year.

H.M.Jr: How much would it make?

Bell: About 770 million, exclusive of savings bonds.

H.M.Jr: Exclusive.

Bell: Yes, sir.

H.M.Jr: And including savings bonds?

Bell: Well, say 25 million a month. They don't run that because you have anywhere from two to three redemptions. They run a little over about 20 million a month, about 250 million for the year.

H.M.Jr: Well, let's say we went - let's just figure 770, plus how much for the savings bonds?

Bell: I think you can put down 250.

Taylor: He's light on that.

H.M.Jr: I think so too. I think we better put 350. That's 1120, so we'd still be short - counting 350 we'd still be short 130 million. What?

Bell: That's right.

H.M.Jr: Well, let's put it this way: Who says I shouldn't, who thinks it is a mistake that I should ask for 300 million new money. Anybody? Seltzer?

Seltzer: I think you ought to raise it because - one thing, we are counting on some new taxes, and we can't estimate as closely on new kinds of taxes as we can on others. In the second place, as you pointed out, this 500 million of additional relief expenditures has been mentioned; it isn't part of the budget picture, but the President and the press have all assumed that the money will be raised, and you ought to be prepared to spend that new money, that extra 500 million. Then, to keep the additional relief expenditures within 500 million is going to take quite a little cutting in relief expenditures and Congress may not go along 100 percent on that. Then you have your statement that the times call for a large cash balance. Well, you get down to around 500 million and, even if it is just a few weeks it doesn't seem to jibe with the previous statement.

Bell: It isn't a few weeks; it's a few days.

H.M.Jr: Well, even at that - I mean I estimated that a billion dollar balance cost two million dollars; it isn't costing that much now, it's costing about a million dollars. And these short notes - God knows what they'll sell at! But right now the cost is below two million dollars a year with a billion dollar balance. Dan?

Bell: (Smiles) The market, I should think, might have a pretty hard time putting a rate on these three months bills.

H.M.Jr: Well, let's say - you want to say anything (to Upham)?

Upham: Well, I should like to see us begin borrowing to offset gold inflow, according to this new idea, so I'd be in favor of borrowing as much as possible, not for the purpose of building up the cash balance, but to set aside as an offset to gold inflow.

H.M.Jr: That wouldn't do it.

Upham: Beg pardon.

H.M.Jr: This extra 300 million wouldn't do it.

Upham: I think some of it might be put aside.

Bell: That's another problem which we've got to face when you decide the policy.

H.M.Jr: Isn't that purely internal?

Taylor: If it is handled that way. If it is handled one way, it is internal, if it can't be done the other way.

Upham: That's a special reason for liking to see you get as much as you can.

Bell: That's one way of doing it. You can borrow three or four hundred million dollars now and then use it later on to carry out that policy you've been talking about.

H.M.Jr: But this - I don't want to do anything that would block my handling the gold. Whether I do or don't, I don't see that taking this extra money - well, it doesn't make it harder.

Upham: No, no, it would make it easier. Perhaps I shouldn't bring it into this discussion. It would make it better.

H.M.Jr: It wouldn't make it any more difficult. Well, that's another reason. Murphy?

Murphy: I'm very much in favor of the 300 million in addition at the present time. It seems to me that, with the uncertainties of the tax situation and with practically everybody who read the budget summary just automatically adding the 500 million for relief, - I don't think anybody took it without the 500 million very seriously - it seems to very much indicate it.

Bell: My figures, Murphy, include the 500 million.

Murphy: But I am speaking of your figures with respect to the amount of new money needed to be raised.

H.M.Jr: They include the 500 million? You mean the 750 did?

Bell: No. I mean my cash position estimates at the present time include 500 million for relief.

Murphy: Well, the figure that I stated it had been added into was the 750. In other words, I think most of the readers of the budget summary finished reading it with a billion, 250 rather than 750 in their minds.

Bell: I think that's right.

Taylor: Really what it amounts to is your cash balance doesn't - I mean the decision as to whether you want to go down on your cash balance. The rest of it is - in other words, you can do with 250 if you want to go down on your cash balance. If you don't want it to go down, you can go up as far as necessary to get your cash balance where you want it.

Bell: That's all; it's whether or not you want your cash balance at 500 million or -

Taylor: - or whether you want it at 8 or a billion.

