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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 15, 1936

TO Secretary Morgenthau

FROM Herman Oliphant

I attach a list of the members of the New York Law Society, with their professional connections, whose work and counsel would be available to us in the revamping of tax law administration with the set-up I suggested in mentioning Greenbaum to you.

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MEMBERS OF THE NEW YORK LAW SOCIETY

Robert M. Benjamin  
Parker, Finley & Benjamin  
15 William Street  
New York, N. Y.

Thomas W. Chrystie  
Chrystie & Chrystie  
19 Cedar Street  
New York, N. Y.

Kenneth Dayton  
Deputy Commissioner of Licenses of  
the City of New York  
Municipal Building  
New York, N. Y.

Eli Whitney Debeovise  
Debeovise, Stevenson, Plinton & Page  
28 James Place  
New York, N. Y.

Thomas E. Dewey  
Deputy Asst. District Attorney  
New York County

William O. Douglas  
Commissioner, Securities & Exchange Com.  
Washington, D. C.  
(Formerly with Yale Law School)

Robert L. Finley  
Parker, Finley & Benjamin  
15 William Street  
New York, N. Y.

Jerome Frank  
Greenbaum, Wolff & Ernst  
285 Madison Avenue  
New York, N. Y.

Walter Gelhorn  
Columbia Law School  
New York, N. Y.

Edward S. Greenbaum  
Greenbaum, Wolff & Ernst  
285 Madison Avenue  
New York, N. Y.

Herbert Wechsler  
Columbia Law School  
New York, N. Y.

Francis H. Horan  
Assistant U. S. District Attorney  
for the U. S. District Court  
Federal Building  
New York, N. Y.

Nicholas Kelley  
Larken, Rathbone & Terry  
70 Broadway  
New York, N. Y.

Roswell Magill  
Columbia Law School  
New York, N. Y.

Harold R. Medina  
Medina & Sherpick  
165 Broadway  
New York, N. Y.

John McKim Minton  
295 Broadway  
Minton & Murphy  
New York, N. Y.

Clarence V. Opper  
Assistant General Counsel  
Treasury Department  
Washington, D. C.

Charles Poletti  
Counsel to Governor Lehman  
Executive Chamber  
Albany, N. Y.

Whitney North Seymour  
Simpson, Thacher & Bartlett  
120 Broadway  
New York, N. Y.

Kenneth M. Spence  
Spence, Hopkins & Walser  
40 Wall Street  
New York, N. Y.

Bethuel M. Webster, Jr.  
Webster & Garside  
15 Broad Street  
New York, N. Y.

October 15th

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At the 9:30 meeting this morning the following were present:

- |                |              |
|----------------|--------------|
| Mr. Gaston     | Mr. Oliphant |
| Mr. Gibbons    | Miss Roche   |
| Mr. McReynolds | Mr. Taylor   |
|                | Mr. Upham    |

- H.M.Jr: Have you been away?
- Roche: Yes, but I got back Monday.
- H.M.Jr: Are you moderately happy?
- Roche: Yes, everything is going grand. I had a lively time mixing in political and non-political matters. We had a wonderful health meeting in West Virginia.
- H.M.Jr: I see. All the State Health Officers going to be for Roosevelt?
- Roche: Absolutely - absolutely.
- H.M.Jr: Everything else all right - that matter that you wanted to work out with Bell?
- Roche: Yes, we have gotten the Executive Order. There is a question now of getting together with the Secretary of Labor to see if she will go along on it.
- H.M.Jr: Is she in town?
- Roche: No she is not but I will get some help from Miss Jay - Acting Secretary.
- H.M.Jr: I don't imagine I rate very highly with Miss Jay. She wanted to settle something for me while Frances was in Europe but I wouldn't let her.
- H.M.Jr: Now these people that you met. Are they interested in this gold business?
- Roche: I had some very interesting comment in West Virginia. The womens group spoke of it in connection with peace. They thought it was very interesting. Other remarks were more of a business nature. There has been a good deal of comment.

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McReynolds: No unfavorable comment?

Roche: No. Some grudgingly said "that's a swell thing".

Oliphant: Everyone is in favor of it.

McReynolds: Even these big guys that ought to know better, so far as their own interests go, approve it.

Gibbons: Everybody in Wall Street is apparently for it. I saw Charlie Hahn. He will have those things next week.

H.M.Jr: As long as Charlie does not have any pet tax cases.

Gibbons: No, I don't think he will. They are all for this gold thing.

Roche: I was much amused with the State Health Officers. We had a perfectly good time before the dinner. The President of the Medical Association said there would be no speeches at the dinner but a lot of the boys here are business men and they would like to know if you could give us tips as to what the Treasury will do next.

H.M.Jr: Where was this - in Richmond?

Roche: No, this was in Wheeling.

H.M.Jr: Everything all right with you? You are very happy?

Gibbons: Yes.

H.M.Jr: Taking care of all the Border Patrol for Vincent Dailey?

Gibbons: How many were there?

H.M.Jr: I think there were two.

H.M.Jr: Our mutual friend in New York is coming down to see me next week and I have asked him to take lunch with me.

Gibbons: Well he is Irish. He will blow up and forget about it in thirty days.

H.M.Jr: Well you know who I mean, don't you.

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Gibbons: Yes, I know who you mean.

H.M.Jr: Well I guess if that's all you (meaning group) have  
I'll get back to my gold.

October 15, 1936.  
9:40 a.m.

H.M.Jr: - that if it was agreeable to the Secretary - Hull - is to ask Mr. Cochran to handle this for us in Paris, see? I mean, let him handle it - take it up with the Swiss over there.

James  
Dunn: Yes.

H.M.Jr: Now, have you had a chance to think about it?

D: Yes, to some extent, that is I have checked up a little and found out that the relation between the bank and the Government over there is on a different basis that the Government is supposed to have very little control over the bank. And the laws provide for a high degree of independence and - but that, I suppose, wouldn't really cause any difficulty about -

H.M.Jr: Well -

D: - starting a discussion with the Government over there, because of the fact that they must be cheeked by jowls, you know?

H.M.Jr: Well, what I'd like to do - but I didn't want to do it because I - I mean I didn't want you to think I called you in and then went over your head. What I'd like to do is to speak to Mr. Hull, you see?

D: Yes.

H.M.Jr: And tell him that I've talked to you and you're familiar with it, you see?

D: Yes.

H.M.Jr: But I - I'm willing to move on it, so, if you don't mind I think I'll call up Mr. Hull if he's in.

D: Yes.

H.M.Jr: And tell him that I'd like to do this - we've discussed it with you and would it be agreeable and would he be willing to issue instructions to Cochran that he can do this for us, you see?

D: All right -

HMjr: Can you see any objection to that?

D: No - I suppose he would deal with - either with Bachmann or the Bank of France or through Wilson with the Government deferred, wouldn't he?

HMjr: I think he - I should think that he'd inform Wilson -

D: Yes

HMjr: - and then deal with whoever the Secretary of the Treasury is of Switzerland.

D: Yes

HMjr: See?

