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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Saturday, March 9, 1935.
3/9/35

Press Service
No. 4-48

Secretary of the Treasury Morgenthau announced today that subscriptions aggregating \$513,000,000 have been received for the current offering of five-year 1-5/8 percent Treasury notes, which were offered only in exchange for Treasury notes maturing March 15, 1935. The subscription books for that offering closed last night.

The Secretary further stated that up to this time approximately \$555,000,000 of the Fourth Liberty Loan bonds called for redemption on April 15, 1935, have been exchanged for the Treasury bonds of 1955-60. The subscription books for the bond offering will remain open until further notice.

oOo-oOo

March 11th

Senator Glass called up and said that the Senate Finance Committee had unanimously passed a resolution on Saturday, March 9th, at 11 o'clock ordering Mr. Morgenthau to fire Berney. Senator Glass said instead of doing it he, as Chairman of the Committee, decided to officially call me up and ask me to do it. Senator Glass also said that none of this money for alcohol could be used to pay Berney. Mr. Morgenthau told Senator Glass that he would call him back in five minutes and the following is their conversation:

Morgenthau speaking.

This is Glass.

H.M.Jr: Good morning sir.

G: Good morning. I tried to get you on Saturday and Sunday.

H.M.Jr: I was up in New York City with my family.

G: I was told you were out of town. Well Mr. Secretary the Appropriations Committee, without a dissenting voice, felt that this man E. E. Berney, of the Internal Revenue Bureau, ought to be removed from his position.

H.M.Jr: I see.

G: And the resolution was offered and unanimously adopted, in the sub-committee I mean, providing that the salary - that no part of the appropriation should be used to pay this man's salary. Now I suggested in the Committee that a more orderly proceeding would be to authorize me, as Chairman of the Committee, to communicate with you and tell you just what the situation was, so that it might not be necessary to proceed to that most unusual - and in that most extraordinary way and this I wanted to do when I called you Saturday.

H.M.Jr: Well I'm sorry that they didn't tell me - I spoke to you Saturday morning, if you remember.

G: Yes.

H.M.Jr: I called you up to thank you.

G: Yes.

H.M.Jr: I was in New York at the time I called you. I called you about 9 o'clock Saturday morning.

G: Yes but that was before the action was taken. The action was taken at 11 o'clock or half past eleven Saturday and I immediately tried to get in communication with you.

H.M.Jr: Well now Senator.

G: Yes.

H.M.Jr: Can I kind of turn this over in my mind. When are you leaving for the hill.

G: Well I'm on the hill now. I'm going to the Appropriations Committee in ten minutes.

H.M.Jr: Oh. Well can I call you back in five minutes?

G: Yes. Yes. Yes you can call me back in five minutes. I'll wait here in my office.

H.M.Jr. What's your extension number?

G: 974.

H.M.Jr: Thanks. I'll call you back in five minutes.

G: Alright.

H.M.Jr: Senator Glass.

G: Yes.

H.M.Jr: Can I talk to you for a minute unofficially

G: Yes.

H.M.Jr: I mean just as -

G: Any way you please.

I mean - I'd like to talk to you absolutely I mean unofficially.

G: Yes.

H.M.Jr: I wish I could come up and see you.

G: Yes.

H.M.Jr: Here's the thing. Now I know all about Berney and all about the charges that Senator McKellar made against Berney.

G: Yes.

H.M.Jr: Those charges were all very carefully gone in to.

G: Yes.

H.M.Jr: And we were unable to find a single charge substantiated.

G: Yes.

H.M.Jr: Now we went into it very very carefully.

G: Yes.

H.M.Jr: And the charges which were made about his political activities and his being here and there - we were unable to find a single charge substantiated. I went into it very thoroughly. Now here is one fellow singled out and I ask myself, just as a citizen I mean the question of fairness - should I fire this man when I know that he is serving the government honestly and well?

G: Yes well I'll tell you this Mr. Secretary.

H.M.Jr: Yes.

G: Unofficially

H.M.Jr: Unofficially.

G: I don't think it was so the McKellar charges against the man, that caused the action of the Committee, as the reading of his testimony before the Committee on Post Offices and post roads.

H.M.Jr: His testimony before the Post Office?

G: What?

- H.M.Jr: I don't know that I'm familiar with that.
- G: I said the reading of his testimony before the Committee on Post Offices and Post Roads.
- H.M.Jr: Yes.
- G: Which indicated this man was almost idiotic. It indicated he didn't know what his politics were, if he had any. He said he hadn't voted but once in his life and then it was shown before the Committee that he was an active member of the Coolidge Club here in Washington, that when he was asked if he hadn't contributed to the Hoover campaign he said yes he contributed to both campaigns and even the Republican members of the Committee reached the conclusion that he was a man of the intellectual type that ought not to occupy as important a position as he had. It wasn't so much the McKellar charge that the man in picking out his various employees didn't pick out any Republicans - that wasn't the thing but the man doesn't seem to be a normal man.
- H.M.Jr: Well now Senator let me again unofficially - let me get this - I mean its so unusual. I appreciate your courtesy in calling me. Unofficially let me say this. Your - what they're proposing to do is to pass a resolution saying that none of this money can be used for Berney. Is that the idea?
- G: I'll read you the resolution that they did pass and withheld at my request.
- H.M.Jr: Yes.
- G: In order that I might tell you the situation.
- H.M.Jr: Yes.
- G: "Resolution 1. Provided that no part of any appropriation in this bill shall be used to pay the salary of E. E. Berney, now acting as Field Office Inspector in the Alcohol Tax Unit in the Bureau of Internal Revenue".
- G: Now that's a most unusual thing and a most extraordinary thing and I didn't want to see it go into an appropriation bill and I suggested to them that a better way to accomplish the result, if they were determined to accomplish it, was to direct me, as Chairman of the Committee, to have a talk with you and see if you - to apprise you of the situation and see what you wanted to do about it.

H.M.Jr: Well unofficially what do you advise me to do?

G: Well I don't know. I really got the impression myself Mr. Secretary that this man, although he is a college graduate, has no practical sense.

H.M.Jr: Well let's put it this way. I'm going to talk to you very frankly. Supposing I could get this man a job in another - something outside of the Treasury but in the government.

G: That would be alright.

H.M.Jr: Would that be alright?

G: Yes that would be alright.

H.M.Jr: That would be alright?

G: Yes certainly it would.

H.M.Jr: Well if I can do that and - then I'll see that he gets a job at something else outside of the Treasury.

G: Well well I would personally advise you to talk to the man personally and get your own impression of him because the very distinctive impression that the committee got, and I confess I shared in it, was that the man hasn't got any common sense at all.

H.M.Jr: Well I'll have a talk with him and if - with the understanding that I can get him a job in some other Department see?

G: That'll be alright.

H.M.Jr: And that they'll leave him alone there.

G: Oh yes that will be alright.

H.M.Jr: Well under those circumstances why I'll go along on that basis see.

G: Alright.

H.M.Jr: And I appreciate very much the spirit in which you helped me.

G: You'll learn not to mind any disappointments.

H.M.Jr: I certainly know I'm going to try my best.

G: Alright.

H.M.Jr: Alright.

G: Goodby.

March 12th, 1935.

Hon. Kenneth McKellar,
United States Senate.

My dear Senator McKellar:

The receipt is acknowledged of your letter of February 26th, expressing the opinion that Mr. E. E. Berney, an employee of the Alcohol Tax Unit, should be removed from the service for the reason, as you say, that in testifying before the Senate Committee on the Civil Service he did not tell the truth about his politics.

As you know, the law provides that no employee in the classified service may be removed for misconduct except upon charges preferred by the head of the Department in which employed. So far as his testimony before the Senate Committee on the Civil Service is concerned, it is of course to be remembered that Mr. Berney was not before the Committee as a representative of this Department, but in his personal capacity in response to a call made upon him by the Committee.

As I believe I have told you, Mr. Berney has been capable, efficient, and loyal in the discharge of his duties in the Treasury Department. I find nothing either in his record here or in his testimony before the Committee which would warrant my preferring charges against him.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary.

UNITED STATES SENATE
Committee on
Post Offices and Post Roads

February 26, 1935.

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

Dear Mr. Secretary:

I wish again to call your attention to the case of E. E. Berney, now holding a position in your Alcohol Unit. On May 11, 1934, Mr. Berney was called before the Senate Committee on Civil Service to testify regarding his selection of the Prohibition or Alcohol Unit for reappointing in your Department. I quote from Mr. Berney's testimony, as shown on Page 96 of the record:

Senator McKellar: "Where are you from?"

Mr. Berney: "From Central, Pennsylvania."

Senator McKellar: "Are you a Democrat or Republican?"

Mr. Berney: "I do not know."

Senator McKellar: "You do not know? An expert in the Bureau of Prohibition, and not know whether you are a Democrat or a Republican?"

Mr. Berney: "If I may place my own test, I assume the test of a man's political faith is determined by his registration in a primary. I have never registered to vote in a primary in my life. I voted once in my life, in the State of Connecticut, at a general election, and I have never lined up with a political party; so I do not know."

Senator McKellar: "How did you vote then?"

Mr. Berney: "I voted on a machine."

Senator McKellar: "I know; but how did you vote? Did you vote for the Democratic candidate or for the Republican candidate?"

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Mr. Berney: "I voted for both."

Senator McKellar: "You voted for both the Democratic and the Republican candidate at the same time?"

Mr. Berney: "I certainly did."

This man was educated at Yale University, I believe he graduated there, and had been working for the Government since 1918, when he went into the Bureau of War Risk Insurance. He entered that Bureau by standing a competitive examination for Claims Examiner and Reviewer. (P. 93) He admitted that he was a member of the committee that prepared the list of former employees that could be restored. (P.97)

Mr. Berney did not know of President Roosevelt's order which limited the reinstatement of these employees to January 30, 1934. (P. 98) He did not know how many of the eight hundred twenty-five employees selected by him and his committee were Democrats and how many were Republican. (P. 103) He said that his method of handling the matter was as follows:

"My passing upon them was specifically and definitely limited to pulling records and passing out information, with certain restrictions." (P. 108)

He claimed that he was appointed during the Wilson Administration and served under the others, but boasted that he had never voted in his life, except once, and that time for both the Democratic and the Republican candidate, and that he had no interest in politics. I quote from him:

Senator McKellar: "You said that you are not in politics?"

Mr. Berney: "Yes, sir."

Senator McKellar: "You take no interest in it?"

Mr. Berney: "No, sir." (P. 138)

These statements were unqualified, but he soon had to admit that he was mistaken.

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Senator McKellar: "Is it not a fact that during the campaign of 1932 you made bets on the Presidential election, and bet that Hoover would defeat Roosevelt?"

Mr. Berney: "That is an unqualified misstatement of fact and falsehood. I made no bets in the campaign except one, which was that if the Democratic Party were successful, in my judgment, the Republican money powers over the country would so handle things that the New York exchange would close. I bet one man in the service 10 to 5 that that would happen, and I collected the bet."

Senator McKellar: "That if the Democrats won, the stock exchange would close?"

Mr. Berney: "Yes, sir."

Senator McKellar: "I thought you did not take any interest in politics. That is absolutely surprising."

Mr. Berney: "I didn't say I don't take any interest in politics. I said that I was not qualified and am not qualified to vote either way, and I did not attempt to vote either way."

Remember that he had just testified in words that he took no interest in politics.

At the time I was questioning Mr. Berney concerning his politics I had a paper in my hand that a gentleman had passed up to me and I was appearing to look at the paper before asking Mr. Berney the question, and the following occurred:

Senator McKellar: "If a man takes enough interest to bet on an election of any kind, he has some political views or opinions. It is entirely out of harmony with your previous testimony that you took no interest in politics, and that politics never had anything to do with any decision you made about personnel or anything of the kind."

Mr. Berney: "I still say that it never affected any official action of mine, but I still think I have the right to visualize what may take place in different political

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campaigns, and I am sufficiently interested in American citizenship to do so." (P. 138)

Senator McKellar: "Were you a member of a political club known as the Hoover-Curtis Club?"

Mr. Berney: "I would say I was not. I can give you the story behind that."

Senator McKellar: "I would be glad to have it."

Mr. Berney: "Very well, sir. In, I believe, 1924, I was in the Veterans' Bureau, and I was invited by a subordinate of mine to attend a notification exercise for President Coolidge. I attended them. We got down to the place where they were held."

Senator McKellar: "Where was that?"

Mr. Berney: "I believe it was Constitutional Hall. We got down there and were about to take our seats. The man I was with was a member of the Sons of the American Revolution, and other agencies of that kind in the District. Someone came to him and told him the man in charge of the door was not going to be there, and wanted him to take charge. He asked, 'What does it require?' They said, 'Well, we have a couple of marines to keep things in order.' He said, 'Mr. Berney is experienced more than I am in such things. Why not ask him to go to the door?' I went to the door and organized these men at the Convention Hall, so that we could have order."

Senator McKellar: "Of course, it was not the love of politics, but your love and loyalty to law and order that brought you to that Coolidge meeting in 1924."

Mr. Berney: "It was my interest in the leader of this nation at the time. I have had an interest in the person, and I will say the personnel, of the White House ever since I have been old enough to read and write."

Senator McKellar: "But you never had enough interest to go to the trouble to vote for anybody for that office?"

Mr. Berney: "If I could have afforded to go back to Pennsylvania I would have."

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Senator McKellar: "You were getting \$6,000 a year. Would not that permit you to go to Pennsylvania if you wanted to vote?"

Mr. Berney: "I have no residence there." (P. 139)

Remember I still had the little memorandum in my hand.

Senator McKellar: "You can vote anywhere you please. You can vote in Maryland or Virginia. You can declare your residence there and vote. You never looked into that, but while you did not have enough interest to vote, you had enough interest in politics -- or in law and order, not in politics -- to be present at a Coolidge meeting and act as doorkeeper."

Mr. Berney: "Senator, I would like to clear your mind on that."

Senator McKellar: "It needs clearing very much."

Mr. Berney: "Nothing would please me better than to be able to tell you, while I am under oath, that I am a member of one of the two great parties. Nothing would please me better. I wish that I could tell you that. I want to clear up my position as to that situation."

Senator McKellar: "All right."

Mr. Berney: "Some time later I was amazed one day to open a letter in which I found a check for \$5 for my services signed by somebody who is in Chicago, very likely a member of one of the committees."

Senator McKellar: "You mean the Republican committee, do you not?"

Mr. Berney: "Yes, sir."

Senator McKellar: "You did not take that check?"

Mr. Berney: "I took that check and endorsed it back to the man who wrote it and returned it."

Senator McKellar: "You regarded practical politics

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as so debased and low that you had to send it back?"

Mr. Berney: "I did not regard it as debased or low or loathsome in the least. I regard it as a very fine proposition. It means as much to me as the citizenship of Rome meant to a Roman. If I am permitted to carry this through, I would like to tell you the entire story."

Senator McKellar: "Go ahead. I thought you were through."

Mr. Berney: "Not quite. In the next campaign I received a letter, the same as I received letters from the American Legion, of which I am not a member, and other agencies for contributions. I received a letter saying substantially that in Washington there was but one place established where people could vote, and to keep that place up they were asking for a donation of \$5 or \$10, as the case may have been, I don't remember which. I sent a contribution for that purpose."

Senator McKellar: "To the Republican organization."

Mr. Berney: "To a Presidential organization."

Senator McKellar: "It was Republican, was it not?"

Mr. Berney: "I don't know. It had been questioned very seriously whether Mr. Hoover was a Republican or not. He didn't know whether he was or not."

Senator McKellar: "It was a Hoover organization?"

Mr. Berney: "Yes." (P. 140)

And again he testified that he had done the same thing the following year. (P. 140)

Senator McKellar: "As I understand it, you were doorkeeper at a Republican meeting in this city in 1924."

Mr. Berney: "It was not a Republican meeting."

Senator McKellar: "I would suppose that it was, if it was for Mr. Coolidge."

Mr. Berney: "It was a notification exercise."

Senator McKellar: "Mr. Coolidge was a good Republican. And you say that you contributed to the campaign of Mr. Hoover in 1928, and contributed again to the campaign of Mr. Hoover in 1932."

Mr. Berney: "But my contribution was for the purpose of establishing these booths for these men and women to vote."

Senator McKellar: "In other words, you helped Mr. Hoover's cause in 1928, the first time he ran, when he was elected; and in the same way you helped Mr. Hoover's cause in 1932, when he happened to be defeated."

Mr. Berney: "I have given the facts, and you can draw your own conclusions."

Now, Mr. Secretary, that was the testimony of the man you now have in your employ under Civil Service regulation. There is no possible objection to Mr. Berney's being a Republican, and as I look at it there is no possible objection to Mr. Berney's having contributed to the Republican campaign from 1924 on, up until 1932. He had a perfect right to do it, but the point I make to you is that I do not believe your Department should keep in the public service a man who will falsify about the facts connected with his political activities. Remember, in the first instance, Mr. Berney testified that he took no interest in politics, he had never voted, except once when he voted both the Democratic and the Republican ticket, the inference being all through the first testimony that he was far removed from any political thought or action.

All of the men he selected from Tennessee for re-appointment on this list were Republicans, and, as far as I know and as far as I have been able to find out the men he selected from the list in other states were Republicans. His arguments seemed to be that it was a mere coincident that all of these reappointees were Republicans. All his associates on the committee were Republicans and all those reappointed were Republicans.

And then some young man, whom I do not know, handed me a memorandum, I held it in my hand and examined Mr. Berney about his political activities. With this memorandum in my hand, the witness not knowing what was on the memorandum, he admitted that he had taken part in a

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Coolidge ratification in 1924, that he contributed to President Coolidge's campaign, that he contributed to Mr. Hoover's campaign in 1932; and while he beat around the bush, he substantially admitted that he had bet on Hoover as against Roosevelt in 1932.

Now, I am not asking that Mr. Berney be removed because of his support of Mr. Hoover in 1928 and 1932 or because he is a Republican, but I am asking for his removal because he did not tell the truth about his politics, but on the contrary trying to pervert the truth and conceal the truth as his evidence shows.

Under separate cover, I am sending you a copy of the testimony for you to read it all.

I am informed that notwithstanding my protest to you last year, Mr. Berney is still on the Government payroll. I think he should be removed therefrom.

Very sincerely yours,

(Signed) Kenneth McKellar.

March 11, 1935.
Monday

O'Mahoney: Hello Henry.

H.M.Jr: Good morning, Joe.

O'M: Good morning to you. Have you got your pencil handy?

H.M.Jr: I got a pencil handy. Sure I'm ready for my orders.

O'M: All right. Write this down.

H.M.Jr: Yes.

O'M: Section 4--

H.M.Jr: Section?

O'M: Yes. Section 4--

H.M.Jr: Section 4--

O'M: No part--

H.M.Jr: No part--

O'M: Of any appropriation--

H.M.Jr: No part of any appropriation--

O'M: Contained in this act--

H.M.Jr: Yes, well, I know what you're going to tell me.

O'M: Shall be used for personal services not specifically organized by law. All right, that was the -- this morning.

H.M.Jr: Now wait a minute. Let me -- . Section 4. No part of any appropriation -- Will you give it to me again?

O'M: Yes.

H.M.Jr. I thought it was something else.

O'M: Contained in this act--

H.M.Jr. Contained in this act--

O'M: Shall be used--

H.M.Jr: Shall be used--

O'M: For personal services--

H.M.Jr: For personal services--

O'M: Not specifically--

H.M.Jr: Not specifically--

O'M: Authorized by law.

H.M.Jr: Authorized by law. What does that mean?

O'M: Well, it may mean that a lot of your experts and publicity men, if you have any, will be out. You better have it checked up.

H.M.Jr: I see.

O'M: That's what it's directed against particularly. Gaston, for example, specifically authorized by law - Dr. Viner. Do you get me?

H.M.Jr: I get you.

O'M: O.K. A word to the wise is sufficient. You had better look around.

H.M.Jr: Pardon me?

O'M: I say a word to the wise is sufficient. You better look around.

H.M.Jr: I will. I'll look to it right away. Do you know about Glass' conversation and mine this morning?

O'M: No.

H.M.Jr: About Bernie. That's why I thought I knew what was coming.

O'M: Oh no, oh no. No, I - I didn't -- no, I didn't know that he talked to you about it this morning.

H.M.Jr: Well, he talked to me.

O'M: I know that he was discussing something.

H.M.Jr: Yes, he did and I told him that would it be agreeable if we got Bernie a job in another department and he said it would be all right. See?

O'M: I see. Well, good luck to --

H.M.Jr: I know, but I - I thought that --

O'M: Of course, Bernie made an ass of himself before that committee.

H.M.Jr: Evidently.

O'M: And you didn't acknowledge that letter to McKellar.

H.M.Jr: Didn't I?

O'M: No.

H.M.Jr: Now, let me see if I got this thing right. Section 4. No part of any appropriation contained in this act shall be used for personal service not specifically authorized by law.

O'M: O.K.

H.M.Jr: Thank you very much. I appreciate it.

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Monday.

Couzens: Hello Secretary.

H.M.Jr: How are you?

C: Pretty good, thank you. How are you?

H.M.Jr: All right. Senator, about this publicity about myself and the pink slip.

C: Yes.

H.M.Jr: I think that the reason for that is there was some organization called the Sentinels, or something like that -

C: Yes, The Sentinels of the Republic.

H.M.Jr: Got out a long telegram in which they said that the Treasury newspaper men were of the belief that I was really in favor of this thing.

C: Yes.

H.M.Jr: And a representative of the Treasury press room came up to tell me that they had never said such a thing -

C: Yes.

H.M.Jr: And in fact, that they had denied it.

C: Yes.

H.M.Jr: I - I have officially talked to both Senator Harrison

C: Yes.

H.M.Jr: And to Mr. Doughton, and I told them both officially exactly what my position was.

C: Yes. Was there ever any report made, this is - I'm not --

H.M.Jr: Yes.

C: I'm not going to use this publicly, of course. Was there ever any report made by the Commissioner of Internal Revenue that this was difficult to handle?

H.M.Jr: Well now - just a minute. There's some of our people in the room and I'll ask them. I-I don't know.

C: Yes.

H.M.Jr: Did Internal Revenue ever make a report that this was difficult to handle? You don't.

* * * * *

The men in the room say that what they think they said was that, I'm not sure of this --

C: Yes.

H.M.Jr: That, that the Bureau said it would take a long, long time to assemble it.

C: Yes.

H.M.Jr: And that it would be some time in October before the information was available.

C: Oh, it wouldn't be ready until October eh?

H.M.Jr: Well that's what they say but I'M not, I- I'll find out if you want me to.

C: Well, I was wondering you know --

H.M.Jr: There - There's nothing this year has gone up on the Hill from the Treasury, except my word to Senator Harrison and to Mr. Doughton, and you're at perfect liberty to quote me -

C: Yes.

H.M.Jr: That the Treasury stays absolutely neutral and will not express any opinion on this matter.

C: Well, I don't want to use it for publicity but would you mind writing that in case in later years that I was challenged on that statement?

H.M.Jr: I have no objection to writing it.

C: Well I don't ask you to say anything but neutral. If you'll just put that in reply to my letter I'll appreciate it.

H.M.Jr: It is perfectly - it's perfectly all right with me.

C: Yes. Well, I wish you'd do that.

H.M.Jr: Because that's exactly our position and everybody is trying to twist it, you see.

C: Sure.

H.M.Jr: As a matter of fact, there was a Congressman on the floor of the House -

C: Yes.

H.M.Jr: Said that I was in favor of this.

C: Yes - in favor of repeal?

H.M.Jr: Yes.

C: Yes.

H.M.Jr: And my position has been absolutely clean-cut.

C: Well I think it is, but I wish you'd put that in your reply to my letter so that I can just have it as a matter of record.

H.M.Jr: Quite all right.

C: Now is there any -- has the Bureau of Internal Revenue drafted any regulations or rules with respect to the time that these will be ready?

H.M.Jr: Not that I know of but anything that you want to know I'll find out and let you have it.

C: Well I wish you'd ask Helvering to let me know whether he has anything because I've been one of the leaders up here for years and years in behalf of these matters being public record, and I have in mind that my own income tax is going to be subject to the greatest public attack of all and I'll probably ask you next week some time to give mine out.

H.M.Jr: I see.

C: You won't object to it if I do, will you?

H.M.Jr: Well, I'd have to ask the Counsel on that.

C: Yes, well that - well that

H.M.Jr: * * I don't know whether that would be legal.

C: Well, that's what I want you to find out.

H.M.Jr: Yes.

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Tuesday

C: Will you find out and let me know?

H.M.Jr: I - I'll find out

C: Yes

H.M.Jr: And let you know.

C: Thank you Mr. Secretary.

H.M.Jr: Thank you.

Q: Now, Mr. Secretary, will you have any administrative changes in mind? It would not be desirable.

A: It would not be desirable.

Q: Yes.

A: Well, I can give you my opinion, can't I?

Q: Well, I - I-if you want to suggest just one change.

A: Yes, there's no objection to that, is there?

Q: I don't see any objection.

A: I am just thinking, you know, on this pink slip question, you know, that's calling the Devil with the name - I just want to say that when I didn't care about this.

Q: I don't want to tell anybody to stop you from

doing as you see.

A: Doing your own.

Q: Now, and especially if I want to give it to the Senate where we have the freedom of --

A: So I find (laughter)

Q: All right.

A: Senator, one other thing I'm sleeping over -- you remember you asked me yesterday again about my position on the pink slip.

Q: Yes.

A: And when Mr. Tughton and Senator Harrison called they took it over the phone, you see -

March 12, 1935.
Tuesday

H.M. Jr: Morgenthau.
Senator
Cousens: Good morning, Mr. Secretary.

H.M. Jr: How are you?

C: First rate.

H.M. Jr: Senator, on the question of whether you have asked us to publish your individual pink slip-

C: Yes.

H.M. Jr: Our people tell me that, from an administrative standpoint, it would not be feasible.

C: It would not be feasible?

H.M. Jr: No.

C: Well, I can give it out myself, can't I?

H.M. Jr: Well, I - I-if you want to publish your own income.

C: Yes, there's no objection to that, is there?

H.M. Jr: I can't see any objection.

C: I was just thinking, you know, on this pink slip question, you know, they're raising the devil with me and I - I just want to show them I didn't care about mine.

H.M. Jr: - I don't tell anybody to stop you from --

C: Giving my own out.

H.M. Jr: Giving your own.

C: No, and especially if I want to give it in the Senate where we have the freedom of --

H.M. Jr: So I read (Laughter)

C: All right

H.M. Jr: Senator, one other thing I'm sleeping over -- you remember you asked me yesterday again about my position on the pink slip.

C: Yes.

H.M. Jr: And when Mr. Doughton and Senator Harrison called up, they took it over the phone, you see -

C: Yes.

H.M.Jr: And then if I turned around and wrote you a letter -- well, I don't know, it might look sort of funny.

C: You mean the fact that you are neutral. Well, all right, if it embarrasses you, I won't cry about it.

H.M.Jr: Well, I mean they took it verbally and if it would be agreeable to you, I wish you'd take it the same way.

C: All right. I won't bother you about it. Now --

H.M.Jr: I mean I have a Press Conference twice a week and twice a week I've told the newspaper boys the same thing and --

C: And of course, they don't want to publish it.

H.M.Jr: Pardon me?

C: I say of course they don't want to publish it.

H.M.Jr: No, but I told everybody on the hill who has asked me - I've told them the same thing.

C: Well, all right, then I won't ask you for a letter then.

H.M.Jr: Thank you.

C: Say, are you getting me that Mellon transcript?