H.M.Jr: Well, then you can't forget the fact that the Federal Reserve may do something which will upset this bond market. It isn't as though we couldn't use the money. We'll need it. If we don't take it now we'll need it on the 15th of March.

Bell: You'll need it around the 15th of April.

H.M.Jr: Well, we need it between now and the first of July.

Bell: That's right, yes, sir.

H.M.Jr: If we take it now, we will simply postpone the June 15 bills. We couldn't begin them until maybe February or something like that - selling bills into June 15.

Bell: We can commence those any time.

H.M.Jr: I mean we could postpone it a little bit.

Bell: That's right.

H.M.Jr: If we don't take these 300 million, we'd have to start right in January selling bills into the 15th of June.

Bell: No, not necessarily -

H.M.Jr: If you're going to keep a billion dollar balance.

Bell: Oh yes, if you're going to keep your balance way up there, then you'd start right out.

H.M.Jr: Well, I don't think the Secretary of the Treasury, with us staying - with things as they are now, that I ought to let our balance go below a billion dollars. My God! - last week, until this Spanish general made a neutral zone and conceded that to England, it was a pretty serious thing; then he decided he'd have a neutral zone and that particular thing blows over. But each day there's been something like that, now, and the - this thing, it's lovely now, but supposing he hadn't, supposing England had blown up something or something of England's blown up - Phftt! People get their mind on the world war instead of the bond market.

Archie, my Scotch friend?

Lochhead: Well, I didn't - I don't know that my opinion would have any bearing. I feel that either way we'll have enough cash - with it or not. I think it is largely a matter of, simply, policy in the effect it would have on the American public as to the financing we do. I don't think, from a practical matter, that we need to worry too much about how much we borrow.

H.M.Jr: Harris?

Harris: Well, I don't know the angle of the needs at all, but I know that the Street probably expects 250 or 300 million dollars new money, and I'd like -

H.M.Jr: What?

Harris:	Around 250 or 300 million; but that's on that 750 billion estimate.
H.M.Jr:	Herbert, got any thoughts?
Gaston:	I should think you ought to get about 300 million, 350.
H.M.Jr:	Do you see any differences between - which sounds better, 700 or 750?
Bell:	No difference. If you take 700, you'll take in cash 750 to 770 anyhow; 700 is plenty, I feel.
H.M.Jr:	I think so. But I want to settle this right now, this one question.
	Say, we've got a nice bond market this morning.
Haas:	It's going up so sharply; that may be another reason for taking a little bit more.
H.M.Jr:	Well, she's up a little bit, isn't she, Harris, this morning?
Harris:	Well, I talked before the real opening. They expected a very dull market until the -
H.M.Jr:	Supposing you go out and call them up and come back and tell me what the feel of the thing is.
Haas:	I mean recently the curve is just sharp.
H.M.Jr:	The only thing I want to settle today is this, and I want to give - Hello? (On phone)
	(Has phone conversation with W.R.Burgess; transcription of Dictaphone record timed at 10:37 A.M., Nov. 30, 1936)
	Now, once more. Anybody? The decision isn't yet made. Anybody want to say it shouldn't be? Everybody? Take your time. Anybody have any ideas?
Bell:	I'm satisfied.

H.M.Jr: Thoroughly?

Bell: Yes. I think 500 would be enough, but if you'd feel better with 700 I say take it. It just cuts down the future borrowing during the next six months, if you don't use it.

H.M.Jr: Pardon me?

Bell: It will just cut down the future borrowing during the next six months.

H.M.Jr: You and I know -

Bell: Well, you wouldn't use it unless your taxes don't come in. In other words, your balance on March 15 will be 200 million higher.

H.M.Jr: You know you're not going to get away with 500 million. What? Are we?

Bell: I don't know. I was hoping so.

H.M.Jr: Well, so am I. But when we are doing financing, we've got to leave the hopes out. Oh, we say so, we put up a big bold front. I'll sign off the original estimate - 2 billion, 196, was it?

Bell: 2 billion, 136.

H.M.Jr: How much?

Bell: 2 billion, 136.

H.M.Jr: If it was kept down to 2 billion, 1, I'd be a very happy boy; so would you, huh?

Bell: Well, I'd have to be, I suppose.