D: Yes

HMjr: But Cochran is so thoroughly drilled in diplomatic procedure that I'd be willing to leave it to him if Mr. Hull would be willing to leave it to him.

D: Well, I should think that that would be all right, that is that to clear - to give Cochran the instructions which will make it all right between him and delegate

HMjr: Right

D: - just what you mean.

HMjr: Right

D: All right, sir.

HMjr: I'll tell Mr. Hull - and tell him that you are familiar with the details -

D: Yes

HMjr: And I'd like to get it moving this morning.

D: Yes

HMjr: Thank you very much.

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October 15, 1936.  
11:05 A.M.

Present: Mr. Oliphant  
Mr. William B. Shields, Atlantic City, New Jersey.  
Mr. Nelson B. Gaskill, Attorney, 726 Jackson Pl., N.W.

Gaskill: Mr. Gaskill, Mr. Secretary.

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

Gaskill: May I present Mr. Shields.

H.M., Jr.: You are both from Atlantic City?

Gaskill: No, sir, I'm from - my residence is in Washington and my former residence was in Trenton. Mr. Shields is from Atlantic City.

H.M., Jr.: This is Mr. Oliphant, General Counsel.

Gaskill: I know your name very well.

H.M., Jr.: You live in Washington.

Gaskill: I came in here to get in the Army with General Crowder, about to go overseas in two weeks, and I've been here ever since.

H.M., Jr.: But you've got property down in Atlantic City?

Gaskill: No, sir. I'm merely a friend to Mr. Shields and a group of men with whom he is working.

My connection with the matter, really, Mr. Secretary, grows out of this: Years ago, when Woodrow Wilson was Governor of New Jersey, I was the Assistant Attorney General. I had known Governor Wilson very well, being a student under him in Princeton, and my associations with him were not only friendly but close.

He sent me down into Atlantic County to prosecute and clean up a political criminal gang which was manipulating the business, the government, the finance, the crime of Atlantic County and Atlantic City. We worked there for something like two years, with the result that we broke the gang.

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It was the third of the great municipal clean-ups, of which San Francisco and Cincinnati were the other two towns, and possibly the last one of the three. The result of that was that some of the leaders went to prison, the minor "somebodies," some of the minor men, went to jail, there were two suicides and three people disappeared; and we collected a very considerable amount of money in fines as a result of about two years', two years' and a half, work.

That situation continued, or that situation cleared up, at Atlantic County, and it stayed fairly decent for, I suppose, the next ten or twelve years.

One of the active elements in the crowd that we were pursuing at that time was the then Sheriff of the county, a man by the name of Enoch L. Johnson. Johnson since, apparently, has become not only the political boss of the county, but the dominant factor in its political and financial manipulation and in the conduct of organized crime.

H.M., Jr.: Who was the man?

Gaskill: Enoch L. Johnson.

Shields: J-o-h-n-s-o-n. He's the County Treasurer and leader, Republican leader.

Gaskill: Through the control of appointments on the Board of Election, as well as the political appointments in the county, his influence is apparently paramount.

Mr. Shields got into this matter some time ago in the interests of a friend of his whose campaign for election as Commissioner in Atlantic City Mr. Shields was conducting. The evidences of fraud in that election were so outstanding that Mr. Shields undertook, almost singlehanded, a campaign to challenge and correct that situation through a recount.

Mr. Shields and his family have also property interests in Atlantic City, and consequently his interest is both public and private.

Now, we found in the early days, when I commenced operations in Atlantic County, that it was practically impossible to get an unprejudiced jury or an unprejudiced

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judge. As a matter of fact, the method by which we finally succeeded in our efforts was the adoption of the Old English practice of assizors. We preferred charges against the Sheriff of the county and the coroner and disqualified the officers who would ordinarily draw juries and picked two men in the county as assizors who drew a grand jury and a petit jury panel; and it was only by that method that we secured anything like a fair trial or secured convictions.

Now, unfortunately, that phase of the law was done away with at the time the jury laws were revised and that opportunity is no longer open. Consequently, the processes of trial, the ordinary operations of the legal processes of the community, are practically controlled by the political influences which are operating for their financial profit through this organization of which Mr. Johnson is the head.

Mr. Shields has, by dint of overwhelming proof submitted to the grand jury which has been in session there recently, secured a number of indictments. It so happens that after the indictments were returned, apparently enough political influence was brought to bear upon the prosecutor and the grand jury to cause a reconsideration of some of the more important of those bills, and they were withdrawn, as I understand.

Shields: Reconsidered and no true bill handed out.

Oliphant: Did you get a true bill against Johnson?

Shields: No. Had one against him which was reconsidered and dismissed.

Gaskill: Mr. Johnson apparently has been "cute" enough to cover himself rather widely under the guise of a number of corporate names.

Shields: Gildon Corporation being the principal one.

H.M., Jr.: How do you spell it?

Shields: G-i-l-d-o-n.

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Gaskill: Consequently, the situation is just this: It seems to be exceedingly difficult to assume the possibilities of the conviction of Johnson by the processes of law, and the rescue of that community politically, financially, morally, from the control of the gang which he operates by conviction, by trial and conviction; it seems to be one of the things against which there is so much possibility of his protection that it is almost beyond a possibility.

In other words, it seems to me, Mr. Secretary, that we have here a situation which is very closely akin to the Capone situation in Chicago. If it is possible to reach this man for violation of the Federal tax laws, the thing can be handled.

Now, the curious thing about this whole situation is that just so soon as you touch the leader, just so soon as it is manifest to his followers that the leader is vulnerable to the law, the whole organization crumbles. When we were in this thing back in . . . When was that?

Shields: 1912.

Gaskill: When we were in this thing back in 1912, the master of the whole cabinet was a man by the Kuehnle, K-u-e-h-n-l-e. He had been for years the political overlord of that community and his will was law. When we convicted Louis Kuehnle in court, the political followers of Kuehnle gathered in a crowd around his headquarters that night and nearly all night long they milled in and out of his place of business, trying to make up their minds what they were going to do next. But the thing that paralyzed the whole outfit was that just so soon as the leader was convicted the whole thing fell apart.

Shields: Anything else was useless.

Gaskill: And consequently, it is from my experience with that type of thing in Atlantic County and my knowledge of Atlantic County that I should say that, unless this man Johnson can be reached in some way, the political and criminal and financial manipulation of that community will continue.

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H.M., Jr.: Bob Jackson told me that you had made an investigation through the Internal Revenue and you thought it wasn't so. . . .

Shields: A man by the name of Marks in Atlantic City, a contractor who has suffered from Johnson, made a contact with the Philadelphia Office of the Department, and it is my understanding they more or less - a routine examination which never went very far was conducted by the Philadelphia Office. At least, there were no concrete results arising from that investigation.

Mr. Morgenthau - Mr. Secretary, . . .

H.M., Jr.: That's all right; Morgenthau is the name.