H.M.Jr: Yes, I asked for it and its on the way.

C: Thank you very much.

H.M.Jr: Thank you.

March 11, 1935.
Monday.

H.M.Jr: Fine.

Vinson: Has the order been issued relating to the free gold?

H.M.Jr: The free gold?

V: Yes.

H.M.Jr: Well how do you mean?

V: Well the - this order that I see in the paper to-day effective of the 15th of March, -

H.M.Jr: Yes.

V: In regard to withdrawal of national bank notes. I mean, yes, the national bank notes.

H.M.Jr: Well, we've announced it that we're going to use that money.

V: Well have, have they got out an Executive Order or something - your order or anything that would be available to show just how that is?

H.M.Jr: Well I've got the order. I, I - we've got - we have the announcement. Is that what you want?

V: Well, I thought that - what I wanted was your statement. I've been reading the newspaper articles and I think I thoroughly understand it.

H.M.Jr: Yes.

V: But I wanted to know, just as far as I could, just what it was.

H.M.Jr: Well, I'll give you a copy of of all the official documents that relate to it. How's that?

V: Well well now that's fine Mr. Secretary, and

H.M.Jr: What do you think of the order?

V: How's that?

H.M.Jr: How do you like it?

V: I think it's fine.

H.M.Jr: You think it's fine.

V: Yes sir.
I think that it's sound and I think it's -- I think it ought to be quite helpful, to the entire situation.

H.M.Jr: Fine.

V: I'm -- I thought that you did a good piece of work. -

H.M.Jr: Fine.

V: About the case -- that's my usual frame of mind in regard to you.

H.M.Jr: Well that's awfully nice of you to say that.

V: There was another matter, Mr. Secretary.

H.M.Jr: Yes.

V: I saw in the paper where Mr. Patman stated that he had received a letter from you.

H.M.Jr: Yes.

V: Would a copy of that letter be available --

H.M.Jr: Surely, surely.

V: All right sir.

H.M.Jr: Surely. I did -- Surely, I'll get those two things and have them up within the hour.

V: All right. Thank you ever so much.

H.M.Jr. Thank you.

O'Connor told Mr. Hargreaves that Hopkins, who had been working as a consultant to the Treasury, had an interest, called Mr. Brown, the investigator appointed by O'Connor to investigate Hopkins, and asked him what was the report on Crowley was finished that it should be turned over to one of O'Connor's Deputies instead of O'Connor himself, the idea being that Hopkins wanted to get the information contained in the report for himself which he could do because he knew O'Connor's Deputy. Brown, of course, reported this thing to O'Connor.

Mr. Hargreaves discussed with Mr. O'Higgins and Mr. Shea a proposal for financing the government through selling securities to the Federal Reserve Bank instead of in the open market. Mr. Shea is going to study the situation further.

The following is the message which Mr. Hargreaves asked Governor Harrison to transmit by cable to-day to the Governor of the Bank of France:

"We view the objective with sympathy but would prefer not to participate in a joint offer of a credit to the Bank of England which has not been requested by them and which we understand would not likely be accepted by them and might otherwise be both futile and embarrassing. Assuming that it is presently aimed at it is an attempt to finance the pound, itself and the dollar at a level substantially above it has been in the past. We want do nothing to hinder a Franco-British agreement and would give sympathetic support to any solution whenever possible."

March 12th

Jefty O'Connor told Mr. Morgenthau that he has finished his investigation on Crowley and, inasmuch as Crowley promised him that as soon as his bill was through he was going to resign, O'Connor was not going to bring the investigation to the foreground. O'Connor has talked to the President about this. He also says that the report on Crowley is very bad.

Mr. O'Connor told Mr. Morgenthau that Hopkins, the man whom Crowley appointed to make an investigation of his interests, called Mr. Brown, the investigator appointed by O'Connor to investigate Crowley, and asked him that when the report on Crowley was finished that it should be turned over to one of O'Connor's Deputies instead of O'Connor directly, the idea being that Hopkins wanted to get the information contained in the report for Crowley which he could do because he knew O'Connor's Deputy. Brown, of course, reported this thing to O'Connor.

Mr. Morgenthau discussed with Mr. Oliphant and Mr. Haas a proposal for financing the government through selling securities to the Federal Reserve Banks instead of in the open market. Mr. Haas is going to study the situation further.

The following is the message which Mr. Morgenthau asked Governor Harrison to transmit by cable to-day to the Governor of the Bank of France:

"We view the objective with sympathy but would prefer not to participate in a joint offer of a credit to the Bank of England which has not been requested by them and which we understand would not likely be accepted by them and might therefore be both futile and embarrassing. Assuming that what is presently aimed at is an exchange relation among the pound, franc and the dollar at a level substantially where it has been in the past year, we would do nothing to hinder a Franco-British arrangement and would give sympathetic support to this objective whenever possible".

The following are three cables recently exchanged between Governor Harrison and the Bank of France in regard to their suggestion for a joint approach to Great Britain with respect to exchange stability.

(1)

March 12, 1935.

Tannery Gouverneur,
Banque de France
Paris

No. 46

CONFIDENTIAL FOR THE GOVERNOR

We have been requested by the Secretary of the Treasury to transmit to you the following message from him in reply to a communication sent to Washington at your request through the American Embassy at Paris:

"We view the objective with sympathy but would prefer not to participate in a joint offer of a credit to the Bank of England which has not been requested by them and which we understand would not likely be accepted by them and might therefore be both futile and embarrassing.

"Assuming that what is presently aimed at is an exchange relation among the pound, franc, and dollar at a level substantially where it has been in the past year, we would do nothing to hinder a Franco-British arrangement and would give sympathetic support to this objective whenever possible."

Harrison.

Federal Reserve Bank
Of New York

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To: CONFIDENTIAL FILES

From: J. E. Crane

March 14, 1935.

Telephone Conversation with
Mr. Cariguel of the Bank of
France.

I telephoned to Mr. Cariguel at the Bank of France at 3 p. m. today to advise him that the franc had declined to about 6.60 this afternoon and to let him know that if the exchange rate on Paris dropped to the gold import point and neither the American nor French banks were willing to ship gold from Paris, I had been informed that our principals would intervene to prevent the franc from declining. Mr. Cariguel said he thought that was fine and that he was glad to hear of it. I added that I thought both he and we should encourage the banks to move gold but that we wanted him to know that we would be ready to act in case the market did not function on its own account.

I asked Mr. Cariguel whether he knew about how much sterling had been purchased by our friends in London during the recent sharp drop in the pound. He said that their intervention on two days, Thursday and Friday, had totaled about £5,000,000 and that so far as he knew they had not intervened for any substantial amount on any other day during that period. Mr. Cariguel said that sterling had been very steady today largely as the result of the export of capital from Belgium to London.

The substance of the foregoing was telephoned to Secretary Morgenthau.

(2)

Paris,
March 15, 1935.Federal Reserve Bank of New York
New York

No. 82 CONFIDENTIAL FOR GOVERNOR HARRISON

I thank you for your sending to me message from Secretary of the Treasury in reply to communication made to him through American Embassy in Paris. While regretting that under present circumstances Secretary of the Treasury did not think fit to follow our suggestion under the form in which it was transmitted to him I feel from your cable that American Government regrets as ourselves recent sterling weakness. The further element of uncertainty resulting therefrom cannot in fact fail to make itself felt as well upon situation in United States as upon situation in Europe. Similarity of our interest in this field ought, it seems to me, to induce us to inquire whether it would not be possible to adopt a joint attitude. I notice that Secretary of the Treasury is feeling that, as Bank of England has required nothing, a spontaneous credit offer would run the risk of being futile and embarrassing. Does it not seem to you that under such circumstances we might at any rate agree together to make, previous to any concrete offer, a joint application to Bank of England in order to see only in what measure they would be ready to use the technical cooperation which our large gold stocks might enable us to put at their disposal. I should be grateful to you to let me know how this suggestion will be received by your government.

Tannery.

(3)

March 16, 1935.

Tannery Gouverneur
Banque de France
Paris

No. 49 CONFIDENTIAL FOR GOVERNOR TANNERY

We have discussed with the Treasury your cable No. 82 of March 15. They are concerned with the situation which appears to be developing with respect to various currencies. They are wholly sympathetic with the French desire that there be developed some steadying influence but do not believe that a joint approach at this time of the order suggested in your cable would advance that purpose. They are hoping however that the British authorities will appreciate the importance of indicating that their policy is in accord with that purpose and perhaps take some initiative.

Harrison.

March 12, 1935.
Tuesday.

H.M.Jr: Yes.

John
Fahey:

In doing it, they struck in an amendment at the instance of Blanton and Ramspeck of Georgia and some of the rest of these poison patronage fellows --

H.M.Jr: Yes.

F: Providing that, after ninety days, we must discharge and must not again appoint any people in our state district or regional offices unless they were residents of the congressional districts in which it was located when the offices were open.

H.M.Jr: I see.

F: Incidentally, they all knew that this ought to be applied to all Government departments.

H.M.Jr: Yes.

F: Now, you realize that in the last year we have tightened up all over the country and that we have put these loan examiners in with veto power in every important office in the country and these regional offices control the matter of extensions so far as payments are concerned and collections, foreclosures, rentals and all that sort of thing, and if we were obliged to throw out these key men who have been trying to protect the corporation^s, the Government all over the country, we would have one of the damnest messes on our hands that you can imagine.

H.M.Jr: Yes.

F: I'm going to -- these fellows are going to make an assault on it pass the House. We got to somehow get it out in conference if we can.

H.M.Jr: Sounds terrible to me.

F: Well, now it's not only a but they're going to do that and get away with that up there they'll be hopping on you next on your Alcohol work and on your Internal Revenue inspections and everything else.

- H.M.Jr: Yes, but how about the fact that they raised \$250,000,000 and make you open up for another sixty days?
- F: Well, on the sixty-day business, I'm not so alarmed because they put a protecting clause in there, fortunately, which we think we can probably use to advantage and be able to prove that they attempted it in good faith to file this application before November 13th. See?
- H.M.Jr: But why sixty days? Why not make it one hundred and sixty days?
- F: Well, might just as well, but they agreed to limit it to sixty days. Of course, they did that over our complete protest on it, the same as they did in raising the 150 up to 1750. The sixty-day thing as it now stands may cause us an awful lot of trouble.
- H.M.Jr: I see.
- F: There again I think there may be some chance of getting it out or at least modifying the language in the Senate Committee. But -- and we'll have to fight it out and see, that's all. But on these things, I am going to try to talk to the Boss about it tomorrow -- on this patronage drive which -- because that's just what it is -- on this business and the rest, I am going to try to talk to him about it tomorrow.
- H.M.Jr: O.K.
- F: -- And I wanted to post you on it because I think we've got to have all the help we can -- we go the limit in stopping -- in carrying this kind of rating any further.
- H.M.Jr: Well-- after you talk to the President, I'd like to know what you decide.
- F: Yes. Well, what I'm going to do is -- I think that he's got to talk to some of those fellows in the Senate right away because they're carrying on this propaganda over in the Senate.
- H.M.Jr: Well, it's too big for me to handle.
- F: I only want to inform you about it.

H.M.Jr: Right. Well, you have my sympathetic support.

F: Well, whenever you get a chance to put in a good word, do it.

H.M.Jr: I'll do whatever I can to help you, John.

F: Will you please? Because God knows we need it because I tell you that if we ever get into the hands of these which is what they're driving at, the right of forgiving people on collections and suppressing the facts about it have no control whatever on we're going to have a scandal on our hands that will raise the devil -- I tell you that.

H.M.Jr: All right, John.

F: All right.

H.M.Jr: Goodbye.

F: Goodbye.

H.M.Jr: All right.

[Pause]

H.M.Jr: Hello.

F: Hello.

H.M.Jr: Oliphant says that if it's passed after the 15th it will have the same effect.

F: Same effect. Well, they were talking to me about it in the Senate this morning. Pat Harrison just called me up. Pat got a rider on the relief bill, but I told him that would be a bad thing.

H.M.Jr: So. Pat Harrison called me up on the same thing and asked me if they passed it after the 15th whether it would still be effective and I told him that it would be all right.

F: Well, that's fine. I'm mighty glad to hear it. We got it through the house, but I

H.M.Jr: I see that.

F: Yes.

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March 12, 1935.
Tuesday

H.M. Jr: Hello.

Bob
Doughton: Mr. Secretary, this is Bob Doughton.

H.M. Jr: Hello, Mr. Doughton.

D: I want to speak with you about this pink slip
problem passed the House yesterday.

H.M. Jr: Yes.

D: About the repeal of this publicity

Now then, if the Senate shouldn't pass that by
the 15th, but should pass it some time in the
next -- in a reasonable length of time, would
it have the same purpose, or would it be neces-
sary to be passed by the 15th?

H.M. Jr: No -- well, now just a minute. Mr. Oliphant's
here. I think I know the answer, but I'll check.

D: All right.

(Pause)

H.M. Jr: Hello.

D: Right.

H.M. Jr: Oliphant says that if it's passed after the 15th
it will have the same effect.

D: Same effect. Well, they were talking to me about
it in the Senate this morning. Pat Harrison just
called me up. Pat put a rider on the relief bill,
but I told him that would be a bad thing.

H.M. Jr: No. Pat Harrison called me up on the same thing
and asked me if they passed it after the 15th
whether it would still be effective and I told
him that it would be all right.

D: Well, that's fine. I'm mighty glad to hear it.
We put it through the House, but I

H.M. Jr: I saw that.

D: Yes.

H.M.Jr: Now, let me ask you a question.

D: Yes.

H.M.Jr: When are you going to begin to have hearings on taxes?

D: On taxes?

H.M.Jr: Yes.

D: Not until you all call on us, We couldn't take that up now until we get through with The N.R.A. covered that though.

H.M.Jr: Yes.

D:

H.M.Jr: I see.

D: the N.R.A. on your anti-smuggling bill, I was going to try to do that tomorrow.

H.M.Jr: Good.

D:

H.M.Jr: Yes.

D: , if you want the taxes put in ahead of administration measures, why, that will be all right.

H.M.Jr: Well --

D: Have you got anything else in mind about taxes or just a reenactment of excise taxes.

H.M.Jr: I want to talk to you sometime. We got something on these holding companies.

D: Well, all right. I'll be glad to talk with you again.

H.M.Jr: Right.

D: Right. Thank you. Goodbye.

March 12, 1935.
Tuesday

11F

H.M.Jr: Hello.

Pat
Harrison: Henry?

H.M.Jr: Yes, Pat.

H: I want to talk to you about this pink slip legislation that passed yesterday over the House. Do you know what the vote was and so on?

H.M.Jr: Yes.

H: And I'm going to try to get it up in my committee sometime before we adjourn this morning. Now as I understand, the attitude of the Department is that they made no recommendation one way or the other. That's right, isn't it?

H.M.Jr: We made no recommendation one way or the other.

H: That's right. Now --

H.M.Jr: We're strictly neutral.

H: Of course, this law goes into effect on the 15th of March.

H.M.Jr: Yes.

H: It's impossible for us to pass this before that time and I'm afraid a lot of people will be left in an uncertain state of mind with reference to this proposed legislation, and some of them might not file it. I think that we had better make it clear that those things must be filed.

H.M.Jr: Oh we have, we have. We're going right ahead, Pat. We're going right ahead and -- with our machinery and we've been ordered to -- I mean by law.

H: Yes. Well, now the query that I want to make so that I will be in a position to tell the committee --

H.M.Jr: Yes.

H: I understand that it would be at least in October before you could make these things published.

H.M.Jr: Well, I wouldn't put it a statement would be made in October, I would say a number of months --

H: A number of months.

H.M.Jr: Three, four, anything. I'd say somewhere between three to six months.

H: Anywhere from three to six months.

H.M.Jr: Yes.

H: So there isn't any need for any particular rush.

H.M.Jr: No.

H: All right, Henry.

H.M.Jr: No, it will take three to six months before they can get that stuff ready.

H: My impression is that the Senate isn't going to repeal that law.

H.M.Jr: I see.

H: Due to the fact

H.M.Jr: Well --

H: All right - that's what I wanted to know.

H.M.Jr: Thank you, Pat.

H: All right.

March 13, 1935.

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The Open Market Committee of the Federal Reserve Board met in the office of the Secretary of the Treasury at 11:00 A.M. Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
T.J. Coolidge, Under Secretary of the Treasury,
M.J. Fleming, Governor, Federal Reserve Bank of Cleveland,
G.J. Seay, Governor, Federal Reserve Bank of Richmond,
G.J. Schaller, Governor, Federal Reserve Bank of Chicago,
W.R. Burgess, Deputy Governor, Federal Reserve Bank of New York,
D.W. Bell, Acting Director, Bureau of the Budget,
G.C. Haas, Director, Research & Statistics,
R.A. Young, Governor, Federal Reserve Bank of Boston,
C.B. Upham.

Mr. Young, as Chairman of the Reserve Bank group, suggested that Mr. Burgess tell the committee what transactions are under way.

Mr. Burgess said that he had bought \$9,000,000 Governments for their account and \$3,250,000 for the account of the Treasury -- that the Reserve Banks are limiting their purchases to 3's and 3-1/8's while the Treasury is buying 4's.

Mr. Coolidge interposed to say that the Treasury had bought \$10,000,000 direct one day making \$13,000,000 total Treasury purchases.

Mr. Burgess said that the Reserve Banks had converted half of their called Fourths and were holding the rest hoping to replace them with something else - that conditions were not satisfactory at the present time.

The System has some \$42,000,000 of called Fourths and some \$40,000,000 of the new 2-7/8's -- representing about 50% conversion.

Mr. Young said that it seemed silly for the Reserve Banks to sell while the Treasury was supporting any particular issue. He thought the banks might do well to convert their \$42,000,000 of called Fourths if they can't do anything else and then later make an exchange so that they wouldn't have too many of one issue. If the Fourths need no Treasury support the banks might dispose of some.

Mr. Coolidge said the Treasury has \$25,000,000 in postal savings which ought to be invested, and that they have no called Fourths so will buy some of the new issue.

Mr. Burgess interposed to say that in previous conversions the Treasury had taken some of the Reserve Banks called bonds but it is difficult to do that now.

Asked by Mr. Morgenthau about proper central bank holdings, Mr. Burgess said that a central bank should have the bulk of its investments in short-term securities. Some day there must be a turn, he said. At that time the Reserve Banks can let their short-terms run off instead of selling their long-terms. They can only take a moderate amount of long-terms and there must be a proper distribution of maturities within that group.

Mr. Morgenthau asked what proportion should be in maturities of over five years.

Mr. Burgess replied that if called bonds are included the System now has 10% to 15% of its holdings in maturities of over

five years. Of definitely long-term bonds, he said, the holdings were around \$160,000,000.

Mr. Morgenthau commented that this was not near 20% or 25%, to which Mr. Burgess replied with a reference to their potential obligations and said his idea was higher than that of Federal Reserve Bank directors.

Mr. Morgenthau asked what relationship the \$2,500,000,000 of Governments bore to total resources in January 1934 and now.

Mr. Burgess replied that we have \$1,000,000,000 more of gold now and that the relationship to total resources is not the question anyway -- that a central bank should not be putting money in the market up to its capacity.

Mr. Morgenthau said he wanted to state the facts plainly -- that the Treasury does not need the Reserve System now but that it would like to know what their resources were in the event a need developed later.

Mr. Seay remarked that when the Reserve Banks get Governments they have to keep them.

Mr. Morgenthau replied that this was not necessarily true and said that the Reserve Banks had been ineffective because they wouldn't sell when things looked good.

Could we, inquired Mr. Schaller.

Anytime within the last six months, Mr. Morgenthau replied.

We would like to, said Mr. Schaller.

Mr. Burgess said that each Federal Reserve Bank would be glad to have a smaller holding of Governments but that in the public interest he did not think it wise for them to sell.

Mr. Morgenthau said that his attitude had been not averse to selling by the Reserve Banks.

Mr. Burgess agreed to this and said that Mr. Morgenthau had never interfered.

Mr. Seay remarked that the public is not accustomed to a fluctuating portfolio and that if Reserve Banks had sold others would have followed suit.

Mr. Schaller said that it was better for the member banks to be buying and selling.

Mr. Morgenthau said that had been done in November and December.

Mr. Morgenthau said that he would like to invest \$25,000,000 in the new bonds and proposed that on every 1/32nd down that \$3,000,000 of the called Fourths be bought.

Mr. Coolidge agreed with this procedure.

During that process, it was agreed the Federal Reserve Banks would not sell. If the market took a turn and climbed, Mr. Burgess and Mr. Coolidge could get together and determine what to do. It was thought that sales could not be made until the price was above 101 but if it reached that point, the Reserve Banks might go in the market.

Mr. Young asked what was going to be done with respect to the First 4-1/4's and 3-1/2's. He figured that \$1,900,000,000 was too much to handle at one time. He suggested that the \$500,000,000 of 4-1/4's be called and that the 3-1/2's be let ride. He said they had no other recommendation and stood on that unless the Treasury had something better to suggest.

Mr. Coolidge said considerable thought had been given to the matter and that there was considerable sentiment for calling both

issues. He commented that there is only a small maturity in June and that it is a poor thing to have such a high rate bond in the market. He thought it not too big to handle if a part of the exchange is in 5 year bonds and a part in long-term. He thought the psychological reaction would be good. He believed holders would be willing to sell and reinvest in long bonds. If the price is right he thought we might offer a conversion into 5 year 1-5/8's and a long bond at the option of the holder. If the market is down we might have to go into a short term maturity.

Mr. Saye asked what maturity was contemplated and Mr. Coolidge replied perhaps 15 years.

Mr. Fleming was fearful of calling the 3-1/2's, which he said are in the hands of the public and not banks.

Mr. Coolidge thought this very fact would make for a good investment demand.

Mr. Saye said the effect of not calling them would have to be considered.

Mr. Coolidge thought that would be interpreted as an indication of weakness and fear.

Mr. Schaller said he had been canvassing information among banks in the Seventh District and that they thought the Treasury was offering too low a rate on its long-term financing. The banks are selling bonds. They do not like the Banking Act of 1935. They want 2-3/4 for 8 to 10 year bonds and 3% or better for longer term. They think the President's statement of a few days ago did considerable damage. There is a distinct sentiment against long bonds.

Mr. Coolidge said that the individuals who hold 3-1/2's would buy something. Perhaps they would not buy Governments. It might be necessary to put some notes in the banks, but not much.

Mr. Morgenthau said the called Fourths were coming in pretty good, that \$75,000,000 came in yesterday.

Mr. Burgess said the atmosphere was sour.

Mr. Morgenthau said "they are turning them in."

Mr. Coolidge said that his New York bank friends to whom he talked a day or two ago were very much pleased although they may change their minds in the meantime.

Mr. Burgess said they had.

Mr. Schaller said there was quite a little selling in Chicago -- that the volume is not much but the transactions ran about 10 sales to 3 purchases.

Mr. Burgess explained that the Chicago Federal Reserve Bank buys and sells for its members so it can keep track of banking transactions.

Mr. Coolidge remarked that we had expected that and Mr. Morgenthau said he thought it healthy. He said "we had hoped that the insurance companies and similar institutions would take them" and remarked that the Open Market Committee had told him at the last meeting that that is what would happen.

Mr. Coolidge said that the exchanges were going better than he had thought they would.

Mr. Burgess said that it has been kept attractive by a good deal of pulmotor work. The market has been supported. He thought

it would go over but we must recognize that it is awful thin now. We may squeak by but it is pretty uncomfortable. It has been demonstrated that the market is volatile and subject to slumps and that it mustn't be hit with too big chunks.

Mr. Morgenthau asked those present what, if anything, they would call.

Mr. Young said that when he came in he thought he wouldn't call over \$500,000,000 -- that he fears the reaction from the public. He commented that probably from a profit standpoint it would have been better to call 4-1/4's than the \$675,000,000 of 2's. On the whole he still felt that the way the present issue was going and considering the feeling of the market toward long term issues that this is not the opportune time to call the whole \$1,900,000,000.

Mr. Bell said he would like to see the \$1,900,000,000 called but that the June maturity would make this add up to a considerable figure. If the use of short-term bills can keep us out of the market for new money it might be possible. He said we will probably need \$1,000,000,000 of new money.

Mr. Seay said that he thought as a matter of strategy it would be necessary to call both. If we did not, the reaction would be adverse.

Mr. Schaller recommended calling just \$500,000,000. He said there would not be much gained in either rate or maturity on the 3-1/2's.

Mr. Coolidge commented that the tax exempt feature makes the 3-1/2's practically 4's.

Mr. Schaller said the \$1,900,000,000 would be a pretty heavy load and that the banks will pull off Governments and make loans.

Mr. Morgenthau's comment was "swell".

Mr. Fleming agreed with Mr. Schaller.

Mr. Burgess said to call only the First 4-1/4's. He remarked that the First 3-1/2's are highly tax exempt, that they are distributed among individuals and that if they are called investors will give them up and the banks will have to take the new bonds. The Government market needs the greatest care in treatment at this time. There is talk that the point of tolerance has been reached. There is a huge deficit, Congress is passing a \$4,800,000,000 Bill. The exchange situation is not good, the business situation is not good and can be expected to decline during the next three months. Two things in the past have made refunding difficult, he said. One is a business decline and the other is inflation or monetary disturbances. We are facing both now -- big slaps of Governments on the market are too much. Enormous big wads are absorbed slowly. A \$2,000,000,000 call on March 15th might finish making present issues go sour. Then there are the Fourth 4-1/4's to be called on April 15th. He urged the taking of reasonable bites.

Mr. Schaller said he had a reaction from two large holders that they would keep out of the Government market and buy no more at the present level.

Mr. Coolidge said they had to put their money in something.

Mr. Burgess said maybe not -- that they were putting it in storm cellars. He said State and municipal bonds are increasingly popular.

Mr. Morgenthau suggested that the group adjourn to Mr. Coolidge's room for further discussion, but commented that no one had mentioned

the Taft law suit just filed.

Mr. Burgess said that it was not yet a market factor but that it might be later.

Mr. Morgenthau remarked that he was not as cocky as he had been about calling the whole \$1,900,000,000.

The discussion continued in Mr. Coolidge's room.

Mr. Coolidge said he had a feeling that the 3-1/2 rate would take that bond up to 112. He said we might know more when we see the returns for today. He had an idea of splitting the 3-1/2's into 2 issues, onehalf to five years and one half to 25 years at going rates. He would like to get the gold bonds out of the way, and is disposed to take a gamble/^{not}with the idea of selling long bonds but of selling what the market wants and will take.

Mr. Schaller commented on impending legislation as a difficulty.

Mr. Coolidge said it had had no influence marketwise.

Mr. Burgess said it might flare up any minute.

Mr. Schaller urged six months delay on the 3-1/2's.

Mr. Coolidge said that only 8.2% of the outstanding 3-1/2's are held by banks, whereas 27% of other Libertys are so held and 30% of Treasury bonds.

Mr. Coolidge said he didn't think investors would take cash -- that there might be some delay and that \$200,000,000 or \$300,000,000 cash might be required from the banks. The 3-1/2's are a prize investment held by big trusts who would have to change. Moreover, he said, the banks need more bonds to help out their earnings.

Mr. Burgess said if they were scared enough they would let their earnings go.

Mr. Schaller said the public expects the Fourths to be cleaned up instead of the Firsts.

Mr. Burgess said the last ten days has made a great difference.

Mr. Coolidge asked him if he would have advised calling the 3-1/2's ten days ago.

Mr. Burgess said he was not sure - it seemed like an awful lot of money.