H.M.Jr: If it was kept down to 2 billion, 1, I think we'd be awfully lucky.

All right, gentlemen. Dan, would you mind staying for a minute.

November 30, 1936

MEMORANDUM OF CONFERENCE IN SECRETARY'S OFFICE
REGARDING DECEMBER FIFTEENTH FINANCING.

Those present besides the Secretary were Mr. Gibson, President of the Manufacturers' Trust Company, New York, and his principal bond man, Mr. Parks, and Mr. Bell.

The Secretary explained why he had called Mr. Gibson and Mr. Parks down to his office from New York, namely, that it had always been the policy for the Under Secretary to go to New York prior to a financing and consult with various bankers on the ways and means of meeting the Treasury financing problem. Since the Under Secretary's position had been vacant he had undertaken to handle the financing himself, but for obvious reasons he could not go to New York for the purpose of discussing this problem with various bankers. He had, therefore, resorted to the method of inviting the Presidents of certain banks prior to each financing date to come to the Treasury with their principal bond man and make suggestions regarding the prospective financing. The Secretary explained to Mr. Gibson that he invited representatives from about five banks for each financing, endeavoring to spread the conferences among the more important banks of New York City. Over a period of a year this enabled him to get acquainted with the officers of many banks and obtain their first-hand views on the Treasury problems.

The Secretary then pointed out that of course these gentlemen were aware of the fact that the Treasury was approaching its quarterly financing and wanted to get their views on the matter. The Secretary told Mr. Gibson that he had just announced to the press that the Treasury would require $300,000,000 of new funds on December 15th, in addition to the refunding of the 2-3/4% Treasury notes in the amount of $357,900,000, maturing December 15th; Treasury bills in the amount of $400,000,000, maturing the same date; and 3% Treasury notes in the amount of $428,700,000, maturing February 15th, making a total financing of $1,486,600,000.

Mr. Parks, the bond man for the Manufacturers' Trust Company, stated without hesitation that if he were in the Treasury's position he would offer a 2-3/4% Treasury bond of 1961-64. He said he figured that that bond would sell on a basis of about 101-5/8 to yield 2.65. He thought, assuming that conditions would remain about the same as now, that it would later sell on a much higher basis. He further said that he would finance the whole $1,486,600,000 by the issuance of bonds and would not resort to a note issue.

He was asked what he thought of a 2-1/2% bond. He said there was not any doubt but what we could sell a 2-1/2% bond at an intermediate date and he would expect that in our conferences with other bankers we would receive several suggestions of a 2-1/2% bond. He prefers, however, to see the longer term bond of 2-3/4%.

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The Secretary then discussed with Mr. Gibson the conditions in Germany. The Secretary asked Mr. Gibson if he had any first-hand knowledge of conditions in Germany. He replied that he had been following, so far as it is possible, the developments in Germany very closely. He said that it was rather difficult to get reliable information but what he had been able to obtain indicated that conditions were much improved and that the German Government had built up in England a foreign exchange fund, the amount of which he could not estimate, through which it is financing some of its foreign trade. He said he expected to sail for Germany about January 22 to participate in the conferences on the so-called "Standstill Agreement". Preliminary conferences would first be held in London with only the creditors participating for the purpose of laying out a program, and then the conference would move to Berlin where it would confer with representatives of the German Government. He indicated that he would endeavor while there to obtain first-hand information on financial and economic conditions in Germany and be glad to advise the Secretary on his return of such conditions.

He indicated to the Secretary that the American representatives were at times at a distinct disadvantage because of the apparent lack of cooperation between the representatives of our Government and representatives of the American bankers. He gave as an example that the British representative on the "Standstill Agreement" was a Treasury man and a Director of the Bank of England. This representative not only had the confidence of the Government, but he had the confidence of the banking community. Gibson thought that his position might be made easier if he could express in some way the Administration's interest in the problem. The Secretary told Mr. Gibson that he thought there should be cooperation on matters of this character and suggested that about a week or ten days before he sailed to phone the Secretary and he would undertake to secure an appointment with the President so that the three of them could discuss this whole matter.

DWB

November 30, 1936

FINANCING

The proposal to borrow on December 15th the sum of $700M of new cash includes $400M to retire Treasury bills maturing December 15th and $300M to increase general fund balance to meet expenditures between December 15 and March 15. In addition $300M will be borrowed on Treasury bills maturing March 16th.