Shields: Mr. Gaskill has given you the picture as it existed in 1912. It hasn't changed greatly from then today, except that I differ with him in this respect: I think it is more serious today, for this reason. During Prohibition, Johnson was enabled through the physical make-up of Atlantic City to profit to the extent of an untold amount of money by having liquor run into Atlantic City, and he then reached such gigantic financial proportions in a town that small that he got control, pretty much controlled the banking situation in the town. You couldn't directly trace it to him, but through his political associates - he had a Harry Bachrachs; Ike Bachrachs, president of another; Emerson Richardson, president of another - all politicians.

Now, every bank but one closed in Atlantic City. Those who were on the inside got their money out beforehand. There hasn't been over one half of one percent paid in over three years now since they failed by a single one of those. Every penny of the depositors' money is still tied up, because a great amount of money owed is owed by Johnson and others who have concealed their assets through dummy corporations, and who threaten to go into personal bankruptcy if pressed. Now, it's a terrific hardship on a lot of small wage-earners in the city.

In addition he is of such a tyrannical nature that few dare oppose him. No matter what line of business you're in, he'll get to you in some way or other.

He keeps ten thousand fraudulent names on the registration list in Atlantic County. Then he brings repeaters in from Philadelphia and, of course, can swing the election any way he wants it; and through that control of the County Board of Election he controls the Commission, the Sheriff, and the political officers in the County and uses that political pressure to control everything else.

So you have a community of sixty thousand people that should be one of the most prosperous in the country that is today in one of the worst conditions. And this man is living to the tune of a quarter of a million dollars a year. He keeps an apartment in Santa Barbara, a suite for his girls in the Ritz-Carlton, an apartment in New York, a suite in the Biarritz, has a Rolls-Royce, a Packard, and two or three more automobiles, and spends money at the rate of two or three thousand dollars a week on wine, women, and song. His only obvious source of income is six thousand dollars a year as the County Treasurer. And yet, people to whom he owes money, people whom he has oppressed, are actually destitute. And you cannot beat him politically due to the fact that he controls everything.

So the only place I see he is vulnerable is through his income tax.

H.M., Jr.: Let me just say it this way. I mean I've got the thing and, if Mr. Oliphant agrees with me. . . . We've had things like this before - communities, very large city in the South; I don't mean New Orleans, but I mean other ones - where we were successful. It was just as bad. I got hold of - made a special job of the thing locally. A newspaper publisher brought the story. They were completely tied up, couldn't do a thing, gave it to us. Took us a year, but at the end of the year the city was clean. It was a city bigger than yours.

The thing that I think to do, if you agree (to Oliphant). . . I think if you arrange to go over

and see Irey - he's got the Intelligence - and talk to him just the way you would talk to me. After all, it was he and Frank Wilson that got Capone, Irey with Wilson, now Assistant Chief of the U. S. Secret Service. I think while you're in town you ought to take enough time to give him, give Irey the whole story.

Oliphant: What do you think of this? Suppose Irey comes over to my place and meets them.

H.M., Jr.: Yes, have Irey there. And would you like to have Graves there?

Oliphant: Graves is out of town.

H.M., Jr.: Can anybody sit in for him?

Oliphant: Whatever your thought is on it.

H.M., Jr.: McReynolds might sit in. You want them to come back this afternoon.

(On phone) Let me talk to Mr. Irey, please.

I think that's the way to handle it, and put everything that you've got at his disposal. Then I take it that you'll feel the stuff to him.

Gaskill: Charlie Moore, if he comes down tomorrow, will have all of it.

Oliphant: Have you been in Atlantic City long (to Shields)?

Shields: I was born there. My family there goes back since 1854.

Oliphant: Practicing law?

Shields: No, I'm not an attorney. In the advertising business.

H.M., Jr.: We are very glad to go into it, appreciate your coming down.

Shields: I certainly appreciate the privilege of talking to you, Mr. Secretary.

- H.M., Jr.: (On phone) Irey, I have some gentlemen in here who were sent to me by Bob Jackson. Now, a little later on Mr. Oliphant will let you know and I want you to meet Oliphant with these men. Now, this thing is something that I want handled very specially, very carefully, and I don't want a stone left unturned to go to the bottom of it; and particularly because they feel that some of your people from a local city did look into it and did a rather perfunctory job. So it is up to you to make sure that everything in your own shop is all right. But in view that some of your people were in it before and did not go to the bottom of it, I want you to handle it personally and keep me advised personally. Mr. Oliphant will let you know when you can see these gentlemen and go into this. But this is one of the cases I want to follow personally.
- Shields: Thank you very much.
- Gaskill: May I say to you that you ought to be very glad and very proud of this international stabilization that you are working out. I think that is one of the big things that is coming. I really think so. It is colossal in its possibilities.
- Shields: Thank you, Mr. Secretary.
- H.M., Jr.: I appreciate your coming down, and don't you worry. If the situation is there and you will give it to us, and if you don't get cold feet. . . See? We have had these things brought before and then in the middle of it somebody gets cold feet.
- Gaskill: There are two men the warmth of whose feet in this matter, and their hearts, I can guarantee; and one is Mr. Shields and the other is this Charlie Moore of whom we spoke, who has been a fighter for decency in that community for many years.

October 15, 1936  
12:12 p.m.

Joseph P.  
Kennedy: How are you?

H.M.Jr: Oh, I'm pretty well. How are you?

K: Are you only pretty well?

H.M.Jr: Well, they've been pushing me a little hard.

K: Well, what the hell? You're making history, boy. You're doing big things, and this is just a lot of hot water in the snow.

H.M.Jr: Right. But I'm - I can't help but be happy.

K: You should be.

H.M.Jr: Joe, I was just talking - early in the morning Stanley High called me - and then I was talking to Steve Early, -

K: Yes.

H.M.Jr: About my coming up there a week from Friday.

K: Yes.

H.M.Jr: And I hear that you're the nigger in the woodpile.

K: Well, I - why am I the nigger?

H.M.Jr: Well, I understand that you think I'd be all right up there.

K: I think you'd be marvelous.

H.M.Jr: Well -

K: I mean I think that if they can't get the President they ought to get you.

H.M.Jr: Well, that's damn nice of you, but I - you know I do this so seldom, I'm terribly afraid -

K: Well, Henry, I'll tell you what the trouble with the thing is now. I mean let's not be kidding ourselves about it.

H.M.Jr: Right.

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- K: This thing is a God damn important thing that you've done.
- H.M.Jr: Yes.
- K: And there's no God damn - I mean it's all right to be going along, and having people say, 'Well, what the hell - he's down there and he won't come out, and I mean he's afraid all the time that he doesn't want to take the spotlight away from somebody or something like that,' but that's the same kind of thing that's God damn bad for the job as Secretary of the Treasury.
- H.M.Jr: I see.
- K: I mean if you weren't the retiring kind of a guy you were, this thing would be blazing. Now I talked to the editor yesterday of the biggest Paris paper -
- H.M.Jr: Yes.
- K: - who asked me to write an article. Winston Churchill is writing on England, and I'm writing one on the political situation here, -
- H.M.Jr: Yes.
- K: - and he told me that he thought that if France would say that you had saved it -
- H.M.Jr: Yes.
- K: Now God damn it, he didn't have - he wasn't going to see you, and he didn't figure I'd ever see you -
- H.M.Jr: No.
- K: - and he told me that. Now I think, Henry, that if the President of the United States can't be here that you should be here, and I think that you ought to do it for yourself, for the job that you've got, and the job that you've done, and your family. I mean, for Christ's sake you've got to stop being down there and only seeing people once in awhile. I don't care what you do - just let them look at you.
- H.M.Jr: Yes.
- K: I mean but you can rally around. You can say - well, you can point to the things that have been done, and

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you'll get enthusiasm, and I'll underwrite it.