Mr. Coolidge said that having in mind the point of view of Congress, it might be a good thing to have refinancing operations of considerable magnitude under way.

Mr. Young said if we slip once it is too bad. He is so skeptical that if he were in the position of the Treasury he wouldn't undertake it unless he had a definite commitment from the Federal Reserve System that they would take \$300,000,000 or more.

Mr. Burgess said that is just what we want to avoid -- that it would be bad for the Treasury to depend on the Federal Reserve System at this time.

Mr. Coolidge said he has a sort of feeling that we have reached the stage where we ought to clean up the high rate bonds and sell a maturity to take care of what doesn't go. The 3-1/2's are too much out of line. They will go up 2 points if we don't call them. The market expects them to be called.

Mr. Burgess thought the market indicated an even chance; that it was certain of the 4-1/4's, he regarded the 3-1/2's as a toss up. He remarked that they had gone down only 1 point, but Mr. Coolidge commented that they usually go up when the others go down.

It was agreed that the matter was a question of policy to be

March 14, 1935.
Thursday.

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H.M.Jr: Senator, I am calling you up on a small matter, but it is a very important matter to me. You remember when you called me up about the resolution about Berney?

Senator
Glass: Yes.

H.M.Jr: You asked me about it - I said that I'd let it go, but with the understanding that I could get him a job in some other branch of the Government.

G: Yes.

H.M.Jr: - and you said that that would be all right.

G: Yes.

H.M.Jr: Is that correct?

G: Yes.

H.M.Jr: Well, we wanted to get him a job - could get him one in Farm Credit.

G: Yes.

H.M.Jr: - and - so they said well, they didn't want to take him unless they were assured that McKellar wouldn't follow his line of attack to Farm Credit. So, we sent someone up to see McKellar yesterday, and he said that he would keep on after Berney until he drove him out of the Government.

G: Well, I think you made a mistake in communicating with McKellar. You had the understanding with me and I was prepared to prevent him from driving him out of the Government under our arrangement.

H.M.Jr: I see. Well, I think -

G: You shouldn't have conferred with him at all.

H.M.Jr: Well, I had to for this reason - that Farm Credit wouldn't take him unless they had the assurance that McKellar wouldn't attack Farm Credit for taking him.

G: Well - I - I don't think a department of the Government ought to take that position.

H.M.Jr: Well -

G: McKellar isn't the whole Senate, you know.

H.M.Jr: I know -

G: He isn't the whole appropriations committee by a darn sight.

H.M.Jr: No, but you - you see what this thing is getting down to now - it looks as though a man was being persecuted, see?

G: Well, I don't intend that he should be persecuted so far as appropriation bills are concerned.

H.M.Jr: But, after all, as far as his work goes, you see, for us -

G: Yes.

H.M.Jr: - it's a hundred percent. I mean it's not - his work is excellent and his superiors say so. Now, I can't permit McKellar to - I don't know what the word to use - bulldoze me into letting Berney go and then to have him driven out of the Government service, because -

G: I don't intend that he shall be driven out as far as I'm concerned, Mr. Secretary. I think the mistake you made was in assuming that McKellar could do all that by himself. He can't do it.

H.M.Jr: Well, I thought so - let's say it was a mistake. But, I have gone to him, see?

G: Yes.

H.M.Jr: - I mean because Farm Credit said they wouldn't take him unless they had the personal assurance from McKellar that he wouldn't go after Farm Credit.

G: Well, I think that's sort of nonsense myself.

H.M.Jr: Yes.

G: Nobody can give any department of the Government any assurance as to what Mr. McKellar will do, but I could assure you that he wouldn't be permitted to put anything on the appropriation bill that affected anybody.

H.M.Jr: Yes.

G: - as far as I could prevent, and I think I could prevent.

H.M.Jr: Well - it's -

G: Now, you see, I'm in a position now of simply saying to McKellar and others who are interested in the matter that the thing was all arranged and therefore, they didn't persist in that provision of the appropriation bill which would have designated this man by name and -

H.M.Jr: Well, now -

G: - rejection of any appropriation that would pay his salary.

H.M.Jr: Well, now -

G: - that - that would have ruined the man -- he not only couldn't have gotten any position in any Government Department, but he couldn't have gotten any position anywhere else.

H.M.Jr: Well - could - I feel that this matter - so strongly that I'd like to come up and see you this morning. When would be convenient for you?

G: Well, I don't know, Mr. Secretary, all my time is taken up this morning to the time of the assembling of the - of - of the Senate, then I've got to go right in on this relief bill.

H.M.Jr: On the what bill?

G: On the relief bill.

H.M.Jr: Well, could I come and see you tomorrow morning at your hotel?

G: I would think so.

H.M.Jr: At what time would be convenient?

G: That I couldn't tell right now, because it all depends upon circumstances - I - I would think about around ten o'clock though.

H.M.Jr: Shall I call up your secretary this evening?

G: Yes, you could do that or call me up in the morning before ten o'clock.

H.M.Jr: All right. And - I - supposing we leave it -

G: Can't you place the man with somebody else beside the Farm Credit? I think it was very stupid in Farm Credit to take any such position because that's an assumption that McKellar can drive anybody out of Government service, and he can't do anything of the kind.

H.M.Jr: Well, of course -

G: The fact of the business is, the whole committee was impressed with the stupidity of this particular man.

H.M.Jr: Well -

G: - and with his violation of the President's Executive Order of June 10, '33.

H.M.Jr: But, there seems to be another element in it which I wasn't aware of before and I'd like to talk to you about.

G: Yes.

H.M.Jr: So - let's see - I'll call you in the morning and if it's all right, I'll come over and see you at ten o'clock.

G: All right.

H.M.Jr: Thank you.

March 14th

Ken Watson, of the Cleveland Press, stayed after the Press Conference to report to Mr. Morgenthau that Mrs. Pyke, Collector of Customs at Cleveland, is politically active and has entered in the row between Governor Davey and Harry Hopkins - assisting Governor Davey.

H.M.Jr. said he would have the matter investigated and the attached is a copy of the report made by Dick Maher, a political writer of the Cleveland Press, arranged for by Steve Gibbons.

H.M.Jr. decided to call all of the First Liberties outstanding - 1 billion 900 million dollars.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE
Thursday, March 14, 1935.

Press Service
No. 4 - 52

Secretary of the Treasury Morgenthau today announced that all outstanding First Liberty Loan bonds, including those of the original issue and those subsequently issued on conversion, are called for redemption on June 15, 1935.

The First Liberty Loan, in the form of 3-1/2 percent bonds, was originally issued June 15, 1917, in the total amount of \$1,989,455,550. Subsequently three conversion privileges arose and the 3-1/2 percent bonds were in part converted into other First Liberty Loan bonds bearing interest at 4 or 4-1/4 percent, and the 4 percent bonds issued on conversion were largely converted into 4-1/4 percent bonds. First Liberty Loan bonds now outstanding, are divided among the four issues as follows:

First 3-1/2's	\$1,392,226,250
First Converted 4's	5,002,450
First Converted 4-1/4's	532,489,100
First-Second Converted 4-1/4's	<u>3,492,150</u>
Total	\$1,933,209,950

The text of the formal notice of call follows:

FIRST LIBERTY LOAN BONDS

NOTICE OF CALL FOR REDEMPTION BEFORE MATURITY

To Holders of First Liberty Loan Bonds of 1932-47, and Others Concerned:

Public notice is hereby given:

1. All outstanding First Liberty Loan bonds of 1932-47 are hereby called for redemption on June 15, 1935. The various issues of First Liberty Loan bonds (all of which are included in this call) are as follows:

First Liberty Loan 3-1/2 percent bonds of 1932-47 (First 3-1/2's), dated June 15, 1917;

First Liberty Loan Converted 4 percent bonds of 1932-47 (First 4's), dated November 15, 1917;

First Liberty Loan Converted 4-1/4 percent bonds of 1932-47 (First 4-1/4's), dated May 9, 1918; and

First Liberty Loan Second Converted 4-1/4 percent bonds of 1932-47 (First-Second 4-1/4's), dated October 24, 1918.

2. Interest on all such outstanding First Liberty Loan bonds will cease on said redemption date, June 15, 1935.

3. Full information regarding the presentation and surrender of First Liberty Loan bonds for redemption under this call will be given in a Treasury Department circular to be issued later.

4. Holders of First Liberty Loan bonds now called for redemption on June 15, 1935, may, in advance of that date, be offered the privilege of exchanging all or any part of their called bonds for other interest-bearing obligations of the United States, in which event public notice will hereafter be given.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Treasury Department,
Washington, March 14, 1935.

FIRST LIBERTY LOAN OF 1932-47
(February 28, 1935)

First 3½'s - Original issue June 15, 1917			
Amount offered for subscription.....			\$2,000,000,000
Amount subscribed.....			<u>3,035,226,850</u>
Amount allotted - final (amount issued).....			\$1,989,455,550
Amount retired on conversion to			
First 4's.....	\$568,318,450		
First 4½'s.....	7,570,550		
First-2nd Conv. 4½'s.....	<u>3,492,150</u>	\$579,381,150	
Amount redeemed		<u>17,848,150</u>	597,229,300
Amount outstanding.....			<u>\$1,392,226,250</u>

First 4's - Converted issue Nov. 15, 1917			
Amount issued on conversion from First 3½'s	568,318,450		
Amount retired on conversion to First 4½'s	<u>547,641,750</u>		
		20,676,700	
Amount redeemed.....		15,674,250	
Amount outstanding.....			5,002,450

First 4½'s - Converted issue May 9, 1918			
Amount issued on conversion from			
First 3½'s.....	7,570,550		
First 4's.....	<u>547,641,750</u>		
Total issued on conversion.....		555,212,300	
Amount redeemed.....		22,723,200	
Amount outstanding.....			\$ 532,489,100

First - Second 4½'s - Converted issue Oct. 24, 1918			
Amount issued on conversion from First 3½'s -			
all outstanding.....			<u>3,492,150</u>
Total amount First Liberty Loan bonds outstanding.....			<u>\$1,933,209,950</u>

INFORMATION ON MRS. BERNICE PYKE AS SUPPLIED BY DICK MAHER, A
POLITICAL WRITER, CLEVELAND PRESS.

Mrs. Pyke is supposed to have been called to Columbus on Monday, March 11th, by Governor Martin L. Davey, ostensibly to line up two Ohio State Senators behind Clarence Burke, whom Governor Davey desires to appoint as State Liquor Director. Apparently Governor Davey had called a meeting of the Cleveland Legislative Delegation for this purpose, and Mrs. Pyke is supposed to have participated in it. Before the meeting on the Liquor Director adjourned, the question of the attitude the Cleveland Delegation would take in the relief row pending between Governor Davey and Federal Administrator Hopkins also is supposed to have arisen, although Mrs. Pyke, who says she was at the Governor's residence as a dinner guest, states that she left for Cleveland before any discussion of relief took place. Newspapermen are now endeavoring to ascertain whether her statements are correct.

The liquor situation, which ostensibly was the basis of the conference, involves the Governor lining up State Senators William Zoul and John Davis, of Cleveland, to support Burke, Davey's choice, and Mrs. Pyke is supposed to have advised the Governor that she would line up both men. However, when the Senate Committee met to consider the Burke appointment on March 14th, both Zoul and Davis refused to vote for Burke, and the matter was postponed until next week. However, in the meantime, licenses of eight Cleveland night clubs were suspended, and the operators, who are close to the Cleveland County Democratic Organization, are supposed to be bringing pressure to have a Liquor Director appointed who will be friendly to their continued operation.

Mrs. Pyke is supposed to have talked to Governor Davey by telephone on March 14th and agreed to get State Senator Zoul and Davis lined up for Burke by Monday, March 18th. In the meantime efforts will be made to ascertain what Burke's attitude will be on the Cleveland night Clubs.

Dick Maher, the political writer, is making a file of Mrs. Pyke's reported political activities, and will have this information available whenever called upon. He will not be at the office Saturday, March 16, as this is his day off, but can be reached at home, otherwise will be at the "Cleveland Press".

March 15, 1935.

HK

March 14th

Lew Douglas made the following statement which appeared in various newspapers as shown below:

BALTIMORE Sun

3-15

Douglas Warns Fiscal Policy "Logically" Leads To Dictator

Former Federal Budget Director Tells U. Of Pa. Students U. S. Spending Threatens Currency And Middle-Class "Destructive"

[By the Associated Press]

Philadelphia, March 14—Destruction of the nation's currency and "middle class" population, and possible establishment of a dictatorship were seen today by Lewis W. Douglas, former Director of the Federal Budget, as ultimate possibilities in a continued policy of Governmental spending.

In a criticism of the National Administration's "spending policies" and the "increasing deficits" in the Federal Budget, Douglas painted an "extremely black and forbidding picture of events" which can follow continuance of such a fiscal course.

Sees Possible Catastrophe
"If the spending policy continues, quite unabated, Mr. Grace told the committee and spectators. "Employers must keep hands off, completely, so far as labor organizations are concerned," Green said. "The commitments and spectators he charged the automobile, steel and lumber industries were among the 'offenders.'"



LEWIS DOUGLAS

March 14th

Law Douglas made the following statement which appeared in various newspapers as shown below:

Lewis W. Douglas Warns

~~U. S. Spending Threatens~~

~~"Destroyed Currency"~~

SPEAKER AT U. OF PA.

Former Budget Director Asserts
Revolution And Destruction Of
Middle Class Are Likely

(Continued from Page 1)

stroyed, with the 'forgotten man,' the America which created the highest standard of living the world has ever known.

"If the Administration pursues its present course, if it insists upon spending and spending, then . . . the ultimate collapse is not pleasant for the 'forgotten man' to contemplate. . . .

"The destruction of the middle class, induced by a destroyed currency, indeed lays the foundation for revolution."

Is Not "Prophesying"

"I want to make it clear," Douglas explained, "that I am not prophesying, that I have some doubt of a too logical sequence—I am merely stating that if the present spending policy of the Administration is continued, the ultimate results may conceivably be as I have pictured them. . . .

"The only method known to man of protecting a currency is to balance the budget of the money-making power."

This could be done in two years in the United States, Douglas explained, by the following steps:

Convert Federal credit agencies into "prudent liquidating agencies."

Hold "specialized military expenditures" of Government to \$1,700,000,000, plus about \$1,000,000,000 for "liquidation" of existing public works obligations.

Appropriation of \$1,000,000,000 for "allocation to the States for relief."

Works Cost Big Drain

"The huge obligations entered into on account of public works . . ." he said, "will continue for many years to constitute tremendous drains on the Federal treasury."

"Nor is there any lack of foundation . . . to observe that the great overshadowing bureaucracy erected as an essential concomitant to the emergency expenditures will not, without great resistance, submit to its dismemberment. . . ."

Turning to the Federal Reserve System and the credit of the United States Government, Douglas said:

"Given, as apparent and obvious impairment of that credit, then the picture is appalling—a bankrupt or almost bankrupt Federal Reserve System . . . an insolvent, or almost insolvent banking system. . . . a destroyed currency, a destroyed middle class. . . ."

Warns Of Coinage Evil

He warned that the exercise by governments of their "power to coin money . . . for the purpose of paying their bills," always has "and always will . . . destroy the medium of exchange."

"This, it seems to me," he said, "is the most brutal and cruel thing which any government can do to its people, if it destroys the middle class, the 'forgotten man' . . ."

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N. Y. Sun

~~WASHINGTON~~

3-14

**DOUGLAS WARNS
NEW DEAL MAY
RUIN CURRENCY**
MS 3-14
**Former Director of Budget
Assails Spending Policy
of Administration.**

managed currency," Mr. Douglas said, "will but end in a greater failure than that caused by previously politically managed currency."

Referring to the "bait struggle for security" for capital, labor and agriculture," Mr. Douglas said that if the "theory of becoming wealthy by producing less" be true then "it must be equally true that we can become fabulously wealthy by producing nothing," and that the only way distribution of wealth can be effected without the destruction of wealth is to compel a competitive system under which such goods will be produced at lower prices.

TALKS AT WEARTON SCHOOL

**Declares Only a Dictator Will
Be Able Ultimately to
Cope With Situation.**

PHILADELPHIA, March 14 (A. P.).—Lewis W. Douglas, former director of the Federal budget, criticizing the "spending policies" of the present administration today warned of a "destroyed currency" and of the possibility of a "complete change in our political organization."

"Only a dictator—whether it be a dictator of socialism or a dictator of fascism is incompetent—will be adequate to cope with the situation," he asserted in an address before a student assembly of the Wharton School of Finance and Commerce of the University of Pennsylvania.

Pointing out that experience of the past demonstrates that "at all times, in all places, under all circumstances, wherever governments have continuously expended more than they have taken in, their people eventually have been plunged into the destructive effects of a partially or wholly destroyed currency," Mr. Douglas said:

"If the emergency in the spring of 1933 was sufficient to vest in the Executive greater powers than ever before in our history have been vested in him, is there any reason to doubt that . . . the sheer weight of economic forces, quite irrespective of desire or intent, will form a complete change in our political organization."

Referring to the necessity of a dictator in such a situation, he went on:

"Thus, there will be wiped out all of the liberties for which the Anglo-Saxon race has struggled for more than a thousand years, and thus there will be destroyed, with the 'forgotten man,' the American which created the highest standard of living the world has ever known."

"I recognize that this is an emergency black and forbidding picture of events. I want to make it plain that I am not prophesying—that I have some credit of a 'too general warning.' I am merely stating that if the present spending policy of the administration is continued the ultimate results may well be as I have pictured them."

Speech by Douglas member of A. S. P. C. C.

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WASHINGTON POST

3-15

Douglas Fears A Dictatorship Will Rule U.S.

Wash Post
Spending Policies Headed
Toward Currency De-
struction, Is View.

WP — 3-15
By the Associated Press

Philadelphia, March 14.—Lewis W. Douglas, former director of the Federal budget, criticizing the "spending policies" of the present Administration, today warned of a "destroyed currency" and of the possibility of a "complete change in our political organization."

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Referring to the necessity of a dictator in such a situation, he went on:

"Thus, there will be wiped out all of the liberties for which the Anglo-Saxon race has struggled for more than a thousand years, and thus there will be destroyed, with the 'forgotten man' the America which created the highest standard of living the world has ever known."

"I recognize that this is an exaggerated view of the situation."

terestly black and forbidding picture of events. I want to make it clear that I am not prophesying that I have some doubt of a too logical sequence—I am merely stating that if the present spending policy of the Administration is continued the ultimate results may conceivably be as I have pictured them."

Efforts to "increase political control of a managed currency," Douglas said, "will but end in a greater failure than that caused by gravely mismanaged currency."

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NEW YORK HERALD TRIBUNE

3-15

Spending May Bring Revolt, Warns Douglas

Foreign Director of Budget, Speaking in Philadelphia, Sees Dictatorship if Present Policy of the Administration Is Continued, the Ultimate Result May Conceivably Be as I Have Pictured Them.

Says Liberty May Share Fate of 'Forgotten Man'

PHILADELPHIA, March 14.—Lewis W. Douglas, former Director of the Federal Budget, criticizing the "spending policies" of the present Administration, today warned of a "destroyed currency" and of the possibility of a "complete change in our political organization."

"Only a dictator—whether it be a dictator of socialism or a dictator of fascism is unimportant—will be adequate to cope with this situation," he asserted in an address before a student assembly of the Wharton School of Finance and Commerce of the University of Pennsylvania.

Sees Liberties Endangered

Pointing out that experience of the past demonstrates that "at all times, in all places, under all circumstances, wherever governments have continuously expended more than they have taken in, their people eventually have been plunged into the destructive effects of a partially or wholly destroyed currency," Mr. Douglas said:

"If the emergency in the spring of 1893 was sufficient to vest in the Executive greater powers than ever before in our history . . . is there any reason to doubt that . . . the sheer weight of economic forces, quite irrespective of desire or intent, will force a complete change in our political organization?"

Referring to the necessity of a dictator in such a situation, he went on:

"Thus, there will be wiped out all

of the liberties for which the Anglo-Saxon race has struggled for more than a thousand years, and thus there will be destroyed, with the 'forgotten man,' the America which created the highest standard of living the world has ever known. . . . If the present spending policy of the Administration is continued, the ultimate results may conceivably be as I have pictured them."

Criticizes Lower Production Theory

Referring to the "beteis struggle for security" for capital, labor and agriculture, Mr. Douglas said that if the "theory of becoming wealthy by producing less" be true, then "it must be equally true that we can become fabulously wealthy by producing nothing," and that the only way distribution of wealth can be "effected without the destruction of wealth is to compel . . . a competitive system under which more goods will be produced at lower prices."

Continued increase of Federal deficits, Mr. Douglas warned, ultimately may put the government at the limit of its borrowing capacity, when it might be "forced" to "resort" to the "power to coin money" to pay its bills, leading inevitably to destruction of the medium of exchange.

"This, it seems to me, is the most brutal and cruel thing which any government can do to its people, for it destroys the middle class and lays the foundation for a revolution."

27 Miners End 22d Day In Pit to Keep Their Jobs

Some of 6 Others Carry May Die From Old

LEWISTON, Upper Merion, Pa., March 14 (AP)—Twenty-seven miners today completed a 22-day strike to retain their jobs. Six others, who were on a different account day before, are still in the pit. One of them, Lulegbeck, is reported to be in a critical condition.

When the strike ended, the miners said that they were satisfied with the terms of the new contract. They said that they were satisfied with the terms of the new contract.

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NEW YORK TIMES

NEW YORK TIMES

3-15**DOUGLAS HITS AT SPENDING**Ex-Acting Director in Philadelphia
Warns of Dictatorship

Special to THE NEW YORK TIMES

PHILADELPHIA, March 14.—

The statement continued government spending along the present line of the Roosevelt administration can only lead to dictatorship was made today by Lewis W. Douglas, former Director of the Federal Reserve, in an address before students of the Wharton School of Finance of the University of Pennsylvania.

The ultimate effects of such spending will not be felt for some time to come, Mr. Douglas said, but the final result will be catastrophic.

"That this can be avoided at least in part I have no doubt," he said, "provided there is the conviction, the integrity and the courage to do so, but with each succeeding expenditure, intruding to a greater and greater extent the vested interests created by spending, the task becomes more difficult."

N.Y. WORLD-TELEGRAM

3-14

DOUGLAS ALARMED OVER MONETARY POLICY

and Currency of
United States

Washington, D.C., March 14.

Senator Charles McNary, Oregon, today warned of "a complete change in the monetary policy of the United States" and of the "possibility of a complete change in the monetary policy of the United States."

Senator McNary, whether it be a question of expansion or of restriction in monetary policy, "is adequate to meet the situation," he told members of the Wharton School of Finance and Commerce.

"In the emergency in the spring of 1933 we succeeded in getting the monetary policy of the United States out of the hands of the Federal Reserve Board and into the hands of the Congress," he said. "If there are any people in this country who are going to be able to give us a monetary policy of expansion or contraction, it will be the Congress. It is our political responsibility."

The President dictated the following statement which he wanted Eccles to make in answer to Lew Douglas but this statement was never given out to the Press:

"Free speech in a Democracy is guaranteed except where such free speech advocates the destruction of government. A speech which seeks to make the public believe that government is bankrupt; that the banking system is "bust" comes very close to the kind of lack of patriotism which tends to the destruction of government. In time of war, that kind of lack of patriotism goes under the word "treason". In time of peace all that one can do is to call it by the mild appellation of "lack of patriotic decency". When such a statement is enunciated by a man who has served in the Congress and has held a responsible position in government, it becomes all the more reprehensible - not only because of its lack of veracity but also because Mr. Douglas' former positions will lead many people, unthinkingly, to lend some weight to what he says."

March 14, 1935.
Thursday.

90A

H.M.Jr: Hello.
Mayor
LaGuardia: Hello.

H.M.Jr: How are you?

LaG: Good morning, Mr. Secretary. Pretty well, thank you.

H.M.Jr: That's all right. Are you in good humor?

LaG: I always am.

H.M.Jr: Any truth to this gossip that they're going to make Bob Moses Administrator for the Four Billion Eight?

LaG: What?

H.M.Jr: Any truth in the gossip that they're going to make Bob Moses Administrator of the Four Billion Eight Fund?

LaG: No! Who said that?

H.M.Jr: I'm just kidding.

(Laughter)

LaG: Bet he would do a good job of it, Morgenthau.

H.M.Jr: What?

LaG: Yes,

H.M.Jr: If you've got a minute, I want to read you a document which I'm sending to Admiral Peoples. It's just one page. That will give you the story.

LaG: Yes.

H.M.Jr: 'It has been decided to accept the rate offered by the Consolidated Gas Company for the Government Light and Power in New York. Please see that the necessary details are attended to effectuating this purpose. The following further conditions should be explicitly made part of any proposal or final contract. 1. That no representation agreement on the part of the Government is included in or shall be implied from the acceptance of any date or any agreement made thereon in any way affecting temporarily or permanently the proposal to arbitrate a publicly owned or operated

power plant. 2. That the successful bidders for all purposes of the rate offered are reasonable and not less than cost plus reasonable profit. 3. That the government shall not be bound to make its requirement to any specific quantity or title service for whatsoever, but only at the rate being made upon quantities will not be available in the event smaller quantities are furnished. 4. That the books of the successful bidder will be opened at all times for the federal government, the State and the City of New York to determine the relation of the rates charged the federal government - the rates charged by the company to its other customers.

LaG: That's - certainly broader than anything that's ever put up to them. I'll - I'll admit that.

H.M.Jr: Well, this is what we're going to put up to them. I had it - lunch with the President and he concurred with the understanding that when we do give out the publicity we can't count on it for the fact that we had to do this to bring all this pressure to bear, and they didn't voluntarily come and offer the government a better contract and we've been paying -

LaG: What does the President say about it?

H.M.Jr: Well, he's oked it.

LaG: Oh, he has.

H.M.Jr: Yes.

LaG: Well, now if I may ask, how about that three million seven for government plants in New York?

H.M.Jr: Well, we're not going to do anything about it for the time being.

LaG: Not going to do anything.

H.M.Jr: No, we're just - if they ask us - we're just continuing our studies.

LaG: And could that be allocated to us?

H.M.Jr: Sure. I mean I can't promise anything, but I mean I'm not going to turn it back right now.

LaG: If that could be allocated -

H.M.Jr: I mean I won't do anything about that for the time being.

LaG: Well, now I'll get ahold of the White House and see if I can come around and see the President early next week so that I can coordinate -

H.M.Jr: Well, now you see, Peoples will have to start his negotiations with the Consolidated and if they agree to this before I give out the publicity, I'll call you up again. See?

LaG: You won't mind if I -

H.M.Jr: No, no, no, no - fine, but I - I just want to be - I think that this is pretty damn strong.

LaG: Yes - Now if we can arrange for that three million seven for either for that purpose to one of our plants, I think

H.M.Jr: Well, I won't release the three million seven without first talking to you. See?

LaG:

H.M.Jr: I mean - I don't know how Peoples can get him to sign on this basis, but before we sign -

LaG: Don't sign anything.

H.M.Jr: - before we sign, we'll call you up again.

LaG: All right, thank you, Mr. Secretary.

H.M.Jr: Thank you.

March 15, 1935.
Friday.

H.M.Jr: Yes sir.

Garner: How are you, boy?

H.M.Jr: This is old money bags talking.

G: Yes, you bet your life. Say, money bags, let me ask you something.

H.M.Jr: Yes.

G: We're talking about this soldier up here and I thought

H.M.Jr: About what?

G: About this Baby Bond business and the soldier

H.M.Jr: Oh, yes.