The President recently stated that additional funds would be required for relief purposes from January 1 to June 30. Budget Summation placed limit of $500M on this.

Present estimates of cash position contemplate carrying relief expenditures along about as usual until March 15th.

Summary of new funds -

Borrowed September 15th	$ 470 M
Borrowed on U. S. Savings bonds (November 27, 1936)	131
Proposed for December 15 (net)	300
Total new funds	$ 901 M

Budget Summation	$ 750 M
Additional for relief requirements	500
Total borrowings	1,250 M

November 30, 1936.

Listed below are various maturities of Treasury notes and bonds, also their current estimated market basis and the premium they would show above this market basis.

Suggested Coupon	Maturity	Market Basis	Probable Premium
	NOTES		
1 1/4% (5 yrs.)	12/15/41	1.06	30/32nds
	BONDS		
2 1/2% (13 yrs.)	12/15/49	2.39	1 1/4 pts.
2 1/2% (14 yrs.)	12/15/50	2.44	3/4 pt.
2 5/8% (17 yrs.)	12/15/53	2.55	1 pt.1/32nd
2 5/8% (18 yrs.)	12/15/54	2.56	30/32nds.
2 3/4% (29 yrs.)	12/15/65	2.68	1 3/8 pts.
2 3/4% (30 yrs.)	12/15/66	2.69	1 pt.6/32nds.

November 30, 1936

Mr. Gibson and Mr. Park saw the Secretary at 3 o'clock.

TREASURY DEPARTMENT

WASHINGTON

December 1, 1936

MEMORANDUM OF CONFERENCE IN SECRETARY'S OFFICE
REGARDING THE DECEMBER 15 FINANCING 11/30/36

Those present besides the Secretary were Mr. Charles A. Miller, President of the Savings Banks Trust Company of New York City, and a Trustee of the Savings Bank of Utica, and Mr. Bell.

The Secretary told Mr. Miller that he had called him down for the purpose of asking his advice on what, in his opinion, should be done in connection with the financing problem facing the Treasury on December 15.

Mr. Miller said that he had been talking with the representatives of the savings banks of the State of New York regarding a policy of diversifying their holdings, but that usually, after full discussion, they always come back to Government securities. He thought that at the present time one thing which might interfere somewhat materially with the Treasury financing is the fact that the New York banks will be required to pay out Christmas funds to the extent of approximately $125,000,000. They are also confronted with the fact that most banks, particularly country banks, do not make up their minds regarding subscriptions until the very last hour of the day on which the offering is announced. Many of them who would like to subscribe lose out because they do not get the subscriptions in on time. He had talked with officials of many savings banks, and it is his opinion that they will subscribe to approximately $100,000,000 of the Treasury offering on December 15. During the past year these banks have increased their holdings in Government bonds to the extent of about $175,000,000, of which $75,000,000 has been new funds and $100,000,000 has represented a shift from municipal, state, and industrial bonds to Government bonds.

He said the market, of course, was expecting a total issue of about $1,500,000,000 on December 15, and it also expects a five-year note at about 1¼%. He personally dislikes this short maturity because many of the banks subscribe to bonds, sell them at a premium and then turn around and buy the notes. He hopes that the Treasury will continue the long term bonds.

Mr. Miller thought that a 2-5/8% bond would go and be popular. He thought a 2½% on a 10-20-year bond would be a mistake. He said we could issue a 2¼% 45-48 but that he did not recommend it. He thought that the general expectation was that the Treasury would either issue a 2½% 50-52, or a 2-5/8% 55-57, which would sell at approximately 101-6/32. He said he had a further eccentric suggestion to make which he was quite certain the Secretary would not like, and that is for the Treasury to issue a long-term bond with a coupon of 2¼% for the first ten years and a higher coupon (say, 3%) for the period left, but callable at any time after the ten-year period.