H.M.Jr: Yes. Well, now, that's - I appreciate that more than I can say.

K: Well, it's true, Henry.

H.M.Jr: Well, you know the - well, you know how I work and -

K: I know how you work and I know the feeling, and I know - I know exactly what you've done, and I know all that better than anybody else here. I mean twice - I mean you know that I'd just as leave say 'ass-hole' as I would say you're a great guy.

H.M.Jr: Yes.

K: But I tell you that this - this thing has gotten beyond people. They don't know what the hell has been done for them.

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

K: Yes.

H.M.Jr: I can give one of two speeches.

K: Yes.

H.M.Jr: I can give a talk about this foreign thing -

K: Yes.

H.M.Jr: - or I can give a speech which has not yet been given -

K: Yes.

H.M.Jr: - and that is - at least I don't think it has been - I could talk about taxes and inflation.

K: Yes.

H.M.Jr: And we crossed this bridge last January when we decided to ask for taxes rather than to borrow the money to pay for the bonus, etc., and so on.

K: Yes.

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- H.M.Jr: Now which do you think would be more effective?
- K: Well, Henry, I - of course, I think that the second would be - would probably be more effective, but the first one would be - I mean would still have - would be statesmanlike. I mean, to me, I would pick the one whichever I felt that I could handle best with.
- H.M.Jr: Yes.
- K: But either one of those things will be sensational.
- H.M.Jr: Well, which one do you think ought to be most effective for the President?
- K: I think the second one.
- H.M.Jr: You mean the -
- K: The one on - the one on taxes and budgets.
- H.M.Jr: Yes.
- K: And, by the way, I'm going to give our pal Ray a kick in the ass today.
- H.M.Jr: Yes.
- K: You saw where he took us - you and me - over the humps this morning?
- H.M.Jr: Yes. Well, I had my regular press conference, and do you know what I told them?
- K: No.
- H.M.Jr: I said, 'Now off the record,' I said, 'I'm not going to get into an argument with a fellow who doesn't know his French.'
- K: That's right.
- H.M.Jr: 'Now,' I said, 'Mr. Mellon and Mr. Ogden Mills established the method of our keeping the books, -
- K: Yes.
- H.M.Jr: - 'and if we call it a - let's call it a non-partisan method of keeping the books, -

K: Yes.

H.M.Jr: - 'and Mr. Moley doesn't know his facts and I'm not going to get into an argument with a man who doesn't know what he's talking about.'

K: Well, I think you were very gentlemanly. My opening remark was, 'Ray should confine himself to running economic conferences in London.'

H.M.Jr: (Hearty Laughter)

K: (Hearty Laughter)

H.M.Jr: But if you want to use that, you could say it's a non-partisan method of keeping books -

K: Yes.

H.M.Jr: - because the method was laid down by Mr. Mellon and Mr. Mills.

K: Well, of course, Henry, between you and me, he can scarcely add a column of figures let alone talk about Government bookkeeping.

H.M.Jr: I know.

K: And between you and me also, all these fellows - Mr. Vincent Astor sent word to me yesterday that he didn't want to be in this situation.

H.M.Jr: Who shouldn't?

K: Vincent - Mr. Vincent Astor.

H.M.Jr: He doesn't want to be in on it?

K: No.

H.M.Jr: You mean he doesn't want to come to the dinner?

K: No.

H.M.Jr: Yes.

K: If that isn't a pain in the ass.

H.M.Jr: Well, listen -

K: Yes.

H.M.Jr: If I decide to come up there --

K: Well, listen now boy, they can put this dinner over, and be the biggest thing -

H.M.Jr: Yes.

K: - I'm telling you that next to the President, you're the best card they've got.

H.M.Jr: Well, I'm -

K: The boss is here - I mean he called me on the phone himself -

H.M.Jr: Who?

K: The boss did.

H.M.Jr: When was that?

K: Just five minutes before he got on the train.

H.M.Jr: Yes, and he wants me to go up there.

K: And he says - well, he didn't say that - he said, 'You go ahead and put this on - I - it's more important to me.'

H.M.Jr: Yes.

K: And I've been trying to stall along with him all week, and he wants this thing done -

H.M.Jr: All right.

K: And he said, 'Anything that's necessary.' As a matter of fact, he was - he suggested that four members of the Cabinet come up.

H.M.Jr: Yes.

K: And I said, 'No, we'll take this one.'

H.M.Jr: Yes.

K: 'You can take the other three and put them out in the country.'

H.M.Jr: O. K. All right. Well, on your say so, I'm coming now.

K: Well, Henry, I mean positively - I mean I'll see that the God damn - that it'll be - I mean if I don't do a good job for you boy, don't ever speak to me.

H.M.Jr: Yes. Well, listen -

K: What?

H.M.Jr: I'll tell you what I think I'll do, if you think well of it. I'll send Steve Gibbons up there and let him spend a couple of days on this.

K: That's swell.

H.M.Jr: Because, after all, we have three collectors of internal revenue and a couple of collectors of customs, and let them get busy.

K: That's swell. That's swell, Henry.

H.M.Jr: What?

K: Oh, that's marvelous because his pal, Eddie Moore, is here and they'll get along great.

H.M.Jr: Well, I mean, I'll let Steve go up there and spend enough time up there, and let some of these collectors get busy.

K: That's great.

H.M.Jr: What?

K: We - that'll be fine, Henry. We'll have - and listen -

H.M.Jr: Yes.

K: - if you're coming and going to make a speech, I'll underwrite the crowd, don't worry.

H.M.Jr: Well, I'll come now.

K: Yes.

H.M.Jr: I'll come.

K: And there - and I mean it'll be a hell of a job in either one of those you state - and even if you brought in the second, Henry, don't - don't miss the fact of putting in - don't miss the fact to put in

about the foreign thing, because everybody is tipping their hat to that.

- H.M.Jr: Well, I'll talk it over here. Are you going to talk?
- K: Well, I'm going to introduce you and the boss.
- H.M.Jr: Good enough.
- K: Yes.
- H.M.Jr: There's no one I'd rather have introduce me.
- K: Well, I'm going to introduce you and the President.
- H.M.Jr: All right.
- K: I'll take care of it boy.
- H.M.Jr: All right. Well, I feel much better now.
- K: All right - don't you worry. I mean it'll be just nice and peaceful and calm, and we can - anything you want - think about - I'll take care of everything.
- H.M.Jr: O.K.
- K: All right, Henry.
- H.M.Jr: Thank you.
- K: All right, boy.