G: I wanted to find out one query from you.

H.M.Jr: Yes, sir.

G: Suppose a man had a Baby Bond in his name -

H.M.Jr: Yes.

G: - and he wanted to transfer it to another man -

H.M.Jr: Yes.

G: - how about it, could he do it?

H.M.Jr: Not under the present law.

G: What?

H.M.Jr: Not under the present regulation.

G: Not under - well - can you - have you all tried under the present law to make regulation where you can transfer it to somebody else?

H.M.Jr: My guess would be yes, but I could find out in two minutes and call you back.

G: Well, all right, I'm in my office, and if you find out right away - and let me know because that'll be quite important, you know if the damn

important, you know if the damn fellow got a Baby Bond, say against the thousand dollar bond due in '35 and he could sell it for \$750. But who in hell would he sell it to if he couldn't transfer it to him?

H.M.Jr: Well, at present he can't sell it to anybody but to Uncle Sam.

G: Well, that's what I say - that - that would make it impossible to do a thing of that kind, you know.

H.M.Jr: Well, of course -

G: But, are you authorized to change that by regulation?

H.M.Jr: I'll - I'll call you back in three minutes.

G: All right. All right, Henry.

H.M.Jr: Mr. Vice President?

G: Yes.

H.M.Jr: Now, what we can do is this by regulation. We can get out a separate issue.

G: Yes.

H.M.Jr: - for the soldiers and make them both saleable and transferable.

G: Yes. That's right. Well, I'll tell you what

H.M.Jr: Yes.

G: If we'd make a - I don't think we can do a God damn thing with it, Henry. I'll tell you the truth. on every contingency. Why, we could just authorize by law

payable in '45 to the amount of their
Then, by God, he could sell it where he please.

H.M.Jr: That's right.

G: Well, that's all. Much obliged, Henry. Sorry to have bothered you.

H.M.Jr: You never bother me.

G: All right.

March 15, 1935.
Friday.

91

H.M.Jr: Hello.

Senator
Glass: Mr. Secretary, this is Glass.

H.M.Jr: Yes, Senator.

Senator
Glass: I was talking to McKellar first thing this morning and he authorizes me to say, and I'll write you a letter accordingly, that he won't bother with that man in either of those positions you want transferred.

H.M.Jr: I see.

G: I'll write you a letter to that effect.

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

G: All right.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

Washington

Secretary ⁹²
MorgenthauPress Service
No. 4 - 47

RELEASE, MORNING NEWSPAPERS,
Monday, March 11, 1935.
3-9-35.

Secretary of the Treasury Morgenthau announced today (March 9) that the two per cent Consols of 1930 would be called by the Treasury on March 11 for redemption on July 1, 1935, and the two per cent Panama Canal Loan bonds of 1916-36 and 1918-38 for redemption on August 1, 1935. About \$600,000,000 of the Consols and about \$75,000,000 of the Panama Canal bonds are now outstanding. These bonds bear the circulation privilege.

In retiring these bonds, the Treasury will make use of the free gold resulting from the reduction in the weight of the gold dollar. The Treasury proposes to issue to the Federal Reserve banks an amount of gold certificates about equal to the bonds being retired. The gold certificates will be issued under the authority of the Gold Reserve Act of 1934, and for every gold certificate so issued there will be withdrawn from the general fund of the Treasury and held as security an amount of gold equal to the gold certificates so issued.

By a provision of the Federal Home Loan Bank Act, enacted July 22, 1932, all bonds of the United States bearing an interest rate of 3-3/8 per cent per annum, or less, were given the circulation privilege for a period of three years. This provision expires July 22, 1935. At that time, banks with circulating notes outstanding under this temporary authorization will have to replace the bonds, now serving as security, with lawful money to retire their outstanding notes thus secured.

The retirement of the two per cent Consols and the two per cent Panama Canal bonds, and the expiration of the temporary authorization for issuance of national bank notes against other bonds will accomplish a simplification of the currency system through the elimination of national bank notes, an action contemplated at the time of the passage of the Federal Reserve Act. More

than \$500,000,000 of the bonds being called are now on deposit with the Treasurer as security for this type of currency.

The Federal Reserve bank notes authorized as emergency currency in the Emergency Banking Act of 1933 are now in process of retirement. National bank notes will be retired as rapidly as they are presented to the Treasury. It is expected that the great majority will be cancelled within a year. This will leave as permanent circulation Federal Reserve notes, silver certificates, and United States notes. Additional Federal Reserve notes will be issued to replace the national bank notes as they are retired, and as demand arises. The gold certificates to be delivered to the Federal Reserve banks will form added reserves against which Federal Reserve notes may be issued.

At the time the gold content of the dollar was reduced, a gold increment of \$2,812,000,000 was realized. Of this amount, \$2,000,000,000 was placed in the Stabilization Fund. Congress has appropriated \$139,000,000 for loans to industry through the Federal Reserve banks, some \$13,500,000 of which has been used for that purpose. Congress has appropriated an indefinite sum to meet losses in melting gold coins estimated at \$8,000,000, and has authorized an appropriation of over \$23,000,000 for the Philippine currency fund. This leaves free gold of \$642,000,000 which will now be used as a basis for debt retirement.

As the outstanding national bank notes are retired and replaced with Federal Reserve notes, these items will disappear from the public debt statement entirely. The total amount of outstanding currency should not be changed as a result of this program. National bank notes will merely be replaced by Federal Reserve notes. The effect on member bank reserves will be immaterial.

- September 4, 1935. presentation to Mr. Brisbane. Wade shows Stephanson a typewritten complaint (evidently a copy of Bewles' anonymous letter) saying, "It would make a swell story", etc., adding that he was going to Trenton to search records.
- September 5, " 4 P.M.--Conference Mr. Graves with A.S.H. re National Grain, etc. and Brass. Memo report of August 30 and 31 examined. History of National and Brass discussed.
- September 6, " 11:20 A.M.--Conference with the Honorable Henry Morgenthau, Jr. A.S.H. stated contents of memo report of August 30 and 31, (history of National and Brass), results of examination of income tax files of Company and Brass, names of officers and directors according to mercantile reports, that Director Frank J. Hale, might be the same Frank Hale, who while a Prohibition Agent and Supervisor, was involved in extensive graft taking; that present identification was prevented by reason of the Hale file being loaned to the Department of Justice and not then in our possession. (We have never been able to get this file back.) Directions were given to identify Hale, complete examination of income tax files, make further investigation and report.
- September 5, " Pennington, Supervisor, wires Deputy Commr., "Frank J. Hale, Treasurer at Plant positively identified as former employee of Bureau of Prohibition."
- September 6, " Investigator Robsky reports nothing at Trenton from which newspaper Reporter Wade could obtain any information.
- September 9, " 11 A.M. Messrs. Graves, Wollner, and Harzenstein leave Washington. Arrive Newark 2:46 P.M. Meet Pennington, Supervisor, and proceed to National Plant at Belleville. Interview Mr. James Roosevelt at Plant.

(a) Mr. Roosevelt writes letter dated Sept. 9, 1935, as President of National Grain, etc., requesting that the Department make an investigation of alleged charges of illegal operation.

(b) Report of interview, Mr. Roosevelt called in Company officers Hale and Goldman to attend interview and states that Government may proceed to examine plant, production, equipment, and books relating thereto, together with records of sales, purchases, etc. A.S.H. asks permission to include minute book

September 9, 1935.

and stock certificate books. Hale states that our examination should commence with date July 1, 1935. Mr. Roosevelt states that he can see no objection to our going back as far as 1932. Hale bursts into a rage and states that we have a right to be interested in what happened since Mr. Roosevelt became associated with the Company, but not before. Mr. Goldman pacifies Mr. Hale and states that we can see any and all records for all time, that the minute and stock books are in New York City, and that he will produce them 10 o'clock the following morning for our inspection, and that we could commence with 1932.

(c) In the meantime, Goldman walks away and Pennington, Hargenstein, and Hale, while awaiting in the outer office, engage in miscellaneous conversation. Hale displays strong resentment, uses vulgar language, talks of a proposed outing at Hyde Park, and refers to Mr. James Roosevelt in familiar language. Without being asked, he denies any wrong doing in the service and speaks of himself fraternizing with persons formerly holding high office and infers that he was unfairly let out of the service due to change in political conditions. He denies any wrong doing at the Plant and states that had there been any violations, an efficient and energetic officer like Commander Pennington would surely have uncovered them heretofore.

September 10, "

Letter from the Honorable, the Secretary of the Treasury to Mr. James Roosevelt, undertaking investigation of charges as per request.

September 10, "

At Belleville Plant, Messrs. Wollner, Vlases, and Hargenstein spend entire day examining plant, equipment and production, taking samples, interviewing chemist, production manager, bookkeeper, examining and copying records of production, purchases, sales, etc. Mr. Goldman phones that he will be busy in Court and will, therefore, produce the minute and stock certificate books the next day.

(a) Interview with Mr. James Roosevelt. Mr. Roosevelt was absent from the plant during the day and arrived about 5 P. M. and sent for Messrs. Wollner and Hargenstein, who accordingly called at his private office. The conversation was friendly and at first general. During same, Mr. James Roosevelt made the following statements: That their production was approximately 35,000 lbs. per day; their selling price 11¢ per lb. of yeast; their cost since installing a new formula, 7¢; and profits per lb., 4¢; that the annual salaries

- September 10, 1935. of the three officers was \$75,000, and the Company's expected profit \$125,000 to \$130,000, making a total expected profit of \$200,000 to \$205,000. That the reduced profit was due (1) to their stopping use of Standard Brands formula which is cheaper and their present use of a more expensive formula, (2) new building improvements, (3) and repairs to machinery which was left badly worn. That Goldman and Hale own 53% of the stock, Brass 27%, and that the Company held in its Treasury 20%. That the Company intends to buy Brass' 27% stock, and that he intends to buy the Company's 20%. That he is familiar with the Hale and Goldman background. That the directors were Roosevelt, Sargent, Hale, and Goldman.
- September 11, 1935. (b) 7:30 P.M. to 11 P.M., Wollner and Harzenstein return to office of Supervisor and total production, sales, purchases, etc. figures for comparison, and make notes of conversations and list questions to be asked and things to be done for the following day.
- September 11, 1935. Wollner and Harzenstein return to Plant in company with Investigator Evans, who had previously been assigned to this matter. Examination of the records is continued. In the afternoon Goldman calls with minutes and stock books, and same are examined, together with agreement dated July 17, 1935, between parties. Mr. James Roosevelt appears and asks whether we are receiving proper cooperation, and he is assured that we are. Goldman states that the Plant is free of encumbrances, that their production is 1,000,000 lbs. per month, that their net selling price is 10¢ per lb., and therefore, their net sales \$100,000 per month, that their net profit per lb. is 3¢, their net profit per month is \$30,000 and their net profit per year \$360,000. That their product costs more to make than Fleischmann's and that they sell it for less. He named the officers, stockholders, and directors and referred to the existing agreement between the parties.
- (a) 5:30 P.M. to 11:30 P.M., A.S.H. dictated and had typed, progress report, dated September 11, to the Honorable Harold N. Graves.
- September 12, 1935. 8:30 A.M., conference Messrs. Graves, Avis, and Harzenstein. Later in morning conference with the Honorable Henry Morgenthau, Jr. Presented progress report dated September 11, 1935, and stated contents.
- September 12, 1935. Report by Dr. Wollner, stating plant operations licit.

- September 12, 1935. Memo re Brass income tax deficiency of \$145,822 handed to the Honorable W. H. McReynolds.
- September 16, 1935. At Supervisor's office Newark, N. J., A.S.H. examined Supervisor's file A-17 re National Grain, etc. and Federal Distillers file and reports under Regulations 17.
- September 17, " A.S.H. with Investigator LaHart makes comparison of production, sales, purchases, etc. figures submitted by National with those submitted by other companies under Regulations 17 and make other check and verification as set forth in report by LaHart.
- September 17, " 10 A.M., A.S.H. (by appointment) interviews Harold Goldman at his New York City office, makes further examination of minute book and agreement dated July 17, and discusses Standard Brands case and miscellaneous pertinent matters.
- September 18, " Letter from Mr. James Roosevelt to A.S.H., Examiner, stating Borasky Bakery Co.'s apparent unsatisfactory final sale of yeast.
- September 19, " A.S.H. reports to Mr. Graves (1) the seriousness and details of Standard Brand suit, (2) further contents of agreement of July 17, (3) contents of unsigned draft dated June 14, and (4) miscellaneous new matter.
- September 23, " 9 A.M., Conference Messrs. Graves, Avis, and Harzenstein.

(a) 10 A.M. to 1 P.M., A.S.H. attends (as non-participant) Income Tax conference re Samuel Brass \$145,000 tax deficiency. Present conferees Chapman and Golding, A.S.H., Messrs. Bank and Bernbach, accountants for Brass. The parties seemed constantly "far apart" and unable to agree on the facts or basis for a settlement. Bank (for Brass) offered a settlement which would require Brass to pay approximately \$15,000 and remarked that he would recommend the Company pay an additional \$1,700 for prior years and approximately \$8,000 for the year 1934 on account of royalties disallowance.
- September 27, " Mr. James Roosevelt phoned Mr. Graves and stated that the Brass income tax deficiency of \$145,822 was settled at the conference on 9/23/35 for \$15,000. Mr. Graves asked A.S.H. whether this were a fact and to state further the general outcome of the income tax conference on September 23.

September 27, 1935.

(a)

A.S.H. stated that in substance \$15,000 was offered, but that the conferees made no indication about accepting it, they simply took it under consideration; adding that after the conference was adjourned, he talked privately with the conferees who indicated that the offer was about \$5,000 or \$10,000 less than they had hoped for, that the conferees were considering both sides of the question and show clearly that their mind was entirely open, and that they had arrived at no conclusion and were considering whether under certain decisions the tax-payer wouldn't be liable for nearly the entire amount. A.S.H. further stated that the gist of the outcome was that Bank would recommend to Brass that he settle on a certain basis, which would make him liable for approximately \$15,000; and that he would recommend that the Company pay an additional \$1,700 in connection with their liability up to and including 1935; and that since the Company's deduction for royalties had been disallowed for 1933 and they had made similar deductions for 1934, that he would recommend that they send in an additional check for the year 1934, which, he stated, would amount to approximately \$8,000, although he had not yet made the calculations. Conferee Golding was present at the conference in the matter of the Company's tax since the Brass matter and that of the Company were inseparably related.

(b) Mr. Graves then directed A.S.H. to ascertain whether the matter had been settled between September 23 and September 27. A.S.H. then phoned Conferee Chapman, who stated that the matter had not been settled, that his final report had not been completed, but that he expected that he would recommend a deficiency assessment of \$121,000 for the years 1932 and 1933, and approximately \$5,000 for the year 1929, and no assessment for the year 1928, since he was satisfied that the evidence submitted by the Accountant explained away that portion of the tax liability.

(c) Mr. Graves thereupon immediately phoned Mr. James Roosevelt at the Belleville Plant and stated that he had made inquiry and was given to understand that Brass' tax matter had not been settled. Mr. Roosevelt then stated that he was informed that the income tax docket was marked to prohibit any settlement of Brass' matter until the investigation of the National Grain Yeast Corp., undertaken by the Secretary, had been disposed of; that Examiner Harzenstein was

September 27, 1935 (c) present at the conference for the purpose of opposing settlement, even though he knew that the Company had assumed and was bound to pay Brass' income tax liability.

(d) Mr. Graves stated that there was no such marking on the income tax docket; that Examiner Harsenstein did not attend the conference for the purpose of opposing settlement and took no part in the discussion or negotiations, and attended by virtue of his authority as an Internal Revenue officer; and that neither he nor A.S.H. had any knowledge or idea before that very moment that the Company had assumed Brass' income tax liability; that further, the matter was being handled in the regular course of business just like any other such case; and offered to come to Newark and bring A.S.H. to explain all the details and answer any questions. Mr. Roosevelt added that the assumption of liability was contained in one of the resolutions appearing in the minute book and since A.S.H. had examined the minute book, he should have observed this; that he was not asking for anything except that he did not want any difficulty greater than any other tax-payer would have in a like situation.

(e) Mr. Graves then phoned Mr. Russell, Deputy Commissioner, Alcohol Tax Unit, and determined that there was no obstacle in the way of adjustment of this case and that it was being treated similar to like cases.

(f) Mr. Graves instructed A.S.H. that he could leave Washington and proceed with his other duties at New York City and that he would communicate with him should Mr. Roosevelt want to see them at Belleville within the course of the next several days.

September 27, " Mr. James Roosevelt phoned Mr. Graves and asked when the investigation would be finished, that its continuance was upsetting the personnel, and expressed dissatisfaction and almost resentment, and he referred again to the Brass income tax settlement and Mr. Graves reiterated that we had no knowledge of the assumption of liability, etc. Then Mr. Roosevelt asked for a letter making reply to his of September 9, showing results of the investigation, and Mr. Graves said that he would prepare such a communication.

September 30, " Letter Deputy Commissioner to Mr. James Roosevelt, acknowledging receipt of complaint re Borasky Bakery Co. and assuring thorough investigation.

October 1, 1935.

A.S.H. at New York City visited Harold Goldman at the latter's law office with a view to ascertaining (1) how Mr. Roosevelt got the impression that we were opposing settlement of the Brass income tax matter, (2) to deny that he had ever been informed or knew that the Company had assumed Brass' obligation, and (3) to give assurances that the matter would be handled in the regular course of business, that there certainly was no disposition to interfere with or impede, and that every precaution was taken to do nothing to prejudice the Company's interest.

(a) A.S.H. was received with the customary cordiality. From the conversation, it was evident that Accountant Bank had reported to Mr. Goldman and that Mr. Goldman had added to such report to Mr. Roosevelt and that this was the basis for Mr. Roosevelt's impression and statement to Mr. Graves.

(b) Mr. Goldman stated that he was not at all familiar with the details of Brass' income tax matter, that he had left this entirely in the hands of his Accountant, Harry W. Bank, who had told him, in his opinion, the Government's assessment of \$145,822 was erroneous and he had no doubt whatsoever that the Government would lose the case before the Board of Tax Appeals, and that based on his long experience in these matters, he felt that he could settle the case for about \$10,000 or possibly less, and that when he had left the conference on the meeting prior to September 23, their frame of mind was such that they should be "ripe" for settlement on the 23rd. Goldman added that Bank, upon his return from the Conference on September 23, reported that he had a "bad break"; that a man by the name of Harzenstein, whom he had never seen at the Bureau before, attended the conference; that the conferees, instead of going on from where they had left off by assuming the existence of certain facts in order to arrive at an amicable adjustment, had commenced arguing the whole case over again, and it was his (Bank's) feeling that this was due to Harzenstein's presence; that in view of the conferees getting "hard" he thought he had best make them a better offer, and thereupon raised it to approximately \$15,000 instead of the \$10,000 which he had had in mind. Goldman, not having studied or become familiar with the case, relied entirely on Bank's statement of opinion and obviously reached a conclusion that A.S.H. had opposed the settlement to the extent of an additional \$5,000. It would seem that Goldman honestly believed that he had conveyed to A.S.H. the information that the Company

October 1, 1935. had undertaken these liabilities.

(c) At the Interview of September 17, Goldman had stated that he had been, for many years, Brass' attorney, and while he was very anxious to sever all relations with Brass permanently, he was considering the expediency of going with Brass to the income tax conference on the 23rd. Since Goldman had previously stated that he had urged Brass to dispose of this matter and that Brass had answered him that the delays were due to his Accountant Bank's procrastination and no fault of his, and had at this time added that inasmuch as he (Goldman) had represented Brass for many years and Brass had treated him properly, that there was a personal element which he could not very well ignore, and for this reason he was considering going to Washington. Harzenstein suggested that in view of his (Goldman's) desire to sever relations with Brass and to disassociate Brass' name from that of the Company, that it would seem the wiser course to let someone else represent Brass. That by a lack of entanglement, this representative might possibly fare better in the case's disposition. To this Goldman remarked that he did not know what he would do, but that it was the "dollars" that he was considering.

(d) It is on this last statement by Goldman to the effect that it was the "dollars" he was considering in the Brass matter, that he based his statement to Mr. James Roosevelt that A.S.H. knew of the Company's assumption of Brass' liability. In view of what went before, such statement was hardly sufficient to apprise one of such fact. Again this is inconsistent with Mr. Roosevelt's statement that Harzenstein knew this because he had examined the minute book. It should be noted that A.S.H. copied what he considered pertinent portions of the minute book and that such resolution does not appear in his notes. It should further be noted that the minute book consists of a loose leaf ring binder, standard size, and that none of the pages are numbered, that many of the pages are undated, that no record appears far over a two year period, and that some of the pages are fastened to one of the covers by a rubber band.

October 1, "

A letter from the Honorable Harold N. Graves, Assistant to the Secretary, to Mr. James Roosevelt, President, National Grain Yeast Corp., stating that pursuant to the request contained in the latter's letter of

October 1, 1935. September 9, and in the absence of the Secretary, he is informally advising that nothing was found in the course of the investigation which would substantiate the complaints referred to, and that we have concluded that the Company's plant is being operated exclusively for legitimate business.

October 2, " Letter from Mr. James Roosevelt to Mr. Graves, acknowledging receipt of letter of October 1, and stating that the officers and personnel are pleased to receive the report of their clean record and standing with the Department and giving assurances that they shall endeavor to maintain such record.

1 - This is prepared to several investigations headed September 9, 1935.

2 - The officers of the company is as follows:-

OFFICERS

- Mr. J. - President
- Frank J. Dale - Treasurer
- Harold Wilson - Secretary

There is no elected vice president.

Harold L. Gray was formerly an authorized vice president but has since been discharged and his relations with the company are entirely severed.

Frank L. ... was an authorized vice president but has little or no authority. He is now in the position of head bookkeeper or ... Mr. J. stated ... his removal and discharge ...

MEMBERS

- Mr. J. ...
- ...
- ...
- ...

... the plant is being operated ... However, ... the records were ...

directed by the shareholders. Some data and balance was more than 50% of the stock (total 25,000 shares out of 50,000 issued and authorized). It appears that they could elect a fifth member and thereby control the company. However, the voting power of the majority shareholders might be calculated **September 11, 1935** of a "rotating RAGE agreement" executed by Mr. J., Goldstein and Hale. The agreement appears to be in force now while the verbal understanding is that the agreement is to become effective upon permission of **Honorable Harold H. Hoover, Assistant Secretary of Treasury, Washington, D. C.** of the agreement was impractical under the circumstances.

Sir:-

(a) Shareholders

- 1 - This is pursuant to verbal instructions issued September 9, 1935. According to the records provided for examination the shareholders were:
- 2 - The set-up of the company is as follows:-

Name	No. of Shares	Date of Certificates	No. of Certificates
(a) Officers:			
Frank J. Hale	Mr. J. - President	March 27, 1935	12
Harold Goldstein	20,000	December 20, 1934	12
Samuel By-Laws	Frank J. Hale - Treasurer	May 2, 1935	4
	15,000		5
	Harold Goldstein - Secretary		7
H. Co.	20,000	February 2, 1935	

There is no elected vice president.

The stock which the company is authorized to issue is 5,000 shares. **Harold L. King** was formerly an appointed vice president but has since been discharged and his relations with the company are publicly covered. **Frank L. Shubert** was an appointed vice president but has little or no authority, he is now in the position of head bookkeeper or comptroller, at a salary of \$2300.00 per annum. Mr. J. stated confidentially that he was considering his removal and discharge for the same reason that he was formerly associated with prior \$20,000.00 or \$1.00 per share as against \$2.00 per share. Goldstein did not actually buy anything for his stock, he was voted an attorney's fee (b) **Shareholders** and was paid \$5,000.00 in cash and \$20,000.00 in those shares of stock. The records would indicate that **Mr. J.** his stock was more or less similar to that of Goldstein's. It was "agreed" that the **Shareholders** was to be left at the name **Harold Goldstein** further explanation and the instructions to be at headquarters in the morning provided copies of subject **John Magent**. The company holds an option to purchase the 27,000 shares of **Hotel Brown** for \$200,000.00 and according to **Frank J. Hale** or here to accomplish this should they be able to borrow the necessary funds.

Under the present arrangement the board is evenly divided. However, an examination of the **Shareholders** shows that the By-Laws were amended to provide for a board of directors of five members, to be This company was incorporated under the laws

elected by the stockholders. Since Hale and Goldman own more than 50% of the stock (being 53,000 shares out of 80,000 issued and outstanding), it appears that they could elect a fifth member and thereby control the company. However, the voting power of the majority stockholders might be controlled by the existence of a "voting trust agreement" executed by Mr. J. Goldman and Hale. The agreement appears to be in force now, while the verbal understanding is that the agreement is to become effective upon performance of a condition precedent by Mr. J., namely the purchase of 20,000 shares of common stock for the sum of \$130,000.00 within 12 months. A study of the agreement was impractical under the circumstances.

(e) Stockholders:

According to the records presented for examination the stockholders today are:

<u>Name</u>	<u>No. of Shares</u>	<u>Date of Certi-</u>		<u>No. of</u>
		<u>ificates</u>	<u>ificates</u>	
Frank J. Hale	33,000	March 27, 1935	12	
Harold Goldman	20,000	December 20, 1934	13	
Samuel Brass	10,000	February 3, 1932	5	
"	"	"	6	
"	7,000	"	7	
H. Co.	20,000	February 3, 1932		

The stock which the company is authorized to issue is 5,000 shares of preferred with a par value of \$100.00 per share totaling \$500,000.00 and 100,000 shares of common (voting) stock with a par value of 1¢ per share, totaling \$1,000,000. This makes the entire capitalization \$601,000.00.

It should be noted that Mr. J. is given an option to purchase the above 20,000 shares of treasury stock for the sum of \$130,000.00, while Goldman (according to the Minute Book) received his at \$20,000.00 or \$1.00 per share as against \$6.50 per share. Goldman did not actually pay anything for his stock, he was voted an attorney's fee of \$25,000.00 and was paid \$5,000.00 in cash and \$20,000.00 in these shares of stock. The records would indicate that Hale's "purchase" of his stock was more or less similar to that of Goldman's. It was "agreed" that the Minute Book was to be left at the company's office for further examination and the instructions to be at headquarters in the morning presented copying of exhibits at this time. The company holds an option to purchase the 27,000 shares of Samuel Brass for \$250,000.00 and according to Goldman they plan or hope to accomplish this should they be able to borrow the necessary funds.

(d) Stock Indemnities:

This company was incorporated under the laws

of the State of New Jersey on December 13, 1926 and was authorized to issue 5,000 shares of stock at \$100.00 per share making the authorized capital \$500,000.00.

Subsequently on December 23, 1931 the charter was amended authorizing the company to increase its capital from \$500,000.00 to \$601,000.00, by issuing 5,000 shares of preferred non-voting stock at par value \$100.00 per share and 100,000 shares of common voting stock at 1/4 per share. The preferred stock was made redeemable by the company at par plus accumulated dividends of 6%.

According to the records examined, the company has redeemed all of the preferred stock by the cash payment of \$600,000.00. Of this money, \$150,000.00 was paid to Samuel Brass in 1932, \$150,000.00 in 1933 and \$80,000.00 in 1934. In 1934 a total of \$32,500.00 in stock was redeemed. The balance was redeemed subsequent to December 18, 1934. We have not had time to complete our audit in this respect.