He said that Dr. Burgess of the Federal Reserve Bank of New York had asked him why it was that savings banks had preferred the intermediate maturity. His answer was that four times during the history of the savings banks they had seen their portfolios depreciate to such an extent that more than 40% of these banks were, theoretically, insolvent. It had to be recognized that savings banks are somewhat like insurance companies and have to keep their maturities such as to meet the demands for withdrawals. He was not particularly afraid of a similar situation within the next few years because he thought that the Federal Government and the Federal Reserve System are in a position to control interest rates. There is, therefore, no immediate problem on this point. He repeated that savings banks of New York State would subscribe between $85,000,000 and $100,000,000 to the new bond issue and that practically all of them would turn in their December and February maturities amounting to approximately $11,000,000, in exchange for any other securities offered.

The Secretary asked him point-blank as to whether he would prefer a 2½% over a 2-3/4%. He answered emphatically that he would prefer the 2½%.

Mr. Miller left with the Secretary a memorandum of his views on the situation, which is attached hereto.

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The Secretary asked Mr. Miller what the present attitude of savings banks toward real estate loans is. He answered that the attitude is generally favorable to good loans on real estate. These banks are very anxious to make loans. It is generally known that they are short on income. He was a little disturbed over some of the policies adopted by savings and loan associations; that is, making loans on poorly constructed houses. He thought the housing problem was going along rather slowly. Many houses now being constructed, as is always the case in a rising building market, are not suitable for good loans and probably are not well constructed. He expected that this would correct itself in due time.

DWB

Memorandum on
New York State Savings Banks' Investments in
United States Government Obligations
November 28, 1936

During the first six months of this year the 135 New York State savings banks increased their holdings of United States Government obligations $187,000,000. Of these banks 133 are members of the Mutual Savings Banks Fund. Their holdings of Government obligations during the same period increased $161,000,000. With respect to these 133 banks it is interesting to note that $70,000,000 of the increase represented the employment of additional money in bond investments and the remaining $91,000,000 represented the employment of funds obtained from the maturity or sale of municipals, rails and public utilities. In other words, the savings banks have recognized that United States Government obligations are relatively more attractive than other legal bonds, as the differential in yield between the Governments and other legals is, and has been, extremely small for some time.

	Yield 12/31/24	Yield 11/28/36
U. S. Treasury 4¼% due 10/15/47-52	3.91	2.06
Union Pacific 4% due 7/1/47	4.58	2.25
Differential	.67	.19
Differential expressed in percentage of yield on Government bond	17%	9%

The above calculation makes no allowance for the tax advant-

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age gained by corporations through the holding of Governments in place of corporates.

Numerous municipal obligations yield less than Governments. The prevailing small differential in yield on Governments and other legals is probably due to the fact that the investment market has had to absorb successive issues of Governments during a period when but little new money has been sought by other issuers of legal bonds. Over the next year or two it is likely that the yield differential will increase with corporate legals yielding relatively more; as the market will be called upon to absorb increasing amounts of offerings by other issuers of legal bonds, while the outstanding amount of United States Government obligations is likely to increase but moderately. Until the market yields have been adjusted so as to make the other legals preferable to the Government issues, the savings banks in all probability will continue their policy of acquiring Governments at the time new issues are offered by the Treasury and by purchases in the open market. The savings banks have shown a decided preference for the medium term Government issues with optional dates close to 1945.

The commercial banks' policy of buying chiefly shorter maturities has forced down the yields of all issues maturing prior to the 2 3/4s of 3/15/48-51, so that all such issues currently yield less than 2.10% to their earliest optional dates.

A Treasury 2 1/4% bond having an optional maturity of 12/15/45 and final maturity of 12/15/48 would be in line with the savings banks' indicated preference for medium term issues and would prove very attractive to the commercial banks. The Treasury may have in mind the issuance of a bond having an optional maturity in the late 50s. Such an issue would not be subscribed for or purchased for investment by the savings banks (or commercial banks) to anywhere near the extent that an issue with the shorter optional maturity would be. The attached schedule of yields on outstanding Treasury bonds, as of November 24, 1936, indicates that the 2 3/4s of 3/15/48-51, the 3 1/8s of 12/15/49-52 and the 2 3/4s of 6/15/51-54 are relatively underpriced in the present market. Therefore the Treasury will probably not consider any issue having an optional maturity which would conflict with the three above mentioned issues.