G. ALONSO IRIGOYEN  
MINISTER OF FINANCE

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AGULTONE EDISON  
WASHINGTON

At 3:30 today, Mr. Irigoyen called on the Secretary. Also present were Taylor and Lochhead.

The Secretary greeted Mr. Irigoyen and said to him, "I had a letter from your Minister of Finance saying that you would be here." Mr. Irigoyen replied, "I arrived from Buenos Aires last night. The Minister is very much interested in the monetary developments and is following closely your active participation and, of course, would like to be informed and to keep in close touch with what is going on. The newspaper reports are fragmentary and they want to have closer information."

"What we have done," the Secretary said, "we have announced publicly. It has all been carried in our papers. Is there any special information that you want?" Mr. Irigoyen answered, "Of course today I could not ask you any special information. I have been reading what the papers have published. What I would like to do is, would you care to indicate someone in the Treasury of the Federal Reserve that I could contact and to ask questions?" The Secretary's response to this was: "For the time being, you had better see me; until we get some of these things smoothed out I would be glad to see you myself." Mr. Irigoyen said, "Thank you." The Secretary added, "Just let me know and then maybe a little later on, when things are less exciting, I could turn you over to somebody else. For the time being, I want to see the various financial attaches myself. Things are very important and we are very hopeful there is going to be a new day in finance between countries." Mr. Irigoyen remarked, "That is what we think down there."

Continuing, the Secretary said, "We are very hopeful here and it is now 2½ weeks and we think, so far, it has met with great success. As a matter of fact, we are interested to know what your country might do. Any time you have any information, I will be glad to receive it. If you want to know anything in particular, just arrange for it and I can be seen quite easily."

"Please convey my regards to the Finance Minister and tell him that we will be very glad to cooperate in any way we can."

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Mr. Irigoyen answered, "In that case I will ask for a report and will bring it in." The Secretary added, "If there are certain questions you want answered specifically, come in to see me and then if the questions are technical I can turn you over to certain people, but I want to see what the questions are myself."

HM, Jr. then inquired of Mr. Irigoyen, "How many days did it take you by air?" Mr. Irigoyen replied, "Five days and five nights." The Secretary asked, "Is that service used now a great deal?" Mr. Irigoyen answered, "Yes." The Secretary said, "It used to take three weeks." Mr. Irigoyen said, "It takes 18 days by boat. Flying is very good service."

October 15, 1936.  
10:00 a.m.

H.M.Jr: Hello?

Operator: Mr. Dunn.

H.M.Jr: Hello?

Dunn: Yes, Mr. Secretary.

H.M.Jr: I have another request to make.

D: Good.

H.M.Jr: I'd like Cochran also to be authorized to handle Belgium.

D: Oh, well, we'll just put that in the same -

H.M.Jr: Cable.

D: - same cable. Now I have a cable here that I was going to read to you. Would you like to hear it?

H.M.Jr: If you please.

D: 'The Secretary of the Treasury wishes - this is to Paris - the Embassy in Paris -

H.M.Jr: Yes.

D: 'The Secretary of the Treasury wishes to establish contact with the Swiss financial authorities and negotiate with them through Mr. Cochran regarding the request of the Swiss Nat. - Swiss National Bank -

H.M.Jr: Yes.

D: - 'to be included in the recent gold arrangements.'

H.M.Jr: Yes.

D: - 'This will be agreeable to the Department if you have no objections. The Secretary of the Treasury requests that Mr. Cochran keep the American Minister to Switzerland informed of the discussions. The Department has not yet instructed the American Minister to Switzerland in the matter, and Mr. Cochran should, of course, consult with him before establishing contact with Governmental authorities in Switzerland.'

H.M.Jr: Yes, that's the usual practice.

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H.M.Jr: And then Wayne Taylor sits in on all of this, and he'll keep you people advised hourly if there are any changes.

D: Good - good.

H.M.Jr: All right.

D: You'll do - you're going to do the British here and Cochran will keep the French?

H.M.Jr: Right.

D: Yes.

H.M.Jr: Right.

D: All right - thank you very much.

H.M.Jr: Thank you.

D: Goodbye.

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D: Now we'll just - we'll just add to that -

H.M.Jr: Belgium.

D: - the same thing for Belgium.

H.M.Jr: Yes.

D: Well, we'll shoot that right off.

H.M.Jr: Right. And now on the Belgium thing, it's - they're sort of jumping to conclusions, you see?

D: Yes.

H.M.Jr: That they are included, and we're going to work on this thing very carefully, and it isn't something that just can be settled in five minutes, but Cochran is ideally suited to handle the negotiations, and, of course, all our cables clear through you, so you people will be advised.

D: Yes.

H.M.Jr: And as soon as Feis comes back, why I want his advice and I'll keep him informed, and I take it that Secretary Hull will be kept informed also.

D: Well, he's - he's going to communicate with us later on in the morning and we'll tell him about it. There's no question about that at all.

H.M.Jr: Fine. Well, this - this is a matter - once we get hold of Cochran on the phone, it isn't going to be a matter that can be settled in 24 hours.

D: No.

H.M.Jr: But having him over there is of great assistance to me.

D: Yes, because - oh, yes, I can understand that.

H.M.Jr: Yes, and it gives us a clearance point, -

D: Yes.

H.M.Jr: - and as we go along, I'm going to tell him to keep the French advised and we'll keep the English advised at this end.

D: Good.

October 15, 1936  
10:06 a.m.

Operator: I have Mr. Cochran.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello?

Cochran: Hello, Mr. Morgenthau.

H.M.Jr: How are you?

C: All right - thank you.

H.M.Jr: Cochran, we're not on the diplomatic wire, so I'll try to be a little bit careful.

C: All right.

H.M.Jr: Now there are two things: Your friends in Switzerland -

C: Yes.

H.M.Jr: - cabled in and they want - to the Federal Reserve here, and they want to do business, see? Hello?

C: The ones in the town where I was or the headquarters?

H.M.Jr: Oh, well, no - the - the State Bank.

C: The State Bank?

H.M.Jr: Yes. Now what we're doing is this - the Federal is answering them and saying that they've got to take that up through the Treasury and through diplomatic channels, see?

C: Yes.

H.M.Jr: I - I'm doing - you will receive an authorization from the State Department authorizing you to handle these negotiations for me.

C: I see.

H.M.Jr: You see?

C: Yes.

H.M.Jr: - Keeping Mr. Wilson in Geneva informed - that's up to you. They're not sending Wilson any instructions.

C: No.

H.M.Jr: But they're sending you instructions that you can act for me.

C: I see.

H.M.Jr: Now - and it's up to you to keep Wilson, our Minister in Switzerland, informed, see?

C: Yes, yes.

H.M.Jr: Now, I think that you might start in right away and not wait until these cables come because it will be four or five hours. By that time, you'll lose a day.

C: Yes.

H.M.Jr: And get in touch with the - whoever the Minister of Finance is for Switzerland - you see?

C: It was from him and not from the Central Bank?

H.M.Jr: Well, I don't care - I mean the point is we want to do business with the Minister of Finance in Switzerland.

C: I see.