3 - We have examined the company's payroll and personnel cards and selected therefrom the names and other data of persons who appear to be in key positions, plus others. It is thought that we might want to know the background and history of a number of these persons and particularly to whom they owe allegiance. A list of these will be submitted. The main ones appear to be -

(a) Personnel:

Frank L. Chambers - Comptroller - Salary \$100.00
6 Perry St.,
Belleville, N. J. per week

He has been in the company's service since 1926 in the capacity of bookkeeper, auditor, comptroller, "dummy" stockholder, and "dummy" officer. His appearance is satisfactory and we know nothing otherwise about him. He probably owes allegiance and has friendships with the old regime and for this reason Mr. J. stated that he was considering his discharge.

Samuel Taeger - Sales Manager - Salary \$45.00
504 Leslie St.,
Hillside, N. J. per week

Was with the company five years.

Sebastian C. Lutz - Production Manager - Salary
124 W. Passaic Ave.,
Blauvelt, N. J. \$150.00 per week

Was with the company seven years.

Robert R. Irwin - Chief Chemist - Salary \$101.98
 & Fernald's Book, per week
 Bloomfield, H. J.

Considered with company several years, was employed in connection with a fellowship in Mellon Institute and recently brought to plant.

(b) Payroll:

The company's payroll for the week ending September 6, 1935 was \$5,369.00.

4 - The normal and expected profits of the company would seem to run between \$200,000.00 and \$400,000.00 per annum.

(a) Profits:

Mr. J. stated that he expected the profits of the company for the year 1935 to run between \$125,000.00 and \$130,000.00. From this sum he subtracted \$75,000.00 in salaries for the three executives, namely himself, Hale and Goldman. It would appear that Hale and Goldman do not devote their time exclusively to this business. Since these "executives'" salaries are based on sharing the company's profits and not on necessary services rendered, it is considered that Mr. J.'s estimate of the net earnings of the company is \$200,000.00.

This estimate is considered extremely conservative. Based on the figures submitted we cannot avoid the conclusion that the company's normal annual net profits are and will be approximately \$360,000.00.

Generally speaking, the production is 35,000 lbs. of yeast per day or one million pounds per month. The net selling price received by the company averages around 10¢ (or slightly more) per lb. The cash received from sales per month is \$100,000.00. The total cost of production is about 7¢ per lb. The profit per pound is 3¢ or better. Therefore, it would appear that the annual net profit of this enterprise runs somewhere around \$360,000.00. Indeed this is borne out by past performance. For example, in the year 1933 the company declared a net profit of \$240,000.00 and redemed out of surplus profits \$150,000.00 worth of stock. Goldman stated that he has filed his income tax returns for the calendar year 1934 and while he does not recall the precise net income declared therein, that it was about \$360,000.00.

5 - The records do not disclose any persons who were or might now be in ultimate interest. The stock certificate books and Edmund's Book appear to be regularly kept. All issued and cancelled stock certificates have been accounted for with the exception of two which were for small amounts and therefore unimportant. At my request and in my presence certain stock certifi-

ificates were marked "uncollected" and others which had been endorsed in blank were marked to indicate that they were the property of the company. Such details were probably normal overights. The shares of stock held by Brass, although issued on the same date were divided into numerous certificates indicating the probability that some of them were held for others. Mr. J. stated that Hale and Goldman admitted that they were associated with the company for the past several years even though the records would indicate that they came in during a reorganization in the latter part of 1934 and early 1935. The Minute Book discloses that Brass surrendered for cancellation 20,000 shares of common stock to the company in consideration of the company releasing him of all claims by reason of Brass receiving more paid up stock in December 1926 than the value of the property which he transferred to the company in exchange therefor. While the company released Brass, Brass also was required to sign a General release in favor of the company.

5 - According to the stock certificate books and Minute Book, the only stockholders who ever appeared on record are: Samuel Brass, H. L. King, J. L. Chambers, William Alter, Eleanor Gill, Eleward F. Cleveland, Robert M. Allen, Harry E. Bernard, David K. E. Bruce, Frank J. Hale and Harold Goldman.

7 - The agreement previously referred to between Mr. J. and Hale and Goldman is dated July 17, 1935. It is in substance a voting trust agreement and gives Mr. J. 12 months in which to exercise an option to purchase 20,000 shares of common stock at \$6.50 per share or a total of \$130,000.00. The duration is five years and it provides that the same officers and directors will maintain their present positions, that no stockholder can sell, assign, pledge or otherwise encumber or part with his stock without first offering the same for sale to the remaining stockholders, who shall have a 90 day option to purchase. A resolution of the board of directors provides that the president of the company shall alone be authorized to make and execute all contracts. The real estate is free and clear of all encumbrances. Samuel Brass resigned from his position as president and member of the board of directors on June 26, 1935.

8 - In a detailed conversation with Mr. J., he stated that he had carefully considered and investigated the matter of becoming president and director of this company. It would appear that the judgment was a financial one, that this business is one of those rare enterprises where the field is not overworked with difficult competition and that it afforded an unusual opportunity for development and industrial success. Mr. J. seemed to be familiar in a general way with the former unfavorable background of Messrs. Hale and Goldman. He stated that an acquaintance connected with the Department of Justice had furnished him with

some information contained in some of Hale's files while the latter was in the Bureau of Prohibition, and that when he confronted Hale with the information he had acquired, that the latter unhesitatingly admitted his defalcations. It would appear that Mr. J. has moved with considerable caution and has taken steps to remove some persons of the old order and has installed and intends to install persons known and to be selected by him, into the key positions and has done other things to insure the proper conduct of the business.

9 - While only a short time has been spent in the examination of the affairs of this business, it has been of such a nature and by such persons that we cannot avoid the conclusion that no violations of any kind are being committed here.

10 - Mr. J. has not yet made any financial investment. While the company earns tremendous profits, it is at present in need of funds. It needs approximately \$50,000.00 to repair its buildings at the plant. The apparatus used creates much vibration and repair work has been sadly neglected in the past. A new office has just been erected at an approximate cost of \$10,000.00. The machinery and equipment is getting older and will now need repairs from time to time. This equipment is expensive and is probably worth installed approximately \$250,000.00. The company has been drained of its reserves by the redemption of \$500,000.00 worth of its capital stock during the last three years. A suit is pending against it by Standard Brands, Inc. which will probably result in the company's paying about \$150,000.00 in damages. It just paid \$17,000.00 for 1933 income tax deficiency. Large attorney's fees are payable and the overhead, particularly in large salaries, would be considered more than the average business could carry. The cash in bank now is about \$50,000.00 which is a small amount for an enterprise of this kind which is facing its present contingencies.

11 - Obviously much cash is needed and we are inclined to believe that Mr. J. will be expected to borrow or otherwise raise, in behalf of the company, large sums of money, such as \$200,000.00 or \$300,000.00.

12 - The report as to the examination of the plant and its apparatus is being submitted by Dr. H. J. Wollner.

Conclusion

- (a) There is no evidence of any present violation.
- (b) The stockholders are Frank J. Hale, Harold Goldman and

Samuel Brass, persons not entitled to the confidence of the
Government.

Respectfully,

A. S. Harsenstein,
Examiner

March 15th

Mr. Morgenthau saw Senator Glass to-day in regard to Mr. Berney. Senator Glass said "You tell Farm Credit or General Hines or anybody that they can take my word that Senator McKellar will not go after Berney if they give him a job". H.M.Jr. said "That is awfully nice Senator Glass and I appreciate it but they do not want Senator McKellar to descend on Berney once he is in their employ". He then said quite emphatically "they will have to take my word" but H.M.Jr. replied "I am sorry Senator but it is not enough. Senator McKellar must write a letter saying it is agreeable to him that if Berney is transferred out of Alcohol Tax he can go anywhere else in the government. Unless I get a letter from Senator McKellar all bets are off. Glass said "all right, I will see what I can do".

Senator Glass then said "Morgenthau I am very fond of you and I do not want you to get yourself into any unnecessary trouble. Don't defend this banking bill too hard. H.M.Jr. inquired why and Senator Glass said "Well I will tell you what the President told me at 5 o'clock on March 4th. He said "I am only interested in two things, (1) to get the Federal Deposit Insurance bill through and (2) to have a unified bank examination. The President said I am not interested in anything else. To show you how little interest I have in No. 2, I did not send Eccles' supporting memorandum up". H.M.Jr. then said to Senator Glass "I want to get my Lending Committee together" and Glass said "forget it. Now remember Morgenthau don't get yourself out on the end of the limb. The President is not interested. This is Eccles' bill and he doesn't know what he is talking about". H.M.Jr. then told Senator Glass that he would see the President over the week-end and discuss it with him.

(Mr. Morgenthau's own very confidential opinion is that the President sold out the Banking Bill in exchange for getting Carter Glass to support the four billion eight bill.)

I also told Glass in confidence to-day that exclusive of Professor Rogers' expenses the total expenses of the Stabilization Fund were less than \$40,000. Glass said "If anyone brings this up I will not give them figures but I will say that it is so inconsequential that it is unnecessary to mention".

Oliphant reported that Senator King has been calling him in regard to the Thomas amendment which he wants attached to the four billion eight bill. H.M.Jr. called

McIntyre and told him that he felt that neither the Thomas or the Wheeler amendment ought to be attached to the four billion eight and that at the proper time, after the four billion eight is passed, we all ought to get together with the President. H. M. Jr. said that we would refer Senator Wheeler to the White House and McIntyre said he would pass it on to the President.

Granducci came in to see me to-day and told me that their financial man had heard that the President has not endorsed the Banking Bill. I told him to find out where their man got his information.

March 16, 1935.

To Governor Harrison:

YESTERDAY AND TO-DAY PRIVATE DEALINGS IN GOLD IN BELGIUM TOOK PLACE ON THE BASIS OF PREMIUM OF FIVE PER CENT FOR GOLD SOLD AGAINST BELGAS. THREE MONTHS' FORWARD RATE ON BELGAS TO-DAY REPORTED AS COSTING FIFTEEN PER CENT AND TWENTY PER CENT PER ANNUM. UNLESS SATISFIED WITH OUTCOME OF PARIS MEETING MONDAY, REAL POSSIBILITY THAT EITHER RESIGN OR DECIDE IN FAVOR OF DEVALUATION OF BELGA, POSSIBLY TYING ON TO STERLING AND THAT SUCH ACTION MIGHT OCCUR VERY SOON. PRESENT STRENGTH OF POUND LARGELY DUE TO SALE OF BELGAS BY BELGIUM FOR POUND OVER PARIS. THEUNIS GEORGES HAS JUST TELEPHONED PARIS THAT SITUATION SO URGENT HE WILL ARRIVE THIS SATURDAY EVENING.

(Signed) FRASER

March 18th

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The President's wedding day. Had supper with the President, Mrs. Roosevelt, Mr. and Mrs. Boettiger, Frederic Delano and one of his sisters and Miss LeHand. About 10 o'clock the Boettiger's left and Mrs. Roosevelt and Miss LeHand having left right after supper. At 10:30 the Delano's left. I stayed on with the President until 11:45. He and I were alone. After supper was over I asked him if I could talk to him alone telling him that I wanted to tell him a funny story. I told him my funny story which he enjoyed enormously. He then kept me and said "I want to tell you my idea about how to handle the European situation." The matter was fresh in his mind as Hitler had announced the day before that he was going to call a large number of troops to arms. The President said, and it was his idea that England, France, Italy, Belgium, Holland, Poland and possibly Russia should get together and agree on a ten year disarmament program which would look forward to doing away with all methods of warfare other than what a soldier can carry on his back and in his hand. That only big guns would be permitted for the protection of fortification and trenches along frontiers also the use of barbed wire. His thought was that these countries would sign this pact themselves and would then approach Germany and ask her to sign. If she refused, these countries would then establish a two way blockade around Germany, not permitting anything at all to enter or leave Germany. That we would send an Admiral abroad who would assist in seeing that our ships did not run through this blockade.

He said that after about six months we would then take up the question of disarmament with Japan and England, France and ourselves would sign a pact of disarmament and then would approach Japan offering her the right to maintain a fleet as large as the American Pacific fleet, and if Japan didn't sign that the three countries would establish a blockade around Japan. The President pointed out that having settled the peace of Europe, England's fleet would be free to concentrate on Singapore and could assist in a big way in the blockade of Japan. The President asked me what I thought of it and I said it was a grand idea. He asked me whether I thought he could trust the British Ambassador Lindsay and I told him "Yes" and he asked "how about the others" and I said "why not send for the French, Italian and British at the same time and make this suggestion to them." I told the President that I thought the world had everything to gain and nothing to lose by trying this program and if it didn't succeed the only thing we could look for was a world war." The President said "if this does not succeed the chances are we will have a world war".

We then adjourned upstairs. When I was alone with the President I said to him "I would like to talk to you about something very confidential". He said "close the door". I said "Viner tells me that Rex Tugwell came out to Chicago about two weeks ago and talked to a group in a man's house and didn't caution anybody that it was confidential and told them that he felt that he was going to attach himself to support Governor Olsen of Minnesota". He felt that he was the man of the hour. They pointed to him Olsen's unsavory private life and Tugwell said "that would just add a romantic charm to his candidacy for President". Much to my surprise the President did not seem disturbed by this information. I said to him, "knowing that Tugwell is disloyal do you think you should appoint him to a new position of responsibility". The President then told me that he intended to put Tugwell in charge of Rural Housing and the new Communities to be laid out close to the city. He said "you know when Napoleon had a Marshall in whom he did not have complete confidence he would put him in a position of the greatest responsibility and test him." He said "that is what I am going to do with Tugwell. This will be one of the most difficult posts under the 4 billion B."

He said "You know, Henry, in studying the third party movements it is interesting to know that whenever they have started a National Convention they have always failed." He said, "anybody who starts a third party has to get its start at least a year in advance. If I should put Tugwell out to-day what would he do? He would start writing a few articles, lecturing, saying that he tried as long as possible to be loyal to the Administration but he just could not possibly continue to go along with this policy of restricting production and that he was for the policy of plenty, and gradually he would work up a following. If I put Tugwell out to-day there would be another big hullabaloo that I turned to the right. They would magnify it tremendously and the thing for me to do is not to give these people a chance to go out and work against me now. I know what I am saying is straight politics but it is good politics." He said, "I consider Tugwell one of the most ambitious and clever people here in Washington".

He said, "Friday night, a week ago, I decided to take a big chance for the following reason. The two LaFolletes had promised me their support in 1936. I heard rumors that they were weakening. I let them know that I knew it. Bob LaFollette sent word he wanted to see me so I decided to see LaFollette, Wagner and Costigan at the same time." He said, "LaFollette sat next to me on the sofa and before the evening was through he was so full of liquor that he actually was crying on my shoulder. Wagner got so tight he had to go to bed for two days to get over it. Costigan doesn't drink." He said, "I asked these fellows "are we Progressives going to stand together or do I have to go to the country and explain that it was you three men who wrecked my Administration? I told them that I knew they were out on the end of a limb and they could write any

compromised amendment that they wished to to save their faces and I would accept it. " I told them that if we followed the McCarran Amendment we would end up by having State Socialism as every man would want a job with the government because it would pay more than private employment. He said "if that is what you want, it is all right with me." (Somewhere during this conversation he let it slip out and tried to cover it up that the price he paid for the LaFollette support was that he was going to turn over to them for their Administration in Wisconsin the 4 billion 8 fund.)

I gather that they did not come to an agreement that evening because the President said it took over ten days to work out a compromise. I gather from the way he spoke that he must have been good and very forceful.

I said "Mr. President, Senator Glass told me last week that I should not get myself out on the end of a limb on this Banking Bill because you told him at 5 o'clock on the afternoon of March 4th that you were only interested in a unified bank examination and the permanent plan for F.D.I.C." All the color left the President's face and he said nothing for a few moments. Before he could say anything I said, "I suppose you agreed to this in order to get Glass' support of your 4 billion 8 bill". He said, "not at all. I will tell you the story". Somewhere along about January 5th Glass came to see me and I told him that I did not want much in the Banking Bill except the two things mentioned above. He said he did come to see me on March 4th and I again repeated that I only wanted two things but added that I am holding my mind open until the picture develops further. (This is approximately what he said). The President did not convince me at all and from the way he acted I think he did agree with Glass and that was the price he paid to get Glass' support.

The reason for my feeling this way is because he seemed so disturbed when I told him this story.

I then told him that I would have to testify this week and that I thought we would have to come out in favor of buying the stock in the Federal Reserve Bank. This was my suggestion and not his. Also that the question of National Credit, Open Market Committee, etc., should be vested with the Federal Reserve Board. He then said, "all right go on the hill, say that you do not know anything about banking or details but that you are in favor of:

1. Unified examination of banks.
2. Permanent plan of Federal Deposit Insurance.
3. Bringing to Washington Open Market Committee, etc.
4. The Government buying Federal Reserve stock.

The thing to do is to try to get hold of Henry Steagall and get him to agree to limit your testimony to these four points and nothing else."

Just before I left I brought up the question of Bonus and he said, "remember if I do anything on the bonus I will insist that the policy be laid down that whatever we do for the soldiers that from now on the question of soldier legislation must be taken out of politics".

Statement of the Treasury Department announced today (March 16) that the issue of Treasury notes of Series A-1925, as a result of the exchange of Treasury notes maturing March 15, 1935, amounted to \$312,894,000. The subscriptions made for this issue were closed on March 8, 1935. Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

Federal Reserve District	Subscriptions Applied and Allotted
Boston	\$ 11,219,000
New York	213,722,000
Philadelphia	6,240,000
Richmond	14,442,000
Cincinnati	28,000,000
St. Louis	7,076,000
Chicago	87,471,000
St. Louis	7,100,000
Minneapolis	5,080,000
Kansas City	9,640,000
Dallas	14,000,000
San Francisco	20,440,000
Treasury	1,170,000
Total	\$312,894,000

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, March 18, 1935.
 3/16/35

Press Service
 No. 4 - 53

Secretary of the Treasury Morgenthau announced today (March 16) that the issue of Treasury Notes of Series A-1940, as a result of the exchange of Treasury notes maturing March 15, 1935, amounted to \$513,884,200. The subscription books for this issue were closed on March 8, 1935. Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received and Allotted</u>
Boston	\$ 11,318,800
New York	315,785,600
Philadelphia	9,349,000
Cleveland	14,485,900
Richmond	28,403,700
Atlanta	7,574,100
Chicago	67,471,200
St. Louis	7,159,600
Minneapolis	5,680,100
Kansas City	8,443,900
Dallas	16,634,000
San Francisco	20,445,900
Treasury	<u>1,132,400</u>
Total	\$513,884,200

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, March 18, 1935.
3/16/35

Press Service
No. 4-54

Secretary of the Treasury Morgenthau announced today (March 16) that the subscription books for the current offering of 2-7/8 percent Treasury Bonds of 1955-60, in exchange for Fourth Liberty Loan Bonds called for redemption on April 15, 1935, will close at the close of business Wednesday, March 27, 1935. Subscriptions placed in the mail before 12 o'clock, midnight, Wednesday, March 27, will be considered as having been entered before the close of the subscription books.

The Secretary stated that up to this time approximately \$1,140,000,000 of the Fourth Liberty Loan Bonds called for redemption on April 15, 1935, have been exchanged for the new bonds.

The subscription books are being kept open for the considerable further period in order that all holders of the called Fourths, and particularly the small holders, may have ample opportunity to take advantage of the exchange offering.

The attention of holders of the called Fourths was invited to the fact that the new Treasury bonds issued on exchange bear interest from March 15 and on exchanges after that date accrued interest at 2-7/8 percent is charged from March 15 to the date the Fourths are submitted.

March 19th

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Bright Patada called in and told me that H.M.Jr. at the President's right over. In the evening H.M.Jr. called me and asked me if he could give me a message from Bright Patada. The message came back "Bright Patada wants to talk to you about the bonus but can't do it any way".

March 19th
Mr. Morgenthau told Mr. Oliphant to-day at one o'clock to have everything ready in case he should decide to put an embargo on gold both ways and put in an exchange control.

H.M.Jr. wanted everything ready so that the President could sign it, if we decide to, before he went away.

H.M.Jr. What is the argument against doing it now?

Answer: The increase was to take care of it from 1932 to 1935 and to be waiting. By doing it back to 1932 it will cause one in 1935 and if the money want it now, they will have to take a discount. We will take those on relief rolls first - then those who need the money for business on hand.

H.M.Jr. said all he is concerned about is financing - I do not want to get into the political end. However, I will look into your idea.

March 19th

117

Wright Patman called up and said he wanted to see H.M.Jr. at the President's suggestion. H.M. Jr. told him to come right over. In the meantime he telephoned the President through Kannee and asked him if he could give him a tip on how to handle

Wright Patman. The message came back "talk to Wright Patman who wants to talk to you about the bonus but don't commit yourself in any way".

Wright Patman said that he suggested to the President to date the whole bonus certificate back from 1925 with interest to 1918 when the war ended, November 11, and it appealed to him. That the interest from 1918 to 1925 the veterans did not get - that would make them payable in 1937 and fix it so that the needy ones will get it now.

H.M.Jr: What is the argument against dating it back?

Patman: 25% increase was to take care of it from 1925 to 1945 that is for waiting. By dating it back to 1918 it will come due in 1938 and if the needy want it now, they will have to take a discount. We will take those on relief rolls first - then those who need the money for payments on homes.

H.M.Jr. said all he is concerned about is financing - I do not want to get into the political end. However, I will look into your idea.

The Banking sub-committee of the Interdepartmental Loan Committee met in the office of Under Secretary Coolidge, at 3:00 P.M. Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
T.J. Coolidge, Under Secretary of the Treasury,
Marriner S. Eccles, Governor of the Federal Reserve Board,
Jesse H. Jones, Chairman, Reconstruction Finance Corporation,
Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation,
J.F.T. O'Connor, Comptroller of the Currency,
Herman Oliphant, General Counsel for the Treasury Department,
C. B. Upham, Secretary of the Committee.

Mr. Coolidge placed before the meeting a memorandum prepared by the legislative committee of the American Bankers Association, listing 9 proposals for changes in the Title II of the Banking Act of 1935 made by Governor Eccles before the House Banking and Currency Committee and 3 proposals of the American Bankers Committee offered in lieu of 2 of Governor Eccles' suggestions.

There was discussion of the first proposed amendment of Governor Eccles, namely, that ^{the chief} executive officer of a reserve bank be approved by the Federal Reserve Board every three years rather than annually, and it was agreed to.

Mr. O'Connor, however, restated his position in opposition to the transfer of the authority to appoint the chairman of the local Federal Reserve Bank from the Federal Reserve Board to the member banks.

There was some discussion as to what attitude the Treasury should take in connection with the proposals of Governor Eccles and the ABA committee.

Mr. Eccles thought that Mr. Coolidge should support the bill and his amendments.

Mr. Coolidge doubted that the committee would want to present the ABA document or take any formal action with respect to it but merely go over it to be informed.

Mr. Crowley thought it would be bad politically for the committee to go on record as concurring with the ABA recommendations.

Mr. Eccles thought it would be well if the committee reached the same agreement as the ABA but without any official connection.

Mr. Coolidge suggested that the memorandum be read and if it is desirable to make any suggestions of changes to the ABA committee that can be done. He said that he would like to be prepared when he goes on as a witness to answer questions on changes proposed by Mr. Eccles.

The second and third modifications suggested by Mr. Eccles were read and no objection was made to them.

Mr. Morgenthau pointed out, in connection with the fourth modification, that this represented a shift of position from that which Mr. Eccles took in the committee discussion prior to introduction of the bill.

There was general objection the fourth modification and Mr. Eccles agreed to recede from his proposed modification. The only excuse for it anyway had been the objection (which the committee thought "silly") that a President might remove the entire Federal Reserve Board seriatim through designating each one as Governor.

Mr. Eccles gave as the reason for the fifth modification

that it is to meet the arguments of those who want to reach a fixed price level.

Mr. Oliphant thought it an off hand tricky way of settling a grave issue.

Mr. Jones thought it was "bunk".

It was disagreed to.

With respect to modification six, Mr. Jones was of the opinion that there should be three groups of banks rather than two for the purposes of reserve requirement changes by the Federal Reserve Board, but did not insist upon the point.

There was no particular objection to modifications seven and eight. With respect to the composition of the Open Market Committee considerable discussion was had.

Mr. Coolidge stated his general position as one of desiring that both the Federal Reserve Board and the Reserve Bank Governors be represented on the committee.

Mr. Morgenthau wanted to go back to the original provisions of the bill.

Mr. Eccles said the objection to that was there might be a conflict between an Open Market policy agreed upon by one of the members of the board and two Governors (a majority of a committee of 5) and the views of the other 7 members of the Board. He pointed out that he had not agreed to the proposal in the original bill prior to or at the White House conference, but he had been outvoted.

Mr. Morgenthau said that he felt so strong about this point that he would seek an opportunity to testify against Mr. Eccles' changes. He characterized it as the "guts" of the whole bill --

if the present Federal Reserve Board should have Open Market powers, it would be just too bad.

Mr. Eccles asserted that the Board now has control over rediscount rates and reserve requirements. He suggested that the Board be changed but that he can't make such a proposal.

Mr. Oliphant said that if the Board couldn't be changed we shouldn't go ahead with proposals that are predicated upon the theory that a change will be made.

Mr. Morgenthau said that he wouldn't have taken this proposal to the President at all if he had thought that the committee was not in agreement. He said it is the only thing in the bill in which he is interested.

Mr. Coolidge asked if he should suggest a change in the composition of the Federal Reserve Board and Mr. Morgenthau doubted the advisability of that.

Mr. Coolidge said that he thinks it is important some day for the Board to be composed partly of Governors.

Mr. Morgenthau referred again to his experience with the Farm Board and his action in requesting the resignation of the Members of that Board and of being visited by disappointed members who actually cried at the treatment accorded them.

Mr. Eccles insisted that his position as a member of the Board, it would be impossible if he proposed to remove some of the members and then the legislation didn't go through.

Mr. Morgenthau insisted that the present Board is not fit to be the Open Market Committee. He spoke of an Open Market Committee of three Board members and two Governors.

Mr. Jones said that he thought the Secretary of the Treasury should have a voice in Open Market operations.

Mr. Coolidge and Mr. Eccles said that he has a voice.

Mr. Oliphant said that it might well be sometime that he would not.

Mr. Morgenthau said that he didn't want to be on the Open Market Committee. He said that as long as the Board continues as it is he would rather have the Open Market situation as it now is if the proposal in the original bill cannot be upheld. If the Open Market Committee doesn't want to operate, he can use the Stabilization Fund as he has been compelled to do so far.

Mr. Morgenthau stated his position as agreeable to any one of three things: either leave the Open Market Committee as it is, or have it constituted of three members of the Federal Reserve Board and two Reserve Bank Governors, or buy the stock of Federal Reserve Banks.

Mr. Eccles said that in that case the composition of the Federal Reserve Board ought to be changed.

Mr. Morgenthau reminded him that he had ten days of hearings in which to suggest it, to which Mr. Eccles replied that he wasn't in a position to make the suggestion.

It was agreed that either three Reserve Board members and two Governors or five reserve Board members and four Governors would be satisfactory as an Open Market Committee.

With respect to modification nine on real estate loans, Mr. O'Connor restated his dislike of real estate loans by National banks, "unless the Federal Reserve Banks will take the commercial

banks out when they are in trouble."

Mr. Eccles made a distinction between old loans in the banks and new loans to be made and thought that the percentage of valuation on old loans might continue to be 75 or 80, while that on new loans was limited to 60.

Mr. Morgenthau said that he considered 60 top and that the talk of 80% has made a bad impression. It is impossible, he said, to get any first mortgage money in New York today--"I suspect that Mr. O'Connor is now bringing pressure for reduction on mortgage liabilities, and if so he is right."