Purchase of Governments by savings banks may be largely concentrated in the three issues mentioned above until they get in line with the market unless, of course, the Treasury brings out the shorter bond in which event the savings banks will probably become holders of the new issue in an aggregate amount ranging from $40,000,000 to $80,000,000, depending on their ability to acquire the issue in the open market. The savings banks have been limited in their subscriptions to 50% of their published surplus which limits the maximum total subscription to about $400,000,000. However, as the cash balances of the savings banks are at present about $275,000,000, the savings banks' aggregate subscriptions for the new issue will probably be in the neighborhood of $100,000,000. Assuming an allotment of about 10%, the savings banks will obtain on direct subscription only $10,000,000. It is obvious that the savings banks as usual will be forced to acquire additional amounts in the open market as other subscribers dispose of their holdings.

If the United States Treasury offered a 2 3/4% bond maturing about 12/15/63 with an optional maturity of 12/15/58, the issue would probably be absorbed by the market as it would be immediately quoted at a substantial premium. However, until investors become more accustomed to the present level of interest rates, the low coupon and long maturity of such an issue will cause holders to offer it for sale on each occasion when they deem it advisable to lighten their portfolio. Without spending any additional money for interest the Treasury could offer a bond with a 12/15/63 final maturity by merely making the optional date 12/15/45 and affixing a coupon rate of 2 1/4% for the period from date of issue to 12/15/45. The coupon for the period from 12/15/45 to 12/15/63 could be 3%, and the Treasury would be in a position to call the issue on any interest date on or after 12/15/45 for transfer to the Social Security Fund. As compared with the offering of a long 2 3/4% bond, the interest cost could be reduced by issuing a 2 1/4% bond with an optional maturity of 12/15/45 and a coupon of 2 3/4% from that date to 12/15/54. This would be the equivalent of a 2 1/2% bond maturing 12/15/49-54.

The straight 2 1/4% bond due 12/15/45-48 or the combination 2 1/4%-3% 12/14/45-63 appear most desirable from the Treasury's standpoint.

UNITED STATES TREASURY BOND YIELDS

November 24, 1936

Coupon	Maturity	Par Amount Outstanding (in millions)	Current Market Price 11/23/36	Market Value on Offered Price (in millions)	Yield on Offered Price	Present Annual Income at Yield on Market Value (in thousands)
3 3/8	6/15/40-43	353.	108.34375	382.4	.98	3,747.5
3 3/8	3/15/41-43	544.9	109.56250	597.0	1.10	6,567.0
3 1/4	8/1/41	834.5	107.53125	914.0	1.15	10,511.0
3 3/8	6/15/43-47	454.1	110.75000	502.9	1.64	8,247.5
3 1/4	10/15/43-45	1,400.5	110.00000	1,540.5	1.70	26,188.5
3 1/4	4/15/44-46	1,518.7	110.00000	1,670.5	1.80	30,069.0
4	12/15/44-54	1,036.7	115.81250	1,200.6	1.87	22,451.2
2 3/4	9/15/45-47	1,214.4	106.34375	1,291.4	1.96	25,311.4
3 3/4	3/15/46-56	489.1	114.31250	559.1	2.05	11,461.5
3	6/15/46-48	1,035.9	107.87500	1,117.4	2.09	23,353.6
3 1/8	6/15/46-49	818.6	108.84375	890.9	2.10	18,708.9
4 1/4	10/15/47-52	759.	120.96875	918.1	2.09	19,188.2
2 3/4	3/15/48-51	1,223.5	104,25000	1,275.4	2.32	29,589.2
3 1/8	12/15/49-52	491.4	108.25000	531.9	2.38	12,659.2
2 3/4	6/15/51-54	1,626.7	102.84375	1,672.9	2.51	41,989.7
3	9/15/51-55	755.5	106.40625	803.8	2.48	19,934.2
2 7/8	3/15/55-60	2,611.1	104.31250	2,723.7	2.58	70,271.4
2 3/4	9/15/56-59	981.8	102.43750	1,005.7	2.59	26,047.6
	Totals	18,149.4		19,598.2		406,296.6

The Weighted Average Maturity of all the above bonds on November 23, 1936 was 11 years 3 months optional, 14 years 10 months final and the Average Yield on November 23, 1936 was 2.07%.

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The 2 3/4s due 3/15/48-51 have an actual maturity of 11 years 4 months optional and 14 years 4 months final and yield 2.32% on market.