H.M.Jr: You see?

C: Yes.

H.M.Jr: And find out what he wants.

C: Yes.

H.M.Jr: And if they want this thing - just what does he want and what does his country want, and explain to him that these things are worked out through diplomatic channels, and through the Minister or Secretary of Treasury.

C: I see.

H.M.Jr: Rather - it's between Governments rather than between Central Banks.

- C: I see.
- H.M.Jr: Well, you know the procedure.
- C: Yes, surely.
- H.M.Jr: And the Department here - the State Department is entirely willing that you do this for me.
- C: I see.
- H.M.Jr: And - but you're - but you're to keep the Minister in Switzerland informed what you do.
- C: Yes.
- H.M.Jr: And you think you can do that on the telephone?
- C: I can make arrangements - I - I doubt a little whether I can go the whole way by the telephone.
- H.M.Jr: Well, the trouble is I'm going to give you similar instructions for Belgium in a minute.
- C: Yes - all right.
- H.M.Jr: So I just wonder if -
- C: It would be necessary to call?
- H.M.Jr: Well, or whether they'd come to see you.
- C: Yes.
- H.M.Jr: I'll leave that entirely in your hands, see?
- C: I know Bachmann of the Central Bank, but I don't know whether he does the working of their Stabilization Fund or not.
- H.M.Jr: No, but I don't want to - I don't - this is a new order. We don't want to do it through Bachmann. That's the telegram. We want to do it through the Minister of Finance, in Switzerland.
- C: I - I - I get the point, but I say I don't know him, but I can meet him, of course.
- H.M.Jr: Well, you - you - you've got to make his acquaintance, you see?
- C: Surely.

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H.M.Jr: I'll leave it to you.

C: All right.

H.M.Jr: Now, we also have questions up from Belgium, you see?

C: Yes.

H.M.Jr: And what happened is this: The Federal Reserve sent out a copy of my cable to all Central Banks. Hello?

C: Yes.

H.M.Jr: On receiving that, the Central Bank of Belgium - I'll read this very slowly. It's very short, so you can take it down, you see?

C: All right.

H.M.Jr: They sent a cable to Harrison in New York -

C: Yes.

H.M.Jr: - which reads as follows: 'On reciprocal conditions -

C: Yes.

H.M.Jr: - 'your cable -

C: Yes.

H.M.Jr: - 'we confirm our agreement -

C: Yes.

H.M.Jr: - 'to sell gold to the United States.

C: To sell gold to the United States.

H.M.Jr: - 'to the United States.

C: United States.

H.M.Jr: - 'Our legal parity -

C: Yes.

H.M.Jr: - 'Please transmit to Treasury.' I'll repeat it so that you get it, see?

C: I'll read it as I have it. Do you mind?

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- H.M.Jr: Well, it's easier for me to read it, I think.
- C: Yes.
- H.M.Jr: 'On reciprocal conditions, your cable, we confirm our agreement to sell gold to the United States our legal parity. Transmit Treasury.' Now that's signed by Governor Frank.
- C: Frank signed it?
- H.M.Jr: Yes. Now we're going to tell him - we're going to send him word through the Federal Reserve that if they want to do business, they've got to do it the way everybody else does it.
- C: Yes.
- H.M.Jr: Now, here's the other thing. I have told the British here that any country that comes in and wants this agreement, I will inform Great Britain and France first; that is, I'll inform the Chancellor of the Exchequer -
- C: Yes.
- H.M.Jr: - and I will inform, through you, Mr. Auriol, -
- C: I see.
- H.M.Jr: - and I will give them the opportunity to say they want to join us again before I make any new agreements.
- C: I see.
- H.M.Jr: And I want you to tell Mr. Auriol that both Switzerland and Belgium have raised this question, and would they care to do it with us jointly on the new basis -
- C: I see.
- H.M.Jr: - and we also want to know, have they any agreement with Switzerland, and have they any agreement with Belgium.
- C: I see.
- H.M.Jr: And I'm going to tell the - the British the same thing.
- C: Yes.

H.M.Jr: We've got an agreement and before we take any new partners on, I'm going to consult my present two partners.

C: Yes.

H.M.Jr: Do you get that?

C: Yes.

H.M.Jr: And -

C: I'm to inform Auriol that these two have approached us to go in.

H.M.Jr: Right.

C: Do the French want to join us including these new partners -

H.M.Jr: That's right.

C: - or have they any agreement so far with them?

H.M.Jr: That's right.

C: Have they already any arrangements?

H.M.Jr: Now, for your own confidential information -

C: Yes.

H.M.Jr: - We don't want Belgium to operate on that old order of February 1, 1934, see? Hello?

C: Yes.

H.M.Jr: But we don't want to cancel that until we conclude a new agreement, you see?

C: I see.

H.M.Jr: Because if we cancel that without a new agreement, it would get too much publicity.

C: Yes.

H.M.Jr: But, after all, as far as we know now, Belgium is the only country which could come under the February 1, 1934.

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- C: Yes.
- H.M.Jr: If we conclude a new agreement with her, then simultaneously we'll withdraw the February 1, 1934 -
- C: yes.
- H.M.Jr: - and everybody will have to operate on the October 13, 1936, statement, you see?
- C: I see. But, of course, their - their fund is abolished now.
- H.M.Jr: Pardon me?
- C: I say their stabilization fund is no longer existent.
- H.M.Jr: I know, but our attitude is this - if we - we - if a country like Belgium wants to come in without a stabilization fund, we'll work it out the best we can to fit her needs and at the same time take care of our own internal situation.
- C: Yes, so it - it isn't essential to the working arrangement that they set up a -
- H.M.Jr: It's not essential. It would be helpful but it's not essential, but we want it - the agreement - reciprocal agreement on giving up gold. We want that with the Government -
- C: Yes.
- H.M.Jr: - the guarantee, and not with the Bank.
- C: Yes.
- H.M.Jr: In other words, I'm insisting here that all of these agreements go through diplomatic channels to the Secretary of the Treasury, and when we go into an agreement - a reciprocal agreement, it's between - giving up gold - it's between Governments and not between Central Banks.
- C: I see.
- H.M.Jr: The Central Banks will be the agents, of course, -
- C: Yes.

H.M.Jr: - but they will not be the first party of the -  
of the contract. I mean - you follow me?

C: Yes, absolutely.

H.M.Jr: I mean, now, we've - we've established this pro-  
cedure, and this is the procedure that both the  
President and I wish to follow.

C: Yes, but when you say through diplomatic  
channels, you don't mean necessarily that it goes  
through their Belgian Ambassador?

H.M.Jr: I - no, it's a - it's a Morgenthau diplomatic -  
the Morgenthau-Cochran diplomatic channels.

C: A special setup there?

H.M.Jr: I say it's the Morgenthau-Cochran diplomatic  
channels.

C: I see. I see.

H.M.Jr: See?

C: Yes.

H.M.Jr: But, I mean, we'll follow it this way, and I'll  
take care of the British here in Washington,  
but you take care of the French.

C: Yes, I'll - I'll inform them right away of these  
two applications.