Mr. Jones said that he was opposed to letting the Federal Reserve Board say whether banks can loan on real estate.

The three proposals of the ABA committee were not discussed.

Mr. Jones: I am not sure that the Federal Reserve Board should say whether banks can loan on real estate. I think it is better to let the market decide.

Mr. Eccles: I think the Federal Reserve Board should have the authority to say whether banks can loan on real estate. I think it is better to let the market decide.

Mr. Morgenthau: I think the Federal Reserve Board should have the authority to say whether banks can loan on real estate. I think it is better to let the market decide.

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Mr. Morgenthau: I think the Federal Reserve Board should have the authority to say whether banks can loan on real estate. I think it is better to let the market decide.

March 19, 1935.
Tuesday.

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H.M.Jr: George?
George
Harrison: Yes, Henry.
H.M.Jr: Good morning.
H: Good morning, sir.
H.M.Jr: Things seem a little bit upset.
H: Yes, they are.
H.M.Jr: Have you got anything very recent?
H: Well, I just got now - I just asked some of my associates to come in here. We're just going over things now.
H.M.Jr: Yes.
H: Trying to collect what there is.
H.M.Jr: You haven't talked to Paris?
H: Talked to Paris yesterday.
H.M.Jr: But not today?
H: Not today.
H.M.Jr: Yes.
H: Maybe Crane has. (Get Crane to come in anyway). Maybe Crane has - I haven't.
H.M.Jr: Yes.
H: But -
H.M.Jr: I'd like to keep in close touch with you. If you get anything, will you phone me personally?
H: Yes - and Norman called me yesterday -
H.M.Jr: Yes.
H: - and he was just chatty. He didn't have anything to say. Said that things were all upset there - that there wasn't much that any of us at Central Banks could do - that it was all in

the hands of the government, and that they weren't on very good speaking terms apparently.

H.M.Jr:

They were not?

H:

The governments were not.

H.M.Jr:

The governments were not?

H:

Yes. And -

H.M.Jr:

That mean - include us?

H:

No, he wasn't. He was talking about Europe then.

H.M.Jr:

Oh, yes.

H:

- because he said he thought that things were not respectively improved by the end of this month when he implied going abroad to have talks. Now, you see in this morning's paper The French are awfully discouraged. They are very much disappointed and upset that we turned them down on their offer. I asked them whether they were going to do anything alone. They said well, they hadn't decided but they didn't think so. They said that wouldn't be the same thing at all - the way they said it.

H.M.Jr:

I see.

H:

- and I just reiterated. I said that the position of our government was

H.M.Jr:

That the French -

H:

I told this to the French - up to the British

H.M.Jr:

Did Norman know anything about it, do you think?

H:

No, he didn't know a thing about it. Nobody told him.

H.M.Jr:

Oh, yes.

H:

No, I had to be very careful not to.

H.M.Jr:

Yes, that's right. Well, I'm here and if you hear anything or if they call anything, I'd appreciate your letting me know right away.

H: All right, I will.

H.M.Jr: We're watching the exchange thing. So far, it hasn't got out of bounds.

H: The Belgium Cabinet is resigned, you know -

H.M.Jr: Yes.

H: - on the gold policy thing.

H.M.Jr: There's nothing really that we can do right now, is there?

H: Crane tells me there's a run on the Bank of Brussels.

H.M.Jr: Run on the Bank of Brussels.

H: That's not the National Bank.

H.M.Jr: On the Bank of Brussels.

H: (Laughter) Crane says the National Bank will be next.

H.M.Jr: The National Bank will be next.

H: He's being flippant.

H.M.Jr: Oh. Well, I'm glad that he feels flippant.

H: But, their banking situation is bad there.

H.M.Jr: How're the governments today, do you know?

H: Oh, they're sick.

H.M.Jr: An eighth to a quarter off -

H: (How far off are they as a whole, Burgess?) Called 4th opened 3/32d off.

H.M.Jr: Yes. I want to talk to Jeff. I don't know what's he doing. (Will you ask Mr. Coolidge to come in, please?) I'll have to get you to work with Burgess on it.

H: The - most of the Treasury bonds are off from one to 4/32d.

H.M.Jr: Is Burgess with you?

H: Yes.

H.M.Jr: Is he - are we doing anything, do you know?

H: Well, I think you got some orders in to the called 4th, that's all.

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

H: Yes.

H.M.Jr : All right, George. Well, if anything -

H: All right. I'll let you know if anything -

H.M.Jr: If I get anything, I'll let you know.

H: All right.

H.M.Jr: Thank you.

March 20, 1935.

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At a time when it was thought that France and possibly other gold standard countries might have to suspend payments of gold, several plans were considered by the Treasury, in consultation with officials of the Federal Reserve Banks, designed to lessen the shock to this country and the world.

One plan was to stop imports of gold to the United States and restrict foreign exchange transactions by amending the general license which was granted November 12, 1934, so as to require a special license for general transactions aggregating more than \$100 in any seven-day period. While in the minds of many people the foreign exchange restrictions which had been in effect from the beginning of the banking holiday relate to sales of dollars, those restrictions, in fact, have always related quite as much to purchases of dollars. The possible tightening of foreign exchange regulations would then, it was thought, have the effect of preventing a flight from France, and possibly other gold-standard countries, to the dollar, by other means once we had cut off imports of gold. I spoke of the plan as though it would be put into effect only after France had gone off gold. Of course, it was possible to have put it into effect a little time before and thereby save off exportations of gold payments particularly if England and other countries took similar steps.

The other principal plan contemplated no changes in our gold or foreign exchange regulations, but assumed that the situation could be met by facilitating credits and gold exports. This plan was based partly on the conviction that psychologically a flight to the dollar would be encouraged rather than discouraged by the announcement of the change in regulations which made the acquisition of dollars more difficult.

As I recall, the attached papers designed to make the first plan effective were not signed because of a general conviction that the second plan would be better.

John G. Laylin
June 15, 1936.



THE SECRETARY OF THE TREASURY
WASHINGTON

My dear Mr. President:

On September 4, 1934, with your approval, I authorized the Federal Reserve Bank of New York, as fiscal agent of the United States, to purchase or sell, or agree to purchase or sell, at home or abroad, for the account of the Stabilization Fund established in Section 10 of the Gold Reserve Act of 1934, foreign exchange (including foreign coins and currencies and/or coins or bullion into which the same may be convertible) for present or future delivery. A copy of this letter of authorization is attached. In order that there may be no question of the authority of such bank to purchase or sell, at home or abroad, gold bullion and gold coins (other than United States gold coins situated in the United States or exported therefrom contrary to law) I propose to send to the Federal Reserve Bank of New York a letter confirming its authority to make such purchases and sales. The proposed letter is attached.

If the proposed letter and the purchases and sales therein authorized to be made or agreed to meet with your approval, I should appreciate it if you would signify such approval by signing the notation at the foot hereof.

Faithfully yours,

Henry Morgenthau Jr.
Secretary of the Treasury.

APPROVED:

Franklin D. Roosevelt

advised to you by the Secretary of the Treasury or on his behalf by an official of the Treasury designated for that purpose by the Secretary of the Treasury. The giving of each such specific authorization and advice shall constitute a determination that the transactions specifically authorized therein are authorized under Section 10 of the Gold Reserve Act of 1934.

Effective until further notice, I have designated the Under Secretary of the Treasury, Thomas Jefferson Collidge, as such official of the Treasury who may advise of specific authorizations in my behalf under this letter.

It is agreed that in consideration of your acting in accordance with this authorization:

- (1) The Secretary of the Treasury will provide you (for yourselves and any agency or agencies you select hereunder) with
 - (a) funds in United States dollars equal to the total of the purchase price of all foreign exchange purchased or agreed to be purchased in accordance with this authorization;
 - (b) foreign exchange as required to fulfill commitments, contracts, and agreements, for the sale of foreign exchange made in accordance with this authorization; and
 - (c) all out-of-pocket or other necessary expenses, and customary charges (including, where loss of interest is sustained, debit interest at rates current at the place where such loss is sustained), incurred by you, or by any agency or agencies selected by you hereunder, in connection with transactions authorized hereunder;

September 4, 1954

Gentlemen:

CONFIDENTIAL: This letter is not to be shown to, or referred to in paraphrase for, any one but the officers of the Federal Reserve Bank of New York and the Federal Reserve Board.

Pursuant to the authority vested in the Secretary of the Treasury by Section 10 of the Gold Reserve Act of 1934, for the purpose of stabilizing the exchange value of the dollar, I hereby authorize and request you, as fiscal agent of the United States, acting directly or through such agency or agencies as you may from time to time select, to deal in foreign exchange for the account of the fund established in said Section 10 (herein referred to as the "Fund"), as follows:

To purchase or sell, or agree to purchase or sell, at home or abroad, for account of the Fund, foreign exchange (including foreign coins and currencies and/or the coins or bullion into which the same may be convertible) for present or future delivery. The kinds of such foreign exchange to be purchased or sold, or agreed to be purchased or sold, the rates at which such purchases and sales are to be made or agreed to, and the maximum amounts to be purchased or sold within designated times and at designated places, will be specifically authorized from time to time by the Secretary of the Treasury and

(2) You are authorized, as fiscal agent of the United States, to pay or agree to pay to yourselves, and to any agency or agencies you may have from time to time selected hereunder, the funds referred to in subparagraph (1)(a) above, the foreign exchange referred to in subparagraph (1)(b) above, and the expenses and charges referred to in subparagraph (1)(c) above; and to charge the amounts so paid to the account on your books designated "Secretary of the Treasury Special Account";

(3) No liability will be incurred by you in connection with any acts, arrangements, or agreements entered into or performed in accordance with this authorization, except for your own negligence;

(4) Enclosed is a form of letter which has been approved by the Secretary of the Treasury, and which you, as fiscal agent of the United States, are authorized to write to each of the agencies selected by you to carry out transactions authorized by this letter and by specific authorizations received by you hereunder. You are also authorized to advise each such agency that it may rely upon the agreements made by you as fiscal agent of the United States in this form of letter and the specific authorizations given by you thereunder, as binding upon the United States;

(5) You are authorized, as fiscal agent of the United States, to agree with every agency selected by you hereunder, in consideration of its acting in accordance with your

authorization to it, that no liability will be incurred by it in connection with any acts, arrangements, or agreements entered into or performed in accordance with your authorization to it granted in accordance herewith, except for its own negligence;

(6) You are authorized, as fiscal agent of the United States, to pay or agree to pay to any agency selected by you hereunder a commission of not in excess of .00125¢ per French franc and .005¢ per Dutch guilder and Belgian belga, on all purchases and sales of, or agreements to purchase or sell, foreign exchange made under this authorization through such agency (which commissions will be in addition to any reasonable and customary commissions paid through such agency to brokers for the execution of such purchases or sales); and

(7) You are further authorized to make such incidental arrangements or agreements with any such agency as may be necessary or reasonable in connection with the purchases or sales or agreements to purchase or sell herein authorized and requested to be made.

The operations authorized by this letter have been approved by the President.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York.

Enclosure.

APPROVED:

(Signed) Franklin D. Roosevelt.

THE WHITE HOUSE,

SEPTEMBER 21, 1954.

JGL/kk 9/18/54

CONFIDENTIAL: This letter is not to be shown to, or referred to in paraphrase for, any one but the officers of the Federal Reserve Bank of New York and the Federal Reserve Board.

Gentlemen:

Reference is made to my letter to you of September 4, 1934. The authority therein conferred related expressly to "foreign exchange (including foreign coins and currencies and/or the coins or bullion into which the same may be convertible)". This will confirm that such authority includes authority to purchase or sell or agree to purchase or sell, at home or abroad, for account of the fund established in Section 13 of the Gold Reserve Act of 1934, gold coins and gold bullion. Accordingly, wherever the term "foreign exchange" appears in that letter, it shall be construed to include such gold coin or gold bullion, whether acquired at home or abroad. This authority does not include, however, the sale of any United States gold coin or the purchase of United States gold coin situated in the United States or exported therefrom contrary to law.

This confirmation meets with the approval of the President.

Very truly yours,

Secretary of the Treasury.

Federal Reserve Bank of New York,
New York, New York.

JCL:cs
2.23.35



THE SECRETARY OF THE TREASURY
WASHINGTON

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Gentlemen:

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This confirmation meets with the approval of the President.

Very truly yours,

Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York. 1

TREASURY DEPARTMENT,
Office of the Secretary.
, 1935.

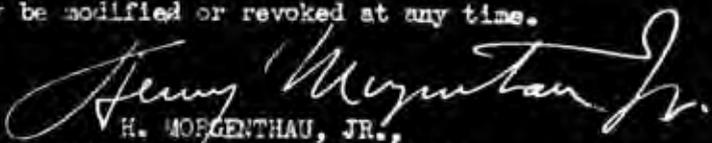
REGULATIONS

Amending the Regulations of November 12, 1934, Relating
to Transactions in Foreign Exchange, Transfers of
Credit, and the Export of Coin and Currency.

Article 2 of the Regulations of November 12, 1934, Relating to
Transactions in Foreign Exchange, Transfers of Credit, and the Export
of Coin and Currency, and the general license therein granted are
amended to read as follows:

"Article 2. Licenses may be granted, and a general
license is hereby granted, to all individuals, partnerships,
associations, and corporations, authorizing any and all
transactions in foreign exchange, transfers of credit, and
exports of currency (other than gold certificates) and silver
coin, involving amounts not exceeding in the aggregate \$100
in any seven-day period for the account of any one individual,
partnership, association, or corporation or by any one indi-
vidual, partnership, association, or corporation acting,
directly or through an agent or agency, for the account of
himself or itself. The general license herein granted author-
izes transactions to be carried out and exports to be made
within the maximum amounts herein provided which are permitted
by the Executive Order of January 15, 1934, under license
therefor issued pursuant to such Executive Order; but does not
authorize any transaction to be carried out which, at the time,
is prohibited by any other order or by any law, ruling, or
regulation."

The regulations of November 12, 1934, and the general license
therein granted, as amended, may be modified or revoked at any time.


H. MORGENTHAU, JR.,
Secretary of the Treasury.

APPROVED:





THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. Coolidge:

There are attached hereto the following documents:

"B." A draft of amendment to the Provisional Regulations issued under the Gold Reserve Act of 1934, authorizing the Secretary of the Treasury to suspend or restrict the authority of the mints to purchase imported gold; and

"E." A draft of amendment to the Regulations of November 12, 1934, issued under the Executive Order of January 15, 1934, Regulating Transactions in Foreign Exchange, Transfers of Credit, and the Export of Coin and Currency.

These documents have been approved by the President. I have signed each of the documents subject to the condition that each one shall bear the date of, and become effective on, the day on which you deliver them as herein provided. You are authorized to deliver each of the documents when, in your judgment, the public interest requires that the amendments therein contained should become effective; and, it is understood that you will deliver the documents or one of them in accordance with advice communicated to you from me.

Delivery shall be made by dating the document the date it is to become effective and filing the document so dated in the official files of the Treasury Department.

Faithfully yours,

Henry Morgenthau Jr.
Secretary of the Treasury.

Hon. T. J. Coolidge,

Under Secretary of the Treasury.

Enclosures.

TREASURY DEPARTMENT,
Office of the Secretary.
_____, 1935.

AMENDMENT TO PROVISIONAL REGULATIONS

Issued under the
GOLD RESERVE ACT OF 1934.

The Provisional Regulations issued on January 30, 1934, under the Gold Reserve Act of 1934, as amended, are further amended in Section 35 by substituting a semicolon for the period at the end thereof and adding the following:

"And provided further, That the authority of the Mints to purchase gold imported into the United States may be withdrawn, suspended, or restricted at any time by the Secretary of the Treasury without notice other than by notice of such withdrawal, suspension, or restriction mailed or telegraphed to the Mints."

Henry Morgenthau Jr.
Secretary of the Treasury.

APPROVED:

Franklin D. Roosevelt



THE SECRETARY OF THE TREASURY
WASHINGTON

The President,

The White House.

Dear Mr. President:

On January 31, 1934, with your approval, I issued statements announcing that I would, until further notice, buy imported gold at \$35 an ounce (less 1/4 of 1%), and sell gold for export to foreign central banks at \$35 an ounce (plus 1/4 of 1%). Sections 3700 and 3699 of the Revised Statutes, as amended by the Gold Reserve Act of 1934, authorized these purchases and sales at rates and on terms and conditions deemed by the Secretary of the Treasury most advantageous to the public interest. It is possible that there may be disturbances in the foreign exchange markets such that the public interest will require (1) alterations in the rates, terms, and conditions under which such purchases and sales are made, or (2) the discontinuance or suspension of some or all of such purchases and sales.

If you approve of such discontinuance or suspension or alteration in the rates, terms, and conditions of some or all of these purchases or sales as the Secretary of the Treasury deems most advantageous to the public interest, I shall appreciate it if you will signify such approval by signature of the notation at the foot of this letter.

Faithfully yours,

Henry Morgenthau Jr.
Secretary of the Treasury.

APPROVED:

Timothy W. Ransome

March 20th

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H.M.Jr. reported that he talked to Governor Harrison last night. The Federal Reserve System has, roughly, about one hundred million dollars worth of the new 2 7/8% bonds. H.M.Jr. would buy from the Federal Reserve System 25 million of their 2 7/8% bonds for the Stabilization Fund with the understanding that they will use this 25 million dollars in the market. His reason is that he wants this income for the Stabilization Fund to offset any possible loss in sterling that we now own.

H.M.Jr. discussed this with Mr. Coolidge and Bell and decided to modify the suggestion which Mr. Morgenthau made to Governor Harrison last night and that is - in the Stabilization Fund we have, roughly, about 26 million dollars of Consols and Panamas. The thought is that we would offer the Federal Reserve System these in exchange for an equal amount of 2 7/8% bonds.

H.M. Jr. called Governor Harrison at a quarter to ten and gave him this new suggestion but said that if Governor Harrison wanted cash instead of the Consols he would be glad to give it to him. H.M.Jr. told Governor Harrison that his purpose is to keep the 2 7/8% bond because he wanted the income for the Stabilization Fund - the Consols expiring on July 1st. He also told Governor Harrison that if we did swap he could sell the Consols and buy other things.

March 20th

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The two reasons that he gave Governor Harrison for wanting to do this is:

1. That he wants this income for the Stabilization Fund.
2. He wants to give the Federal Reserve 25 million dollars worth of money for securities which they can swap in supporting the market.

He also told Governor Harrison that we were working on all kinds of regulations in the way of embargoes and exchange regulations in case we should want to do something.

The President is going south on Saturday for two weeks and H.M.Jr. wanted certain documents signed in order to be ready for any possible emergency.

What he will actually do, if an emergency should arise, is another question but he did want to be ready.

Governor Harrison said he would think over the above propositions and let H.M. Jr. know.

H.M.Jr. told Mr. Coolidge that he wanted to be a little more aggressive in buying for the account of Postal Savings.

After Bell left Coolidge stayed behind and told Mr. Morgenthau that he felt it would be a great mistake to put on exchange restrictions and begged Mr. Morgenthau not to do it.

March 20th

Governor Harrison called back in the afternoon and said that he had gotten in touch with his Executive Committee and that they are prepared to make a swap and take 26 million of Consuls and Panamas in exchange for 26 million worth of 2-7/8% bonds.

March 20, 1935.
Wednesday.

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H.M. Jr: Yes, George.

George
Harrison: Henry, I got in touch with all our executive
committee -

H.M. Jr: Yes.

H: - and we're prepared to make that swap.

H.M. Jr: Good. Do you want to make it in the form
of a swap?

H: Well, I think that's better.

H.M. Jr: It suits me.

H: We'll make it in the form of a swap then we
avoid any question of excess reserves.

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

H: And - we'll do it today or any time you say.

H.M. Jr: Well -

H: I'd rather - almost rather do it today.

H.M. Jr: I'd like to do it today. I don't know what
the prices are - fix it up with Jeff as to
prices -

H: Well, I'll get Burgess - I'm just talking
Now, there's only one other question. As a
rule, I like to tell Eccles in advance, but
I can never get a hold of him, but I'm sure
there won't be any trouble there.

H.M. Jr: Well - well - how can there be?

H: Well, there can't be.

H.M. Jr: I mean - you want me to tell him?

H: No, I'll talk to him as soon as I can get
him on the telephone, but I was calling you
quickly to get you before 10:15.

H.M. Jr: Well - then - then, it's a bargain -

H: Yes.

~~1377~~
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H.M.Jr: - and whatever the prices are - at which prices are this morning.

H: Some place between 25 and 30 million.

H.M.Jr: It was around 26, I think.

H: Yes. Well, my authority between 25 and 30.

H.M.Jr: Well, we'll sell you all the Panamas and the Consols we have.

H: All right.

H.M.Jr: Now, don't rip the market on me, 'til we get the prices.

H: No, I won't if you won't. (Laughter)

H.M.Jr: Well, you're my agent. (Laughter)

H: Now, I talked to Fraser, and Fraser says that things are surprisingly calm over there considering the action that the Belgians are taking.

H.M.Jr: Really?

H: - that he doesn't think the new cabinet has been formed yet unless it has been formed in the last two hours.

H.M.Jr: Yes.

H: - that it will undoubtedly be either a socialist cabinet or a socialist cabinet

H.M.Jr: I see.

H: - but that in either event, whichever cabinet it is, he thinks the belga will go, that is they'll devalue -

H.M.Jr: They'll devalue.

H: - or devalue in some way sterling

H.M.Jr: Yes.

H: He says he doesn't think that the other fellows will go, that they are going to try to hold on until they're forced off.

H.M.Jr: I see.

H: - that, of course, the German situation is pre-occupying them a great deal now and he thinks they would be a lot more concerned about the belga thing if it weren't for that political question in Germany. But, he's going to keep me posted of anything that he hears.

H.M.Jr: Well, if - if the Belgians devalue and the others didn't, that wouldn't necessarily mean that we'd have to do anything ourselves, would it?

H: No, I don't think it would make very much difference at all to us. He - I asked him what he thought would be the effect on sterling. I think we both agree that the initial effect would be some increase in sterling due to the fact that there would be some swapping from Belgium to London, but that in the long run the influence is depressing,

H.M.Jr: Yes.

H: - on sterling.

H.M.Jr: Well, let's - I'm glad to get that. Now, let me ask you, was it you or somebody else told me that amongst the bankers in New York they consider Potter about the most able?

H: Well, I don't know if anybody else told you that, but I think he is.

H.M.Jr: Yes.

H: - he and Reynolds.

H.M.Jr: He and Reynolds amongst the two ablest.

H: Yes.

H.M.Jr: What?

H: Yes - depends upon what you want them for, of course, but I mean as a generalization I would put those two fellows up.

H.M.Jr: You would?

H: - at the top, yes, of the commercial banker.

H.M.Jr: Right. Well, then, I'll tell Jeff that that deal's on and he'll work out the details later.

H: That's right.

H.M.Jr: Thank you.

H: All right.

H.M.Jr: ... with ... and ... we want to ...
... they tell us that in ...
... around 25,000,000 ...

H: Yes.

H.M.Jr: - and the thought was that we'd offer you those in exchange for an equal amount of 2 and 7/8.

H: Yes.

H.M.Jr: Well, let's put it this way. We'll give you your choice of those or cash, either one, either way you wanted it. But would rather have it off of your Comstock than ... let you sell those, which I am told are readily saleable.

H: Yes.

H.M.Jr: - because at this time he said he doesn't ...
... about ...

H: Care about having what?

H.M.Jr: The excess reserves ...

H: No, I - I don't think he would ...
... right now.

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

H: You mean ...

H.M.Jr: It's ...

H: ...

H.M.Jr: ...

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Wednesday.

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H.M.Jr: George?

George
Harrison: Yes, Henry.

H.M.Jr: In talking over my suggestion that I made last night -

H: Yes.

H.M.Jr: - with Coolidge and Bell, we want to modify it slightly. They tell me that in the Stabilization Fund we have roughly around 26,000,000 of Consols and Panamas.

H: Yes.

H.M.Jr: - and the thought was that we'd offer you those in exchange for an equal amount of 2 and 7/8. See?

H: Yes.

H.M.Jr: Well, let's put it this way. We'll give you your choice of those or cash, either one, either way you wanted it. Jeff would rather have it off of your Consols than Panamas, let you sell those, which I am told are readily saleable.

H: Yes.

H.M.Jr: - because at this time he said he doesn't particularly care much about having the excess reserves built up.

H: Care about having what?

H.M.Jr: The excess reserves built up unnecessarily.

H: No, I - I don't think we ought to do anything in any way that would increase the excess reserves right now.

H.M.Jr: Well, this way it would not.

H: You mean if we swapped?

H.M.Jr: If we swapped.

H: No, it wouldn't make any difference.

H.M.Jr: If we swapped it wouldn't make any difference and -

H: Well, why would you want to swap?

H.M.Jr: Well, just for that reason. That's just a suggestion.

H: Well, I mean you're not much better off then. You mean you get

H.M.Jr: Well, we'd keep the 2 and 7/8, yes.

H: What's that?

H.M.Jr: We'd keep the 2 and 7/8 in the Stabilization Fund as an investment. I want it for the income.

H: I see.

H.M.Jr: You see what I mean?

H: Yes.

H.M.Jr: The other one would expire the first of July.

H: We're mulling it over here now -

H.M.Jr: I knew you were and I wanted to give you that thought and we'd keep those - I want the income in the Stabilization Fund.

H: Yes, I see. All right, well, I'm - if we - if we don't swap, but just pay cash -

H.M.Jr: Yes.

H: - then we've got to consider what we've considered in the past, -

H.M.Jr: Yes.

H: - the effect of our decrease in our total holdings.

H.M.Jr: Well, you could take - well -

H: If we don't swap, I say.

H.M.Jr: Yes. Then if we do swap, you could sell the Panamas and buy other things.

H: Yes, that's right.

H.M.Jr: See?

H: Yes, all right. Well, now let me - I'll check -

H.M.Jr: You take the Panamas and the Consols and I - the men here say they're like cash and you can sell them and buy other things.

H: Yes.

H.M.Jr: You see, I - I've got two reasons that I'm trying to do this and then there's the in the third reason.

H: Yes.

H.M.Jr: I mean the third portion. Reason number one is, I want this for investment in Stabilization Fund, see? I want some income. Number two, I want to give you \$25,000,000 worth of money or securities that you could swap in supporting the market, you see? - To the extent of \$25,000,000 worth of - other than call on 2 and 7/8.

H: Yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: Now, those are my objectives.

H: Well, then that - all right, then let me continue it along that line.

H.M.Jr: Now, look, when you get through with that, call me - I tell you, 10:15 until 11:00 I have appointments, but I'm available up to 10:15.

H: Well, I'll try and get you before then. My call to the Treasury is coming through pretty soon. I'll see if

H.M.Jr: Right, and then after that - we're working here on all kinds of regulations in case we should have to do something in the way of embargoes and exchange regulations and so forth and so on, and Oliphant's going to get, or Laylin will get in touch with Crane, see?

H: Yes.

H.M.Jr: - and -

H: You're not - you're not talking anymore about talk-to anybody, are you?

H.M.Jr: No, no, but this thing what I'm thinking of is after

the President goes away Saturday, he'll be gone for two weeks. I've got to get these documents signed and put them in the safe, and I want to be ready for any possible emergency, see?

H: I see.

H.M.Jr: - and - then as to what the best thing is to do after the emergency arises is another question.

H: Yes.