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Holdings as of July 1, 1936 by 135 New York State Savings Banks of:

United States Treasury Notes

2 3/4%	due 12/15/36	$3,142,000
3%	due 2/15/37	8,782,000

Subscriptions by New York State Savings Banks through Savings Banks Trust Company to the September 8, 1936 offering by the United States Treasury of 2 3/4% Bonds due 9/15/59-56 totaled $82,825,500.

Memorandum on United States Government Bond Market
November 30, 1936

As of November 23, 1936 the 2 3/4% bonds due 3/15/48-51 had a current yield of 2.32% to the earliest optional date. The weighted average maturity of all United States Treasury bonds at that time was 11 years 3 months on the optional date and 14 years 10 months on the final date. This weighted average maturity is almost identical with the final and optional maturity on the 2 3/4s of 3/15/48-51, but the average yield of all the United States Treasury bonds outstanding on 11/23/36 was only 2.07%, as against the 2.32% yield on the 2 3/4s of 3/15/48-51.

If we compare the yield on the 2 3/4s of 3/15/48-51, i. e., 2.32%, with the yields on the two 3 1/8% issues which mature respectively one year and 9 months prior and one year 9 months subsequent to the 2 3/4% bond, we find that the 3 1/8s of 6/15/46-49 yield 2.10%, or 22 basis points less than the 2 3/4s for a period of one year 9 months shorter maturity; whereas the 3 1/8s of 12/15/49-52 yield 2.38% or 6 basis points more than the 2 3/4s for one year and 9 months longer maturity. At the same time we find that the 2 3/4s of 6/15/51-54 yield 2.51% whereas the 2 7/8s of 3/15/55-60 yield 2.58% or 7 basis points more for an increase in maturity on the optional date of 3 years 9 months and 5 years 9 months on the final maturity.

To sum up, a buyer would have to be particularly foolish to purchase the 2 7/8s of 3/15/55-60 at a 2.58% basis when he is in a position to purchase an obligation several years shorter at a sacrifice of less than 3% of his total annual income. The same thing holds true with respect to a purchaser of the short 3 1/8s, i. e., the purchaser would have to be equally foolish to purchase the 3 1/8s of 6/15/46-49 on a 2.10% basis when he can extend his maturity one year 9 months to the 2 3/4s of 3/15/48-51 and obtain a yield of 2.32%, or better than 10% more on his money in regular annual income.

All the foregoing leads to the inevitable conclusion that the 2 3/4s of 3/15/48-51, the 3 1/8s of 12/15/49-52 and the 2 3/4s of 6/15/51-54 are the cheapest bonds in the present market. The foregoing conclusion holds true to almost the same extent on the basis of the corporate tax equivalent yields. However, so many institutional investors, insurance companies, savings banks and industrial corporations, have purchased United States Government notes and municipal obligations to such an extent that they no longer have need for the tax exemption calculation with respect to their bond holdings.

On the question of yield to maturity the three issues mentioned still appear to be the most attractive, except for the shorter extremely high coupon issues which everyone confidently expects will be called on their earliest optional dates.

The general comment in the market is that a note issue will be brought out at a 1 1/4% coupon for five years. Such a note should sell on about a 1.05% basis, or about 100 28/32s bid and 100 31/32s offered under present conditions. However such an issue would probably be outstanding only for the amount of actual cash offering by the Treasury as most holders of the maturing 2 3/4% notes and the 2/15/37 3% notes will turn them in for the new bond issue, on which they anticipate higher premiums. The general expectation is that a 2 1/2% bond due 12/15/50-52 or a 2 5/8% bond due 12/15/54-57 will be offered. Both of these issues would go over as the premium at the present price level would be about 101 6/32. However, from the statement above, with respect to the three cheapest outstanding issues at the present time, it would seem that the Treasury is picking the worst possible maturities from the standpoint of money costs to it. A 2 1/2% bond due 12/15/46-56 would result in a new low for Government subscription to bond issues under the present administration, as the yield to maturity at par would only be 2.50%, whereas the yield to maturity of the 2 3/4s of 6/15/51-54 is approximately 2.55%.

The ideal all purpose issue for new cash and for conversion of the note issues due 12/15/36 and 2/15/37 would be a 2 1/4% bond due 12/15/45-48.