H.M.Jr: Yes, and you better also inform Mr. Bullitt so  
he knows what is going on.

C: Yes.

H.M.Jr: And - but the Department here is entirely agreeable  
and they're delighted to have you act for me and  
will give you the authority, -

C: Fine.

H.M.Jr: - but - but they're not informing the American  
Ambassador in Brussels or the American Minister  
in Switzerland. That's up to you, -

C: Yes, yes.

H.M.Jr: - to keep them informed.

C: Yes.

H.M.Jr: Do you understand?

C: Yes.

H.M.Jr: And if there is any question in your mind, ask me and I'll try and clear it.

C: The only point is whether you think I should make my appointment to those people or just go there and call on the Ambassadors like I usually do in the course of -

H.M.Jr: I'll leave that to your good sense.

C: Yes.

H.M.Jr: We don't want to offend anybody, and we don't want any American diplomat to be able to say that we haven't kept him informed. There's a difference between consulting him and keeping him informed.

C: Yes, yes.

H.M.Jr: He should be kept informed.

C: My - my only point was on - on the approach, you see?

H.M.Jr: Pardon me?

C: - To make the appointment -

H.M.Jr: Oh, I'll - I'll leave that to you Cochran.

C: - and such with them, and then -

H.M.Jr: Well, Cochran, you've got to use your judgment. I can't give you detailed instructions.

C: Yes, well I - I can work that out all right.

H.M.Jr: I mean - now just a minute - I want to ask the people here in the room whether I've overlooked anything. Just - just hold on, please.

(Pause during which conversation is carried on in H.M.Jr's office)

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H.M.Jr: Hello?

C: Hello?

H.M.Jr: Now, you understand that as you go into these things - I mean, we'll naturally - there will be some things that we'll have to iron out.

C: Oh, yes, I can't answer all the questions.

H.M.Jr: No, no, and - but I feel confident that you've done these others and - which were far more difficult because they were new - and I know - I'm quite sure that - that you'll be able to conduct these as successfully.

C: Well, I'll try.

H.M.Jr: Of course, it's an advantage if a country has a stabilization fund, but if it's impossible to create one, why we can't insist on it.

C: Yes, yes.

H.M.Jr: But we do want some kind of a guarantee that they'll hold up their end of their own exchange, you see?

C: Yes.

H.M.Jr: I mean if they haven't got a stabilization fund, what means are they going to have to hold it up?

C: Yes.

H.M.Jr: We - we - we want some pretty good - because we don't want to do our own and have to do theirs as well.

C: Yes, yes.

H.M.Jr: In other words, we don't want any more lame ducks than necessary.

C: No, no.

H.M.Jr: But we're very anxious to - as quickly as possible - to wipe out the January 1, '34, and start on the new one which is the October 13th.

C: I see.

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- H.M.Jr: Now, are we all right?
- C: Yes, yes; I have it exactly.
- H.M.Jr: All right, and the cables will be coming along in their usual speed and you - but I don't want to wait for them.
- C: But I - I'll start with the French this afternoon -
- H.M.Jr: Yes.
- C: While - while you want me to see these others, of course, it's understood that I'm going to take it up with the Treasury -
- H.M.Jr: Pardon me.
- C: I say, while it's definitely understood that I am to go through the Treasury -
- H.M.Jr: Yes.
- C: - would you have any objection to my asking to make the appointment - I mean
- H.M.Jr: You - you decide that. You know your situation. I mean, how you get to see the people is up to you.
- C: - not very well.
- H.M.Jr: You - you get in. You be a Fuller brush salesman. You get in and see your clients.
- C: All right. That's the best way to get in. I'd rather get in through them -
- H.M.Jr: All right. Well, you're selling Fuller brushes - it's up to you to get your foot in the door. I don't care how you do it as long as you're polite about it.
- C: All right.
- H.M.Jr: All right?
- C: Yes. I'm afraid it may be necessary to go to see (squealing noise).

H.M.Jr: Well, that's all right. You've got to - you've got to decide that on the ground. I - I can't - I'll leave that to you.

C: Fine - I'll -

H.M.Jr: I'm giving you a job to go out and to do it, and it's up to you to carry the message to Garcia, but you've got to decide how.

C: All right; fine.

H.M.Jr: All right.

C: Then the wire is coming tonight authorizing -

H.M.Jr: Yes, it's - most likely it has left already.

C: I see.

H.M.Jr: They've al- - I imagine the cable is on the way now.  
(Pause) Hello?

C: Yes.

H.M.Jr: Anything else?

C: No, that's everything. They - the Bank of France had a good statement today.

H.M.Jr: Good.

C: They gained 5 million francs in gold, but reduced the discount rate to 2 per cent.

H.M.Jr: Fine.

C: And everything is going nicely.

H.M.Jr: Good. Well, this - this -

C: I'll go over to the Ministry of Finance now and get busy.

H.M.Jr: Cochran?

C: yes.

H.M.Jr: Don't forget to stress to them that we're handing to them something on a silver platter or rather a gold platter, whatever you want to call it, when

we tell them that we won't make these arrangements without consulting France and Great Britain first. Now, this is a most generous thing that we're doing.

C: Yes, yes.

H.M.Jr: And don't forget to rub it in a little bit - that here is the American generosity and desire for world peace, and we're not crippling - what do we get out of this?

C: Surely, surely.

H.M.Jr: Well, don't forget to draw that to their attention, you see?

C: All right - fine.

H.M.Jr: And it's perfectly true because we could go ahead and do this, and we wouldn't have to wait for them, and when we permit France and England each time to sit in on each one of these things -

C: Yes.

H.M.Jr: - we're really handing them something that's quite useful.

C: Well, I'll - I'll speak to them.

H.M.Jr: And I'm very conscious of it and I hope that they are, too, and don't hesitate to draw their attention to it.

C: All right - fine.

H.M.Jr: O.K. Goodbye.

C: If I make any of these trips, I shall not wire you until I get back because it'll be just one day if I go to Belgium.

H.M.Jr: But if you go, send me a wire that you've left.

C: Surely, surely.

H.M.Jr: All right.

C: But when I'm away, I shall not wire you from -

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H.M.Jr: No, no - until you get back.

C: Yes.

H.M.Jr: Thank you.

C: All right.

H.M.Jr: Goodbye.

C: Goodbye.

October 15, 1936  
10:30 a.m.

Operator: Operator.

H.M.Jr: Chairman Eccles, please.

Operator: All right.

(Pause)

H.M.Jr: Hello?

Operator: Chairman Eccles is on his way to the office.  
he'll be there in about ten minutes.

H.M.Jr: Well, remind me as soon as my press conference  
is over, I want to talk to him.

Operator: All right, and Mr. High is calling you, too,  
from New York. He says it's very important.

H.M.Jr: All right. O.K. I can take it now if he's  
there.

Operator: All right, I'll get him.

October 15, 1936  
10:47 a.m.

Operator: Operator.

H.M.Jr: Chairman Eccles, please.

Operator: All right.

(Pause)

H.M.Jr: Hello?

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello?

Eccles: Hello?

H.M.Jr: Marriner?