H.M.Jr: But, if you can settle this bond question between now and reasonable time, then after I would like to talk to you and Jeff'll want to talk to you about -

H: Well, I couldn't settle it right off the bat myself anyway. I'd have to talk to the committee and all the rest.

H.M.Jr: That's all right. I'm not - I mean - I

H: How many have you got of the Consols?

H.M.Jr: They tell me the Consols and the Panamas are about 26,000,000.

H: Yes.

H.M.Jr: Goodbye.

H: All right, sir.

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In discussion with Tom Smith, Coolidge and Oliphant, it was brought out that Oliphant gave Eccles a statement of the law as to what the investments of the Governor of the Federal Reserve could or could not be.

Tom Smith said that Eccles told him yesterday that the opinion as to his investments was given to him by Wyatt, General Counsel of the Federal Reserve.

It now appears that I have learned to-day for the first time that Eccles sold his odds and ends of bank shares to the Eccles Family Investment Corporation, that this corporation owns a chain of 20 banks along with a lot of other property and that Eccles' interest in the corporation is about 9%.

Tom Smith sat next to Mrs. Carrie Grayson at Coolidge's and Mrs. Grayson told Smith that Senator Glass had told her that he (Glass) had enough votes to defeat Eccles.

I told the three men present that after the bill passed the house, I would then study it and discuss with Tom Smith and the Committee what it might be necessary to do for political expedient reasons.

Smith asked me whether I heard much discussion about the Federal Reserve stock and I said yes I did and that I was open minded.

mem - 16 by HO.
3 drafts 140

The time has arrived for a further word on money and prices. There should be no uncertainty concerning the Government's position on this matter because I have repeatedly stated that it has been, and is, the fixed and definite policy of the Government to raise the general average of commodity prices until agriculture and industry are able to give work to the unemployed; until it is possible to pay public and private debts more nearly at the price level at which they were incurred; and until a normal balance in the price structure has been restored. With equal definiteness and certainty, I have stated that, when such level and balance of prices have been attained, we shall seek thereafter to maintain a dollar not subject to disturbing changes in its purchasing and debt-paying power.

The purpose to attain a general price level that does less injustice to those with things to sell and debts to pay is a fixed purpose, but no more so than our purpose to prevent prices running beyond that point and thereby producing reverse but equal injustice. This settled policy of the Government, its plenary powers, and its vast resources stand as ample pledge and assurance that there will be nothing remotely resembling "runaway" inflation.

We have been making steady progress toward attaining our objective as to prices. It is a goal that takes time to reach. Steps forward have been taken as rapidly as conditions have permitted. It is now possible to take another step.

Consideration of the substantial progress we have already made toward restoration of prices and general recovery now makes it possible

and prudent to state the approximate level of prices which we are determined to reach and beyond which we are determined not to go.

The general price level which we purpose to attain and maintain is that approximating the average for the last fifteen years.

Our concern is with the general level and balance of prices. The prices of particular commodities may vary widely from time to time with variations in their demand-supply situation. A proper balance of prices does not call for a rise in those individual prices which did not fall during the depression. Indeed, a decline in the prices of some things would improve our price structure.

I have repeatedly mentioned the need for world-wide stabilization, and have been glad to note the growing appreciation in other nations of the desirability of arriving, as quickly as possible, at a point where steadiness in prices and values may be maintained. Because of the present disturbed conditions in the exchange markets of the world, I am gratified that it is possible for this nation at this time to indicate the domestic price level towards which it is moving.

The hope for greater stability in exchange relations among nations becomes more substantial with the spread of the conviction that it would ultimately prove profitless for any nation to seek unfair advantages through monetary measures which disregard the legitimate interests of its neighbors. As we go forward on our program for putting and keeping prices in this country where they

should be, we shall, of course, be constantly prepared to protect our price structure in its relations to the markets of the world.

For reaching and maintaining the level of prices at which we aim, we shall continue to use the various powers and agencies of the Government as circumstances may dictate. Among other measures, the Secretary of the Treasury will, under the powers conferred by the Congress, buy and sell gold and silver separately or together, in such quantities and at such prices as will advance us toward our goal of higher and then more stable domestic prices.

That we may neglect no opportunity for cooperative efforts in these matters of such moment to the well-being of the world, I have requested the Treasury to confer with the corresponding office of any country which expresses a desire to cooperate in world stabilization on a basis consistent with our price policy. I hope that such consultation may be an important step toward a consensus of view and common agreement which will be both a mighty stimulus to further world recovery, and a lasting assurance of better things for the world and of a better feeling among the nations of the world. When such agreement is reached, we can turn to the task of embodying our policy in permanent legislation.

The time has arrived for a further word on the phase of our recovery program relating to prices. There should be no uncertainty concerning the Government's position on this matter because I have repeatedly stated that it has been, and is, one of the fixed and definite policies of the Government to raise the general average of commodity prices until, as a result of this and other measures, agriculture and industry are able to give work to the unemployed; until it is possible to pay public and private debts more nearly at the price level at which they were incurred; and until a normal balance in the price structure has been restored. With equal definiteness and certainty, I have stated that, when such level and balance of prices have been attained, we shall seek thereafter to maintain a dollar not subject to disturbing changes in its purchasing and debt-paying power.

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The hope for greater stability in exchange relations among nations becomes more substantial with the spread of the conviction that it would ultimately prove profitless for any nation to seek unfair advantages through monetary measures which disregard the legitimate interests of its neighbors. As we go forward on our program for putting and keeping prices in this country where they

should be, we shall, of course, be constantly prepared to protect our price structure in its relations to the markets of the world.

For reaching and maintaining the level of prices at which we aim, we shall continue to use the various powers and agencies of the Government as circumstances may dictate. Among other measures, the Secretary of the Treasury will, under the powers conferred by the Congress, buy and sell gold and silver separately or together, in such quantities and at such prices as will advance us toward our goal of higher and then more stable domestic prices.

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very confidential
draft by H.O.

7-14-42

The time has arrived for a further word on money and prices. There should be no uncertainty concerning the Government's position on this matter because I have repeatedly stated that it has been, and is, the fixed and definite policy of the Government to raise commodity price levels until agriculture and industry are able to give work to the unemployed; until it is possible to pay public and private debts more nearly at the price level at which they were incurred; and until a normal balance in the price structure has been restored. With equal definiteness and certainty, I have stated that, when such level and balance of prices have been attained, we shall seek thereafter to maintain a dollar not subject to disturbing changes in its purchasing and debt-paying power.

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The general price level which we purpose to attain and maintain is that approximating the average for the last fifteen years. For reaching and maintaining this level, all the appropriate powers of the Government will be used as occasion may require.

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That we may neglect no opportunity for cooperative efforts in these matters of such moment to the well-being of the world, I have requested the Treasury to confer with the corresponding office of any country which expresses a desire to cooperate in world stabilization on a basis consistent with our price policy. I hope that such consultation may be an important step toward a consensus of view and common agreement, will be both a might stimulus to further world recovery, and a lasting assurance of better things for the world and of a better feeling among the nations of the world. When such agreement is reached, we can turn to the task of embodying our policy in permanent legislation.

H U
March 7/35

March 22d

H.M.Jr. called McIntyre and asked if he would not arrange an appointment for the President to see him and Bell.

H.M.Jr. feels that the four billion eight should not be allotted by the President but that the Director of the Budget ought to approve the spending of this money. If anything goes sour the first question that will be asked is who approved the spending of this money for such and such a thing and of course the pressure will be brought on the President but if the Director of the Budget does it, then the pressure of course will be brought on Bell just where it ought to be.

* * * * *

H.M.Jr. spoke to the President this morning and told him about Eccles having 9% interest in Eccles Family Investment Corporation. The President suggested that H.M.Jr. send for Eccles and say: "I have heard that they have enough votes to defeat your confirmation on the hill. I suggest that you (Eccles) write to Senator Fletcher and say that this point has been raised by Congress as to your investment in the Family Trust of about 9%. Then say it is true that there is this Family Trust and that their holdings are 5% in lumber, 5% in cement, etc., etc., and give them an actual breakdown and tell them that you personally own 9% interest in this investment trust. Also tell them that you have been advised by the General Counsel of the Federal Reserve that it is perfectly proper for you to hold this stock but if the Committee does not think it is wise for you to hold this stock, then you would be glad to dispose of it."

H.M.Jr. thought that this was very clever and Eccles is coming in to-day at 12:30 to see him.

* * * * *

The Vice-President said at Cabinet to-day: "Don't give those people in New Orleans \$1.00. Let them starve to death. If they get rid of Huey Long we will give them some money - otherwise we will not." The President agreed with the Vice-President.

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March 22, 1935.
Friday.

H.M.Jr: Hello.

O'Connor: Hello.

H.M.Jr: Jefty?

O'C: Yes, sir.

H.M.Jr: Henry Morgenthau.

O'C: Oh yes, how are you?

H.M.Jr: Are you in the hotel?

O'C: No, I'm over here in the Federal Reserve Board.

H.M.Jr: Oh.

O'C: We're having - we started a meeting about 2:30 and we're still in it.

H.M.Jr: Oh. I wanted to talk to you about the Crowley matter.

O'C: Oh yes. Anything happened recently?

H.M.Jr: No, I've been talking it over. I - I've got Oliphant and Jefty here, Oliphant and Jeff Coolidge in my room and we've been going over things and I'm going away tomorrow night.

O'C: Yes. Going to be away long?

H.M.Jr: No, for a week.

O'C: Oh yes.

H.M.Jr: - and I - I simply feel that this whole matter is resting on receiving the report from you.

O'C: That's right.

H.M.Jr: - and I - I think we ought to close up the matter one way or the other.

O'C: Well - of course, the only danger of holding it is if somebody up there, like our friend from Louisiana or somebody should - if some busy fellows out there should get busy and get him to shoot off and make it embarrassing here. Now,

that's the only chance we're taking, but I'm - I'm sure - my best judgment is not to open this thing until you get back. That'd be my best judgment, then let's sit down with it, Henry.

H.M.Jr: Well, I haven't opened it. I feel that - you see you started -

O'C: I know, I know and I'll - I'll open it and go through, but I - I -

H.M.Jr: - and I feel that the responsibility is yours.

O'C: That's right.

H.M.Jr: - and - I mean it so happened that I was down at Sea Island Beach -

O'C: That's right.

H.M.Jr: - and you came to Coolidge and then Coolidge made these analyses -

O'C: That's right.

H.M.Jr: - and then you said you weren't satisfied -

O'C: That's right.

H.M.Jr: - and you said you'd make additional investigations -

O'C: That's right.

H.M.Jr: Now -

O'C: It's all correct.

H.M.Jr: My position is I'm waiting for you to either clear the man or to bring charges

O'C: Well, if - if - if - if the thing - if the thing - if he should fade out, do you think it's necessary to injure anybody?

H.M.Jr: Well, I've just simply got to take the position that I'm waiting for a report from you.

O'C: Well, that's all right, then. If you'll do that until you get back I'll sit down and talk to you about it.

H.M.Jr: All right.

O'C: All right.

March 22, 1935.

Dear Jefty:

Confirming my telephone conversation of to-day, I am waiting for your report on Mr. Crowley so that I can close out this matter.

I think that the charges that you originated against Mr. Crowley should be substantiated or withdrawn.

Sincerely,

Mr. J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

March 22, 1935. 145
Friday.

H.M.Jr: Hello.

O'Connor: Hello.

H.M.Jr: Jefty?

O'C: Yes sir.

H.M.Jr: Henry Morgenthau.

O'C: Oh yes, how are you?

H.M.Jr: Are you in the hotel?

O'C: No, I'm over here in the Federal Reserve Board.

H.M.Jr: Oh.

O' C: We're having - we started a meeting about 2:30 and we're still in it.

H.M.Jr: Oh, I wanted to talk to you about the Crowley matter.

O'C: Oh yes. Anything happened recently?

H.M.Jr: No, I've been talking it over. I - I've got Oliphant and Jeft~~y~~ here, Oliphant and Jeff Coolidge in my room and we've been going over things and I'm going away tomorrow night.

O'C: Yes. Going to be away long?

H.M.Jr: No, for a week,

O'C: Oh yes.

H.M.Jr: - and I - I simply feel that this whole matter is resting on receiving the report from you.

O'C: That's right.

H.M.Jr: - and I - I think we ought to close up the matter one way or the other.

O'C: Well - of course, the only danger of holding it is if somebody up there, like our friend from Louisiana or somebody should - if some busy fellows out there should get busy and get him to shoot off and make it embarrassing here. Now,

March 22, 1935.
Friday.

H.M.Jr: Hello.
O'Connor: Hello.
H.M.Jr: Jefty?
O'Connor: Yes sir, haven't opened it. I feel that - you see you started -
H.M.Jr: Henry Morgenthau.
O'Connor: I know, I know and I'll - I'll open it and go.
O'Connor: Oh yes, how are you?
H.M.Jr: Are you in the hotel?
O'Connor: No, I'm over here in the Federal Reserve Board.
H.M.Jr: Oh, and - I mean it so happened that I was down at Sea Island Beach -
O'Connor: We're having - we started a meeting about 2:30 and we're still in it.
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O'Connor: Oh yes.
H.M.Jr: - and I - I simply feel that this whole matter is resting on receiving the report from you.
O'Connor: My position is I'm waiting for you to either clear that's right.
H.M.Jr: - and I - I think we ought to close up the matter one way or the other.
O'Connor: Well - of course, the only danger of holding it is if somebody up there, like our friend from Louisiana or somebody should - if some busy fellows out there should get busy and get him to shoot off and make it embarrassing here. Now, until you get back I'll sit down and talk to you about it.
H.M.Jr: All right.
O'Connor: All right.

- 2 -

that's the only chance we're taking, but I'm - I'm sure - my best judgment is not to open this thing until you get back. That'd be my best judgment, then let's sit down with it, Henry.

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that's the only chance we're taking, but I'm - I'm sure - my best judgment is not to open this thing until you get back. That'd be my best judgment, then let's sit down with it, Henry.

H.M.Jr: Well, I haven't opened it. I feel that - you see you started -

O'C: I know, I know and I'll - I'll open it and go through, but I - I -

H.M.Jr: - and I feel that the responsibility is yours.

O'C: That's right.

H.M.Jr: - and - I mean it so happened that I was down at Sea Island Beach -

O'C: That's right.

H.M.Jr: - and you came to Coolidge and then Coolidge made these analyses -

O'C: That's right.

H.M.Jr: - and then you said you weren't satisfied -

O'C: That's right.

H.M.Jr: - and you said you'd make additional investigations -

O'C: That's right.

H.M.Jr: Now -

O'C: It's all correct.

H.M.Jr: My position is I'm waiting for you to either clear the man or to bring charges

O'C: Well, if - if - if - if the thing - if the thing - if he should fade out, do you think it's necessary to injure anybody?

H.M.Jr: Well, I've just simply got to take the position that I'm waiting for a report from you.

O'C: Well, that's all right, then. If you'll do that until you get back I'll sit down and talk to you about it.

H.M.Jr: All right.

O'C: All right.

March 23d

This is a case that Senator Glass was interested in and wished H.M.Jr. to handle personally for him, which he did.

The order of disbarment on Clyde A. Brown was rescinded and the following memorandum from W. W. Cooke explains it.

"On August 16, 1934, the respondent was disbarred. The complaint contains several Counts all of which were dismissed with the exception of the Fifth Count, wherein the respondent was charged with having prepared a false income tax return for E. C. Tudor of Roanoke, Virginia, for the year 1928.

"The evidence disclosed that all income was reported except \$30,000 which was perhaps constructively received in the taxable year. The income which was, however, classified erroneously and such classification resulted in reduced taxation.

"The Committee on Enrollment and Disbarment was requested by you to review the evidence and afford the respondent an opportunity to produce further evidence. This has been done and it is now recommended that the Order of Disbarment be rescinded. The errors in the return were occasioned primarily by a severe illness from which he suffered at the time he prepared the return."

I called up Senator Glass and told him about this and he was very much pleased.

TREASURY DEPARTMENT

147A

Washington

RELEASE, MORNING NEWSPAPERS,
Monday, March 25, 1935.
3/23/35

Press Service
No. 4 - 62

Secretary of the Treasury Morgenthau announced today that up to this time subscriptions aggregating \$1,332,000,000, have been received for the current offering of 2-7/8 percent Treasury Bonds of 1955-60, which are offered only in exchange for Fourth Liberty Loan Bonds called for redemption on April 15, 1935.

As previously announced, the subscription books for this offering will close at the close of business Wednesday, March 27, 1935.

March 28th

DATE

TIME

TO (SHIP NAME)

MAJOR COMMANDER (SHIP NAME) (SHIP NUMBER)

FROM (SHIP NAME)

TO (SHIP NAME)

REMARKS

OFFICIAL USE

President Roosevelt

Guaranty Trust Co. now
indivisible - they have been
able to help millions to
worth of gold for shipping
to New York stop France
557 stop we will buy France
if they drop to 557 stop
Bureau of Finance worked because
British paid buying gold
in Paris to hold down the line

U. S. COAST GUARD

OFFICIAL DISPATCH

149

TRANSMIT

DATE

FROM

CODE

TO (FOR ACTION)

CIPHER

ACKNOWLEDGE

PRIORITY

UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.

ROUTINE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

President Roosevelt

TEXT

Guaranty Trust ~~of~~ New York
informed us they have bought
three and half millions dollars
worth of gold for shipment
to New York stop France
559 stop we will buy francs
if they drop to 557 stop
Banque de France worried because
British fund buying gold
in Paris to hold down sterling

U. S. COAST GUARD

OFFICIAL DISPATCH

150

TRANSMIT

DATE

FROM

CODE

CIPHER

TO (FOR ACTION)

ACKNOWLEDGE

PRIORITY

UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.

ROUTINE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

TEXT

believe British have limited
amount of gold. Stop, stocks
bonds and commodities all
up today stop Best regards,
Henry Magunhan Jr.

U. S. COAST GUARD

OFFICIAL DISPATCH:

151

TRANSMIT

DATE

FROM

CODE

TO (FOR ACTION)

CIPHER

ACKNOWLEDGE

PRIORITY

UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.

ROUTINE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

President Roosevelt

TEXT

Present gold movement equals thirty seven million dollars. Stop Franc and pound strong at six sixty and one half and four eighty one stop No gold coming from France this week but small shipment coming from Holland stop Both Holland and Switzerland currencies below gold point and week. Stop Run on both in Holland and Switzerland stop Having grand rest Best regards Morganthau

OPERATOR'S RECORD.

OFFICIAL BUSINESS.

INITIALS OF "RELEASING" OFFICER.

U. S. COAST GUARD
OFFICIAL DISPATCH
TRANSMIT

152

DATE

FROM

CODE

CIPHER

TO (FOR ACTION)

ACKNOWLEDGE

PRIORITY

UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.

ROUTINE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

President Roosevelt

TEXT

Forty six million dollars
in gold enroute ~~to~~ twenty
million) from France and
~~twenty~~ six million from
Holland. Stop Swiss Banks
in bad shape Stop ~~Levin~~
Returning to Washington
Thursday night Best
regards Morgenthau

27 March 5:00P.M.
Received on board Farragut via Navy-7:25 P.M.

153

28 March 6:20 P.M.

President Roosevelt:

Pleased to inform you that one billion five hundred and thirty million called liberties converted into new issue stop This equals eighty two percent of amount outstanding stop Average conversion has been eighty percent stop How much foreign news do you wish me to transmit to you stop Best regards

Morgenthau

Received aboard Farragut via Coast Guard- 7:24 P.M.
via Navy - 8:20 P.M.

28 March 10:02 A.M.

President Roosevelt:

Belgium exchange and foreign exchange markets closed for three days

Morgenthau

Received aboard Farragut via Navy -10:50 A.M.
via Coast Guard-11:16 A.M.

30 March 10:30 A.M.

President Roosevelt:

Greatly worried and disturbed over difficulty Claxton and Farragut Friday in handling your radio traffic stop Have advised Admiral Standley Coast Guard will be glad to help out Navy as usual stop Offer you services of Coast Guard radio stations

Morgenthau

Received aboard Farragut via Coast Guard 12:00 noon

March 28, 1935.

To: CONFIDENTIAL FILES

Telephone Conversation With
Mr. Cariguel of the Bank of
France.

From: J. E. Crane

I telephoned to Mr. Cariguel at the Bank of France at about 9:45 a. m. today to inquire about the situation in Belgium. He said that they had closed the stock exchange and the foreign exchange market in Belgium until Monday and that this step had been taken because there had been a large export of capital from Belgium in spite of the foreign exchange control. Mr. Cariguel said that the National Bank of Belgium had lost in the past two weeks about 1,250,000,000 French francs (\$85,000,000) of gold which had gone to the Bank of France. Mr. Cariguel added that the Bank of France had in turn lost about the same amount of gold to London, the daily losses now being about 70,000,000 French francs (\$4,500,000). He stated that the gold was being bought in London by hoarders and that he did not think the British Equalization Fund was doing anything to keep down the sterling rate. So far as he knew, he said, they were letting the rate go and in fact were sending a large amount of gold to Paris to be earmarked for their account and held there pending possible future use in supporting the pound.

Mr. Cariguel said that the situation in Belgium was bad, that the new cabinet, which was decidedly inexperienced and radical, had not been well received and that he thought it was a foregone conclusion that

there would be devaluation of the belga in the near future. He added that he did not know just what form devaluation would take but that the Belgians might decide to follow an independent course rather than join the sterling area. In fact, he said he understood the British did not want the Belgians to join the sterling group. As to the position of the other members of the gold bloc if Belgium devalued, Mr. Cariguel said that there would be an adverse psychological effect which would result in speculation. He explained that considerable speculation had already taken place against the Swiss franc and that the Swiss National Bank had sold about 200,000,000 French francs (\$13,000,000) gold to the Bank of France and was shipping another 150,000,000 French francs (\$10,000,000) gold to Paris. As to the Dutch, Mr. Cariguel said he felt much more confident about them because they had had plenty of experience and were courageous. On the whole, he said I could gather from his conversation that he was sad.

I explained to him that we understood the private banks were buying francs at just under 6.59 for the purpose of shipping gold from Paris to New York and that it did not look at the moment as though it would be necessary for us to intervene. I added, however, that if intervention should prove to be necessary the Treasury would probably buy francs somewhere below 6.58. Mr. Cariguel said he thought that was satisfactory and added that he hoped the gold bullion standard would continue

to function smoothly between Paris and New York because if it did not it would, in his opinion, only add to the confusion and make the whole position more difficult.

JEC:KMC

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
 Tuesday, April 2, 1935.

Press Service
 No. 4-68

Secretary of the Treasury Morgenthau today announced that preliminary reports indicate that \$1,559,569,300 of Fourth Liberty Loan Bonds called for redemption on April 15, 1935, have been exchanged for the 2-7/8 percent Treasury Bonds of 1955-60.

Subscriptions were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions</u>
Boston	\$ 57,941,300
New York	868,337,700
Philadelphia	82,256,700
Cleveland	105,492,300
Richmond	38,681,100
Atlanta	18,476,250
Chicago	177,486,150
St. Louis	46,601,700
Minneapolis	21,227,550
Kansas City	38,815,450
Dallas	16,245,900
San Francisco	49,259,350
Treasury	<u>38,747,850</u>
Total	\$1,559,569,300

Federal Reserve Bank
Of New York

157

April 4, 1935.

To: CONFIDENTIAL FILES

Telephone Conversation with
Mr. Catterns of Bank of
England.

From: J. E. Crane

I telephoned to Mr. Catterns at the Bank of England at about 12:20 p. m. today to advise him that we were selling today for the Treasury a moderate amount of sterling and that we might continue to liquidate the Treasury's sterling balance with them on a gradual scale as and when the market for sterling was strong. I added that we would keep the Bank of England advised and Mr. Catterns thanked me for the information. I asked him about the situation in Belgium and he said that he understood there had been a substantial return flow of capital, that a very sharp rise in retail commodity prices had occurred following devaluation, that the rush to buy commodities had not yet been brought under control but that he thought it would be since Van Zeeland was a stout fellow. Mr. Catterns added that the pressure on the Swiss and Dutch exchanges was very strong and said that both of those countries were losing gold heavily to Paris. He added that the Bank of France was also losing gold to the extent of about £1,000,000 daily to the London market where it was being bought by hoarders. Every one over there was very nervous, he said.

JEC:KMC

Federal Reserve Bank
Of New York

158

To: CONFIDENTIAL FILES
From: J. E. Crane

April 5, 1935.
Telephone conversation with
Mr. Cariguel of the Bank
of France.

I telephoned to Mr. Cariguel at the Bank of France at about 11 a. m. today to ask him how things were going in the exchange market. Mr. Cariguel said that they were having a hectic day in Dutch and Swiss currencies, that the pressure on those two exchanges was very strong and likely to continue for the time being and that he had just talked with Amsterdam and Zurich on the telephone where he found them both confident. He said that he thought it was a great mistake for the Netherlands Bank to permit the guilder to go so far below the gold point and that this seemed to be due to the fact that there was considerable red tape at the Netherlands Bank with respect to gold withdrawals.

I asked Mr. Cariguel whether he thought the banks in Paris would continue to withdraw gold for shipment to New York in order to prevent a drop in the franc rate and he replied in the affirmative, adding, however, that one could not be certain since the banks were so busy handling gold from all directions that they might not be able to take care of the Paris-New York movement. He went on to say that if any difficulty should develop he would immediately telephone to us.

JEC:KMC

April 5, 1935.
Friday.

158A

H.M.Jr: Hello.

Sen. B. K.
Wheeler: Hello.

H.M.Jr: Morgenthau talking.

W: Oh yes.

H.M.Jr: How are you?

W: Henry -

H.M.Jr: Yes.

W: - I wanted to talk to you about that Collector of
Internal Revenue out there.

H.M.Jr: Oh yes.

W: And I didn't know whether you'd want me to come down
and talk to you or whether I could talk to you over
the phone.

H.M.Jr: Well, I'm always glad to see you, but if you can do
it on the phone; maybe it would save you time.

W: Sure, fine. Why, the situation out there is this
- you know I spoke to you once before.

H.M.Jr: Yes.

W: Campbell of the Helena Independent - his paper is
owned by the Aniconda Company.

H.M.Jr: Yes.

W: Now, he's just a vicious - just between you and me
- it's a Democratic paper, but he's a vicious rat.

H.M.Jr: Yes.

W: He's always fought Senator Walsh and talked
against me and his paper really - he's a Republican,
as a matter of fact and the only
paper out of every paper - daily paper out there is
owned by the company excepting the Great Falls Tribune
- that's the only really worthwhile paper in the State.
Now, Penwell, he's been after ever since this
little paper started.

H.M.Jr: I see.

W: I told Penwell to get out of the papers - to get out
of the paper.

H.M.Jr: Yes.

W: Now, Campbell came to him and they wanted to buy the paper, see, the company did and of course, he could have been out by selling the paper at that time to that crowd, but he didn't want to do it -

H.M.Jr: Yes.

W: - and the question was as to who he could turn it over to so that it would be still a progressive liberal paper.

H.M.Jr: I see.

W: And at the same time, he didn't want to accept and turn it over to somebody that would use the paper for the purpose of double-crossing the people and turn it back into the hands of the company, but he told me he was going to get out of it - he announced that he was going to and he intended to, but I knew something about the whole thing and there were several people trying to get control of it, see, but I said to him on some of them that you'd better not do it because if you did it would simply go over to that other crowd.

H.M.Jr: Yes.

W: He tells me positively, definitely that he's out of it and is going to get out of it and that whole thing against him is simply because of the fact that he is one of the leaders of the progressive crowd out there.

H.M.Jr: I see.

