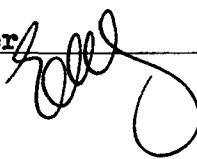


BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 21, 1938To Chairman Eccles

Subject: _____

From Mr. Goldenweiser

Meeting with Secretary Morgenthau

There was a meeting at the Treasury at which the following people were present: Secretary Morgenthau, Oliphant, Stewart, Williams, Taylor, White, Riefler, Viner, Lochhead, Warren, Burgess, Feis, and I. At my request Walter Gardner joined the meeting in the afternoon.

The principal subject of discussion was sterling exchange, and the second topic, which was touched on very lightly, was the possibility of loans to South America.

On sterling exchange the considerations placed before the conference were as follows: the trade agreement with England contains a clause that in case there are wide changes in exchange rates negotiations about modifications of the terms of the treaty may have to be undertaken. The Secretary wanted to know whether the treaty ought to have some more stringent automatic clause by which the treaty would become invalid if sterling fell below some indicated level. The reason he wanted it automatic is that he did not want to be in a position to have to interpret the clause as it now appears in the treaty and to be embarrassed by the possibility of having to cause the abrogation of a treaty which Mr. Hull has so painfully brought to completion.

In the preliminary discussion with the Secretary it was indicated, primarily by Walter Stewart, that it would be better not to knit exchange problems with the treaty other than in a vague way, and to handle the exchange problems through the machinery of the tripartite agreement. After

the consultants had the chance to talk things over between themselves between noon and three o'clock, they made the following recommendations to the Secretary: (1) that the trade agreement should be left in the form proposed; (2) that the Secretary should make moves in the direction of a conference with England about their present and prospective policy with regard to sterling; (3) that this conference should not take place until after there has been an opportunity to study the problem of the levels at which this country may want to object to the decline in sterling. It was also agreed that the British should be notified now that such a conference is in contemplation and that at that conference certain specific problems will be discussed. The Treasury has undertaken to prepare a tentative list of the problems to be raised with England, and England was to be notified and given an opportunity to prepare on these problems before the meeting takes place.

On loans to South America, most of the consultants present did not wish to express an opinion without further thought, except Mr. Riefler, who thought such loans should be made for the purpose of making good use of our excessive gold reserves, and for the purpose of establishing a dollar bloc in the Western Hemisphere. Walter Stewart and John Williams took the position that loans would be highly undesirable, because they could not be collected and would create grave resentments in South America, which does not like its creditors. Stewart said that the only way that

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loans can be made on a feasible basis is if they are knit directly with the kind of commodities that are to be purchased in this country with the proceeds of the loans and the kind of commodities that this country would accept in payment for the loan. He was of the opinion that that kind of a semi-barter arrangement was feasible only when there is complete control of foreign trade, as there is in Germany. The Secretary said that he was not discouraged by all these observations and that he would give the matter more thought and wanted the group to do likewise.

Another meeting in the near future is contemplated.