W: And Campbell - they did the same thing to me when I was United States Attorney. They'd write me editorials in their papers, you see, then they'd send them down here to Washington.

H.M.Jr: Yes.

W: Now, I talked with Gibbon, I think it was -

H.M.Jr: Gibbons.

W: - and he told me that he thought that I ought to talk with you.

H.M.Jr: Fine.

W: I think it was Gibbons. Yes, I told him that I'd

H.M.Jr: Well, Bert, I'll look it up.

W: Yes.

H.M.Jr: I haven't - I haven't heard anything about it in a couple months.

W: Yes. He's been writing editorials and I understand he sent them down and the Collector and Penwell have been down here, see, and he's down here, see, and if you want to talk to him yourself personally about it -

H.M.Jr: Who, Penwell's here?

W: Yes.

H.M.Jr: Well, I'll be glad to see him.

W: Yes.

H.M.Jr: Yes.

W: Well, now he and I could run down and see you.

H.M.Jr: All right. When do you want to come?

W: Well, we could come 'most any time to suit your convenience this afternoon.

H.M.Jr: Well, what time -

W: We could come right now if you wanted me to.

H.M.Jr: Well, could you get here before one?

W: Yes. I can get in a taxicab and come right now.

H.M.Jr: Well, supposing you do that.

W: All right.

H.M.Jr: That'll be fine.

W: All right.

H.M.Jr: Thank you.

April 5, 1935.
Friday.

Frank Altschul: Good morning, Henry.
(?)

H.M.Jr: Hello, Frank.

A: How are you?

H.M.Jr: Fine.

A: Henry, I just had a chat with our friends in Paris so I thought I'd tell you about it.

H.M.Jr: Good.

A: They seem - they seem to feel that Holland and Switzerland are rather matters of weeks.

H.M.Jr: Of weeks.

A: Yes, but they - but that they still are very confident as far as France is concerned long drawn out thing matters of many months anyway.

H.M.Jr: Yes.

A: They say that on the sight of gold they're getting more gold from Holland and Switzerland

H.M.Jr: Gold is coming to them from Switzerland -

A: The gold that's coming to them from Switzerland and Holland their losing to England, to United States and to Belgium.

H.M.Jr: They're losing a lot to Belgium.

A:

H.M.Jr: Yes.

A: situation is very much aggravated because on account of the revaluation of the belga. The Port of Antwerp is taking an enormous amount of business away from Rotterdam.

H.M.Jr: Oh.

A: Of course -

H.M.Jr: Has that increase come already?

A: What increase?

H.M.Jr: To Belgium.

A: Oh yes. I think with the cutting of the rate Antwerp on account of the change had a competitive advantage against Rotterdam.

H.M.Jr: Yes.

A: It began to be effective right away.

H.M.Jr: Right away.

A: And for that In Switzerland they tell me that of course that we've all known for a long time the situation is complicated very much because -

H.M.Jr: Because the banks are in bad shape.

A: - as the banks are in bad shape Every time I call up I expect to hear no more wavering in their voice about the bank, but even though

H.M.Jr:

A: And the three-months bank has sold this morning at 8.50

H.M.Jr: Yes.

A: So that

H.M.Jr: Well, that's not bad.

A: So that all the other exchanges So that's about the picture. There's nothing I'm sitting here with Bob Brandon, you may remember -

H.M.Jr: Yes.

A: - and we're talking about what the devil the world looks like in which there's no country on the gold standard and we just can't - we haven't got imagination enough to see.

H.M.Jr: Yes.

A: And Brandon said he'd like to say "hello" to you, Henry.

H.M.Jr: Well, is he coming down here?

A: He's right here on the telephone. He'd like to speak to you.

H.M.Jr: Well, I'll be glad

A: He'd like to say "hello" to you.

H.M.Jr: Thank you.

A: Hello.

H.M.Jr: Hello, Mr.

A: Mr. Morgenthau. Thanks telephoning to you and I'd like to say "how de do" to you. I'm here for a few days.

H.M.Jr: Are you coming down to Washington?

A: Well, I rather doubt whether I'll have time.

H.M.Jr: I see.

A: It's - I'm here until about Friday of next week.

H.M.Jr: Oh yes.

A: It's rather difficult to get down and

H.M.Jr: Well, if you should be coming down I'll be glad to see you.

A: All right.

H.M.Jr: If he comes down I'll be glad to see him.

A: I see. Well, that's very kind of you.

H.M.Jr: Yes.

A: The situation over there looks - of course the political situation extraordinary right now in the whole of Europe.

H.M.Jr: Yes.

A: I should of thought - I - I saw a good deal about the Swiss banking situation the other day I was in Berlin The banking situation was so difficult then that I should think in Switzerland it's very bad now and the probability will lead to

their going off Gold, I should think.

H.M.Jr: Well, we just live here from day to day, that's about all.

A: Yes, that's it, yes.

H.M.Jr: Well, I'm glad to have these few words, Mr.

A: Thank you very much.

H.M.Jr: Goodbye.

April 5, 1935.
Friday.

H.M.Jr: Hello.

Crane: Good Morning. Hope you had a nice time.

H.M.Jr: I had a fine time.

C: Good.

H.M.Jr: Crane, Lochhead just came in to tell me that francs are 6.58 $\frac{1}{2}$

C: Yes.

H.M.Jr: - and he's a little fearful over the week-end they may go lower. Hello.

C: Yes, yes.

H.M.Jr: Well, I don't care to see them go any lower.

C: Yes.

H.M.Jr: I'm just think^{ing} out loud. I wonder if this wouldn't be a good opportunity to call up Cariguel again, see?

C: Yes.

H.M.Jr: And ask him - tell him that we'd be glad to help over the week-end, but we would like to know whether - what the British are going to do, see?

C: Yes. You mean about what?

H.M.Jr: Well, about the franc; if they're going to do anything, I mean, what are they doing.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: In other words, this - we're going to go in and help them; if the British Fund working the same way or would we be working at cross purposes.

C: Yes. Well, now I - I'll call him up

H.M.Jr: Yes.

C: - and just have a chat with him; ask him what he thinks about the necessity of our coming in

H.M.Jr: Yes, do they want us to help over the week-end.

C: Yes, ask him whether he thinks there's any need.

H.M.Jr: Yes.

C: I tell you, I have this general feeling about it, Mr. Secretary

H.M.Jr: Yes.

C: - and that's this - things are getting pretty hot over there and something's liable to break sometime, and if the rate will take care of itself reasonably well, I think we ought to keep away from it, because you know you got a two-day risk on francs. For instance, if we should buy a lot of francs, you got a two-day risk on it

H.M.Jr: What do you mean?

C: - before you get gold.

H.M.Jr: Well, ask them to give us gold at once.

C: Well, they won't do that.

H.M.Jr: They won't?

C: They won't do that and I wouldn't want to ask them.

H.M.Jr: I thought they said they would.

C: Oh no, they wouldn't do that, Mr. Secretary. They never will.

H.M.Jr: Well, then let's

C: They get very much offended when you

H.M.Jr: All right, well then let's ask them to buy for our account, instead of buying

C: I know, but you might get stuck even that way.

H.M.Jr: How? - if they bought it.

C: Yes. I- I - I'm sure they won't be willing to protect you against that two-day risk.

H.M.Jr: Well, then - then let it go.

C: Well, that's why I say - I don't like to see it go in there unless it's absolutely necessary.

H.M.Jr: Well, I wouldn't - I'd just put it up to them. Do they want us to help over the week-end and if they do, will they - will they take care of it.

C: Yes.

H.M.Jr: I mean - other words, protect us against that risk.

C: Yes. I'm sure they won't

H.M.Jr: Well, then - then we'll stay out.

C: I'm - I'm positive because we've argued and battled with those fellows for weeks

H.M.Jr: I thought - I thought when we stepped in before that they gave us that I thought they made some special arrangement.

C: No, no, they never have - they never will guarantee that risk.

H.M.Jr: Well, supposing you call them up, see?

C: Yes.

H.M.Jr: - have a talk with them and then call me back.

C: Yes. All right, I'll do that.

H.M.Jr: Will you?

C: Yes.

H.M.Jr: Thank you.

C: I'll just have a general discussion with them.

- 4 -

H.M.Jr: I - I was under the impression we had some arrangement.

C: No, I'll talk with Lochhead about that, but I'm certain we never have.

H.M.Jr: Yes. All right.

C: Goodbye.

H.M.Jr: He's here - I'll tell him to go back to his room, but you call up the French, will you?

C: Yes, I'll call them up.

H.M.Jr: O.K.

C: Yes. All right.

H.M.Jr: Thank you.

April 5, 1935.
Friday.

H.M.Jr: Hello.

Burgess: Hello there. Welcome home.

H.M.Jr: How're you?

B: I'm fine. Have a good time?

H.M.Jr: Oh, I had a real rest.

B: That's fine.

H.M.Jr: Yes.

B: I'm glad to hear it.

H.M.Jr: Burgess, I'm going to give - volunteer some information

B: Yes.

H.M.Jr: - to your open market committee.

B: Yes.

H.M.Jr: I feel that this is an excellent time - Coolidge is on the wire - for the open market committee to lighten its burden of security.

B: Yes.

H.M.Jr: I - I feel that it's an excellent time if you people want to sell a hundred million dollars or something like that to establish the precedent that you can't sell in good times so that everybody isn't going to say "Oh my, look, they're going to sell and this means that government bonds aren't good and everybody should get out." See?

B: Yes.

H.M.Jr: Now, I think sooner or later you've got to establish the precedent that at times you may own two billion; other times you may own three billion, see?

B: Yes.

H.M.Jr: But, the way it is now, you're absolutely frozen and I don't think you get any better time for the open market committee to break that precedent than right now.

B: Yes.

H.M.Jr: And I'm volunteering that and I'd appreciate it if you would pass it along.

B: All right. Have you talked to about it?

H.M.Jr: No.

B: Of course, we've given a lot of thought to it.

H.M.Jr: I mean I wanted to talk to you - you're secretary of the open market committee, aren't you?

B: Yes, exactly.

H.M.Jr: And I'll be glad - I'll call him up now and tell him the same thing.

B: All right.

H.M.Jr: I mean - by that, I don't mean that you sell something long and you buy it short. I'd like very much to see you people break this jam that you can't buy and sell and have your portfolio go up and down without people getting terribly excited about it.

B: Now, here's the problem on that -

H.M.Jr: Yes.

B: - if we started selling this week, it would come out next Thursday in the press statement and you may want to be announcing a new issue.

H.M.Jr: Well now, I'm willing to take that responsibility.

B: What's that?

H.M.Jr: I'm willing to take that responsibility.

B: Yes.

H.M.Jr: See?

B: Well, one of our market situation in a case like that.

H.M.Jr: Well, I mean - the way I feel now, I don't want to do anything before the first of May.

B: You don't?

H.M.Jr: No, because I've noticed it means - at least 2 and 7/8 haven't reached their level yet.

B: I think they're still going up a little.

H.M.Jr: And there's tremendous business in them and I'd rather have time to see this thing sort of level out.

B: Yes, yes.

H.M.Jr: But, I also - I mean I'd like to see this open market thing be - let's say when we went through this thing, if we hadn't been able to buy some and so forth

B: Yes.

H.M.Jr: Now, three-four days is very difficult there

B: Yes.

H.M.Jr: - and - if for instance - I mean if you can handle your fund the way we handle Stabilization that you can get in and out as it leaves it. Now I have nothing in the back of my mind that I'm going to come and say, now you got to buy some day or something.

B: Yes.

H.M.Jr: I simply feel - I've been in there about a year and a quarter

B: Yes, yes.

H.M.Jr: - and I think this is the best time - I mean I think everybody will agree if you could have the thing go up and down within a - say within a couple hundred million that'd be useful.

B: I don't agree with that at all.

H.M.Jr: You don't?

B: No, I don't think so.

H.M.Jr: Well, I do.

B: I've been operating with _____ years
for ten years and I really don't feel that.

H.M.Jr: Well, you kept building it until you reached two and one-half billion and then you stopped.

B: Yes, yes, yes. Well, I think that worked pretty well. That's a long story

H.M.Jr: Well, mind you, I'm not - purely a volunteer - this isn't a request; I'm not going to put any pressure; I'm only going to make the suggestion once.

B: Yes.

H.M.Jr: And it isn't something that's life and death.

B: Yes.

H.M.Jr: See?

B: Yes, yes and we're both thinking about the same thing, I mean, we're all interested in the whole situation.

H.M.Jr: Yes, and if you don't do it I'm not going to feel badly.

B: Yes, yes.

H.M.Jr: You see?

B: Yes, yes.

H.M.Jr: So I mean - so you think it over and I'll talk to Eccles and after you consult it with your people, will you call me back?

B: All right, sir, yes.

H.M.Jr: See?

B: Yes, yes.

H.M.Jr: All right. Thank you.

B: All right, sir.

H.M.Jr: Goodbye.

B: Goodbye.

April 5, 1935.
Friday.

H.M.Jr: Crane?

Crane: Yes, sir.

H.M.Jr: I don't know whether I should signify Rene Leon or not, see?

C: Yes.

H.M.Jr: Hello.

C: Yes.

H.M.Jr: But, if you want to you can tell anybody that asks you that I do not ask Mr. Leon for his advice.

C: Entirely gratuitous.

H.M.Jr: Yes, exactly. See?

C: Yes.

H.M.Jr: Since I've been in the Treasury I've never asked him for his advice.

C: Well, he's a difficult fellow to deal with.

H.M.Jr: Well -

C: He's in so damn much, you know.

H.M.Jr: I know. Well, if you think it's necessary you can say that to anybody that you want to.

C: He tries to give people around here the impression that he's right in on the "know" and his plans are all going to be adopted.

H.M.Jr: Yes. Well, as I say, if you want to I'm perfectly agreeable that you can say that.

C: Yes. All right, I'll -

H.M.Jr: Well, I'll leave it to you to use your discretion.

C: I'll keep it up my sleeve.

H.M.Jr: Yes, if you want to - if you have to, you can use that any time.

C: Yes. All right.

H.M.Jr: Thank you.

C: Goodbye, thanks.

April 8, 1935.
Monday.

Jesse
Jones:

Can I tell you a little story on the telephone instead of coming over there. I'm a little under the weather.

H.M.Jr: Sure. Is it funny?

J: No, it isn't funny.

(Laughter)

H.M.Jr: All right. Well, then you'd better tell it to me over the phone.

J: You know the law gave us the right to buy and sell P.W.A. securities -

H.M.Jr: Yes.

J: Well, now there's no reason why we can't, under the law, buy them today and sell them tomorrow. See?

H.M.Jr: Buy them today.

J: And sell them tomorrow.

H.M.Jr: From P.W.A.

J: Yes.

H.M.Jr: Yes.

J: As a matter of fact, in order to - I think I may have told you - in order to keep in touch with Harold, why, I told him we'd buy his stuff and give him what we got for them.

H.M.Jr: Yes.

J: So, we've been doing that.

H.M.Jr: Yes.

J: Now, here's the point. They've got some, not a great many, but occasionally - they got a maturity the first year, you know -

H.M.Jr: Yes.

J: - and they'd like us to buy - today maybe -

H.M.Jr: Yes.

J: - a bond that they know is going to be paid tomorrow or next week.

H.M.Jr: Yes.

J: Well, now I've been trying for two or three months to get them to sell them to us thirty days in advance -

H.M.Jr: Yes.

J: - because it looks sort of phoney to - when they know they're going to be paid to sell them to us today and let us collect tomorrow.

H.M.Jr: Well - what's the game; what's the check?

J: Well you - I suppose they want to hold them to get the benefit of the interest. I don't know what else.

H.M.Jr: Oh.

J: To add the interest, you know, that they would collect.

H.M.Jr: I see.

J: - to their fund. Now, I've done it right along with them, but I've been fussing with them to try to get them to give us a list of the stuff and let us buy them and let us take a little chance on it if necessary.

H.M.Jr: Yes.

J: I don't like, for instance, to buy a note today that I know is going to be paid tomorrow.

H.M.Jr: Yes.

J: And while it doesn't - it's all right according to the law, but I don't think that's what Congress meant, and I just wondered if you had any thoughts on it.

H.M.Jr: No, I should think they'd be so happy the way you'd handle it, they'd give it to you anyway that you want it.

J: Well, it looks like they would and I've been telling them that I'll do it this time and I'm not going to do it anymore.

H.M.Jr: Yes. Well, it's all right with me.

J: And well - all right, I just -

H.M.Jr: It's all right with me. I don't - they're not the easiest people to get along with.

J: No, the trouble is there's three or four of them and when you talk to one you don't talk to all of them.

H.M.Jr: No, well as far as we're concerned, we'll go along with you.

J: Well, then I'll use my best judgment.

H.M.Jr: Yes. Are you seriously ill?

J: I've been having some trouble, Henry, for about three weeks. It's been pretty easy to mend third of the time.

H.M.Jr: Oh, I'm sorry.

J: But, I'm right along. Don't seem to be making much progress.

H.M.Jr: Well -

J: I'll see you soon.

H.M.Jr: All right. I hope you take care of yourself.

J: All right. Thank you.

H.M.Jr: Goodbye.

April 9, 1935.
Tuesday.

159

H.M.Jr: Hello.

Crane: Hello.

H.M.Jr: Hello, Crane.

C: I just talked to Cariguel -

H.M.Jr: Yes.

C: - and gave him the message very much as we agreed upon -

H.M.Jr: Yes.

C: - he said he was delighted to hear it and that he would pass along the substance of what I told him to Governor - his Governor - Governor Tannery, with respect to the five million. He was also pleased; he said there was no immediate need to use it, of course, because the franc rate is up a little now, but that he'd keep it in mind.

H.M.Jr: Yes.

C: I asked him about the situation in Holland and Switzerland. He said that the exchange market had been a little quieter today, but that the Swiss position was under a good deal of pressure; that that appeared to be weaker than the Dutch and that the Governor of the Central Bank in Switzerland, didn't seem to have very good moral; and seemed to be a little nervous and worried. With respect to Holland, however, he said that Tripp, the Governor of the Central Bank, seemed to be determined to hold on and in fact, had made another increase in his discount rate today by one percent -

H.M.Jr: In Holland?

C: Yes, bringing it up to four and one-half -

H.M.Jr: Gosh!

C: - he increased it to three and one-half here last week.

H.M.Jr: I see.

C: This is another increase and it indicates that he's still under a good deal of pressure, otherwise, I think he would not have raised it. Cariguel says that he

doesn't know how long the Swiss will hold out. He¹⁶⁰ rather thinks they'll be the first to go, but that it's very difficult to guess as to how long it will last. He says he expects that for the time being, we may see a little lull in the exchange market.

H.M.Jr: Good.

C: But, that's just a guess.

H.M.Jr: Good.

C: That's the substance of what he said.

H.M.Jr: Well, could you get - write me that and get it off tonight by special -

C: Yes, I'll write - dictate a memorandum rightaway.

H.M.Jr: And send it special delivery because the French Ambassador is coming in tomorrow morning. I'd like to have that before he comes.

C: Yes. All right. Send it to Mrs. Klotz.

H.M.Jr: Please.

C: Yes.

H.M.Jr: Thank you.

C: All right.

April 9, 1935.
Tuesday.

161

Crane: I had a call for Cariguel at twelve-thirty, but I couldn't get him.

H.M.Jr: Yes.

C: - and I've got the call in now, and I expect to get it in two or three minutes.

H.M.Jr: Well, I'm here.

C: Then, I'll call you.

H.M.Jr: Please.

C: All right.

April 9, 1935.
Tuesday.

162

H.M.Jr: How are you, Mr. De Laboulaye?
de L: All right, thank you.
H.M.Jr: I want to tell you how delighted I am on the word I got about St. Pierre.
de L: Yes.
H.M.Jr: Yes.
de L: - last night. in the letter.
H.M.Jr: Well, I think that that's fine. It's really going to be very helpful.
de L: You think so?
H.M.Jr: Yes.
de L: I am glad because I was waiting for
H.M.Jr: Well, that's - I - I'm very much pleased.
de L: You just received a word from your office yesterday.
H.M.Jr: No, your - your commercial attache called us up -
de L: Oh, yes.
H.M.Jr: - called up Mr. Graves -
de L: All right.
H.M.Jr: - and told him that this was in confidence - but -
de L: He was a little ahead of me, but -
H.M.Jr: Well, your commercial attache called up Mr. Graves -
de L: All right. I will bring the form letter to secretary or tonight or tomorrow morning, because I got - in such a hurry now -
H.M.Jr: Right.
de L: - but, it is I will send the note and bring the note myself secretary that I wanted to bring to Phillips but tomorrow morning or tonight I can do the thing
H.M.Jr: Well, Mr. Ambassador, sometime when your financial attache is in town - I've never met him -
de L: All right.
H.M.Jr: - and I'll be delighted if you and he would call on me -
de L: All right.

H.M.Jr: - and we're working very close with the banks of France, and I'd like to tell you what we're doing.

de L: Oh, yes.

H.M.Jr: Yes.

de L: But, my financial attache is not here right now, but may I call on you tomorrow or today?

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

de L: Of course, you know I am leaving on Friday for France for one month.

H.M.Jr: Oh, for France.

de L: Yes.

H.M.Jr: Oh, I didn't know that.

de L: Then, I would like very much to have a talk with you before.

H.M.Jr: Yes, I would too. When are you leaving?

de L: On Friday morning.

H.M.Jr: Friday morning. Well, now, just a moment.

de L: Will you let me know the day -

H.M.Jr: No, I'll do it right now. I'm just looking at my calendar -

de L: Yes, all right.

H.M.Jr: I'm going down to meet the President when he comes in at three-thirty. I - I don't know just when I get back. Now, just -

de L: Today?

H.M.Jr: Could I -

de L: tomorrow morning

H.M.Jr: Could I call back your office - your secretary a little later?

de L: Yes. All right. But, for me it would be good tonight.

H.M.Jr: Oh.

de L: - between five and seven because I have a reception in music at nine-thirty.

H.M.Jr: Oh, yes. Mrs. Morgenthau's going.

de L: be sooner or tomorrow morning, if you like better.

H.M.Jr: Well, is - is eleven-forty-five a good time?

de L: Eleven-forty-five?

H.M.Jr: Yes.

de L: Tomorrow morning?

H.M.Jr: Yes.

de L: All right. Oh yes, that'll be all right.

H.M.Jr: That'll be fine.

de L: At eleven-forty-five tomorrow.

H.M.Jr: Yes.

de L: Thank you very much.

H.M.Jr: Thank you.

April 9, 1935.
Tuesday.

164

Crane: Good morning, Mr. Secretary.

H.M.Jr: How are you?

C: Fine.

H.M.Jr: Crane, the French just telephoned us that they find a decree at last on St. Pierre.

C: Oh, really? (Laughter)

H.M.Jr: I'm very much pleased.

C: What about the vote? Do you have to send a vote up there?

H.M.Jr: We didn't agree to anything.

C: Oh, I see.

H.M.Jr: No.

C: The last time you mentioned it -

H.M.Jr: Well, they said the State Department handled it very well. They said if a vote was going in that neighborhood, they'd drop in.

C: Yes, I see.

H.M.Jr: But, if there wasn't some that they couldn't guarantee it,

C: Yes.

H.M.Jr: And that was a lot of political They had difficulty with their own government. I guess whoever's got the concession of St. Pierre put up a hell of a fight.

C: Yes.

H.M.Jr: Now, what I'd like to do is this - I frankly - I want to cultivate the French, see?

C: Yes.

H.M.Jr: I don't mind telling you that I've got the State Department at last with me on it.

C: Yes.

H.M.Jr: And I'd like you to call up the bank and tell them - you can tell them how pleased I am over St. Pierre -

C: Yes.

H.M.Jr: And sort of joke about it, you know -

C: Yes, I will.

H.M.Jr: - and then say this, we'd be very glad with exchange skidding along so close to the gold point, that - to tell them that they could use for our account any time they wanted to up to five million dollars.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: So what do you think of that?

C: You want to indicate any rate?

H.M.Jr: No, any time it goes below the gold point.

C: Well, the gold point is about - effectively it's about 658 and 7/8.

H.M.Jr: Is what?

C: The gold point is about 658 and 7/8.

H.M.Jr: Well, why not let's say - begin at 658.

C: Yes.

H.M.Jr: What?

C: Yes.

H.M.Jr: I'd talk it over with them.

C: Indicate that - indicate that we're - that we're - we're prepared to go in at any time to the extent of five million dollars.

H.M.Jr: Yes.

C: - at 658.

H.M.Jr: And then, we'll work it through them.

C: Yes, yes. Well, now -

H.M.Jr: You see, what I want to do, I want you to have the picture - I mean I'm taking a about this and I'm trying to work up a close record between the French Government and ourselves, and I've got the State Department around in thinking that's right. Now, everybody's always saying, let's do what the

English do. Well, the English don't want to do it for them, so I say to hell with them, see?

C: Yes.

H.M.Jr: Now, the French suit me I want to work up a closer feeling between the French and ourselves and the State Department is back of me on it, see?

C: Have you been thinking at all any more about a joint approach to the British with them?

H.M.Jr: No, I want - I want to forget about the British.

C: You want to forget them.

H.M.Jr: I want to forget them. Let the British come to us.

C: Yes.

H.M.Jr: Let's forget about the British - I mean, after all, if we can stabilize our currency with the French, the British will have to come to us.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: I mean -

C: I think you've got a - certainly as far as we and the Bank of France are concerned, you have a closer

H.M.Jr: Right. Now, if we work very close together, the British will have to come to us - it's a three-pointed triangle and if the French and ourselves stick together, then the British have to come to us.

C: Yes. Well, you - you - in other words, you want to stick pretty close to them for the time -

H.M.Jr: I want to stick very close to the French, and now I -

C: I'll tell Cariguel that we want to stick very close to them.

H.M.Jr: Yes, and you can tell him that you've talked to me; that I want to give them cooperation - any information - and you can sort of drop a hint, that if there is somebody they'd like me to talk to over here, I'd be glad to talk to them.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: Will you drop that?

C: Yes.

H.M.Jr: If there's somebody they'd care to have come down and see me.

C: Well, they'll probably want the French Ambassador.

H.M.Jr: Well, that's all right. I'd like - I mean - I - I want to work up a close accord with them.

C: Yes. Well, now I don't think - I don't think we want to say too much right now.

H.M.Jr: No, I'll leave it to -

C: - for this reason, I think if we go - if we make too much of a friendly gesture, they're going to have the feeling that you want to reopen the question of a joint approach to the British.

H.M.Jr: No, no -

C: I don't want to give them that idea.

H.M.Jr: Well, why not simply say this - why not simply say this, we're delighted about St. Pierre -

C: Yes.

H.M.Jr: - and that the gold seems to be skating along very close to point and that we're ready to assist with two and five million dollars, and we'd like to let them handle the funds for us -

C: Yes.

H.M.Jr: - and that we'd like to work closer together with them.

C: Yes, I think that's enough.

H.M.Jr: How's that?

C: Yes, I think that's all right.

H.M.Jr: All right. Supposing you have a talk with him and then I'm going downstairs to lunch. I'll be up at two,

if you have a message, then I'll be glad to talk to you.

C: All right, I'll -

H.M.Jr: Don't you think this is good?

C: Yes, I - oh, I think - I'm all for cooperation.

H.M.Jr: All right, well let's try it - you see, we've tried it all along - we've been waiting for the British - they won't do anything - let's try it now with the French.

C: Yes. All right.

H.M.Jr: All right?

C: I'll call them up.

H.M.Jr: Thank you.

C: Goodbye.