E: Yes.

H.M.Jr: We've got a couple of new moves which have come up today, and Cy Upham knows all about them, and I'd like him to drop over and tell you and Ransom about them.

E: Fine.

H.M.Jr: Now, I think when you hear them that at this stage there's no particular reason why you'll find it necessary to pass it on to anybody but yourself and Ransom. After you hear it, if you disagree with me, and feel that you should pass it on to anybody, will you let me know?

E: Yes, I'll do that.

H.M.Jr: But these two things have just come up, and - this morning - and Cy is entirely familiar and I'd like for him to come over and tell you about them.

E: You wouldn't - you wouldn't want us to talk it over with Gardner who is our foreign man.

H.M.Jr: Well, hear the story first and then see whether - at this stage whether it's necessary. See?

E: All right.

H.M.Jr: And after you decide whether at this stage you think it would be helpful - I - I don't know - but

- 2 -

E: All right, then. Is he coming right over?

H.M.Jr: He can come immediately.

E: Well, all right, I'll see him immediately.

H.M.Jr: Thank you.

E: Just a minute - let me check and see if I can get Ransom, and I'll call him back.

H.M.Jr: You'll call Cy back?

E: I'll call Cy.

H.M.Jr: Thank you.

E: All right.

October 15, 1936

HM, Jr. telephoned to Secretary Hull at 9:20. Secretary Hull not being in his office, he spoke to Mr. Gray.

He said to Mr. Gray, "I had Mr. Livesey over last night at which time we discussed the Swiss request to buy gold. I should like Cochran to handle this for us in Paris. Do you suppose I can take it up with Jimmie Dunn? Would that be agreeable to Mr. Hull?" Gray said it would be entirely agreeable to Mr. Hull and that he would take it up with Mr. Dunn and have Mr. Dunn call the Secretary.

Mr. Dunn called HM, Jr. back a little while later and said it would be all right for Cochran to handle the matter for HM, Jr. HM, Jr. also got Mr. Dunn's permission to have Cochran handle the request from Belgium.

October 15, 1936  
10:47 a.m.

47

Operator: Operator.

H.M.Jr: Chairman Eccles, please.

Operator: All right.  
(Pause)

H.M.Jr: Hello?

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello?

Eccles: Hello?

H.M.Jr: Marriner?

E: Yes.

H.M.Jr: We've got a couple of new moves which have come up today, and Cy Upham knows all about them, and I'd like him to drop over and tell you and Ransom about them.

E: Fine.

H.M.Jr: Now, I think when you hear them that at this stage there's no particular reason why you'll find it necessary to pass it on to anybody but yourself and Ransom. After you hear it, if you disagree with me, and feel that you should pass it on to anybody, will you let me know?

E: Yes, I'll do that.

H.M.Jr: But these two things have just come up, and - this morning - and Cy is entirely familiar and I'd like for him to come over and tell you about them.

E: You wouldn't - you wouldn't want us to talk it over with Gardner who is our foreign man.

H.M.Jr: Well, hear the story first and then see whether - at this stage whether it's necessary. See?

E: All right.

H.M.Jr: And after you decide whether at this stage you think it would be helpful - I - I don't know - but if you think it would be helpful, all right. But hear the story first.

- 2 -

E: All right, then. Is he coming right over?

H.M.Jr: He can come immediately.

E: Well, all right, I'll see him immediately.

H.M.Jr: Thank you.

E: Just a minute - let me check and see if I can get Ransom, and I'll call him back.

H.M.Jr: You'll call Cy back?

E: I'll call Cy.

H.M.Jr: Thank you.

E: All right.

October 15, 1936. 89

At 11 A.M., Mr. Upham, at Mr. Morgenthau's request, called on Chairman Eccles and Governor Ransom to inform them with respect to the situations that have developed between the United States and Belgium and between the United States and Switzerland in the matter of the purchase and sale of gold.

I told them that the Central Bank of Switzerland had cabled to the Federal Reserve Bank of New York asking if they might buy and sell gold on a reciprocal basis.

I explained that it was not wholly clear whether they had in mind commercial transactions between central banks or whether they were acting on behalf of the Swiss Treasury. I explained that since Switzerland is not on the gold standard there could be no doubt as to their ineligibility to operate under the system established on January 31, 1934, even if that were considered as continuing in full effect so far as the United States is concerned. I told them that in any event we were arranging through the State Department for Mr. Cochran in Paris to negotiate with the Swiss Ministry of Finance in an endeavor to ascertain just what proposal the Swiss Government has to make and he was instructed to inquire what arrangement, if any, the Swiss had with the British and/or the French.

I explained also that coincidentally we are informing the British and the French of the approach made by the Bank of Switzerland and are suggesting that in the event the Swiss Government wishes to enter into a relationship such as we have with Great Britain and France, that all three parties to the gentlemen's agreement of September 26th will be consulted before any action is taken.

Mr. Eccles discussed for some moments gold inflow and outflow and the effects on excess reserves, explained the distinction between the operations of the British Equalization Account and the American Stabilization Fund with respect to effects on excess reserves and the situation of the Swiss from a theoretical standpoint -- apparently for the purpose of making thoroughly clear to Mr. Ransom just what the situation is.

I then told Mr. Eccles and Mr. Ransom that a cable from the Central Bank of Belgium was also received by the Federal Reserve Bank of New York in which the <sup>Belgian</sup> bank sought to accept and confirm the continuance of the arrangement of January 31, 1934 insofar as it affected the sale of gold by the United States to Belgium.

I explained that we were thinking in the direction of cancelling the arrangement of January 31, 1934 but that we did not think it wise to announce that cancellation at this time, and we are proceeding therefor with the possibility in mind of including Belgium in the three-power agreement.

I explained that we have arranged through the State Department for Mr. Cochran to negotiate with the Finance Minister of Belgium, as he is doing with the Finance Minister of Switzerland. I mentioned the fact that Belgium might possibly serve as a rallying point for those who believed in and wanted to work back to the old style gold standard.

Mr. Eccles was inclined to think at first that it would be a splendid thing to make public at once the cancellation of the arrangement of January 31, 1934, but Mr. Ransom was definitely of the other opinion and Mr. Eccles quickly agreed that the

course we are pursuing is sound.

Mr. Ransom said that he thought the three-power agreement was by far the most constructive event in the international field for many many years and that he believed its importance in the maintenance of world peace could not be overemphasized. He regards the negotiations with Switzerland and Belgium as logical and desirable extensions of the existing system and sees a possibility of a continued stability from day to day which may translate itself into permanent stability.

Mr. Eccles expressed the view that the information conveyed to them would enable them to have a background of information against which they can better respond to proposals that may come to them in their capacity as central bankers. He gave as an example the possibility of Switzerland applying to the Federal Reserve Bank of New York for a loan and said that in that event they would be in a position to act more intelligently by reason of knowing Treasury developments.

Mr. Ransom again expressed the view that they ought to have a ticker so that they can tell what was happening during the day. He said he understood that a former member of the Board had considered such a proposal outrageous and had expressed the view that the Federal Reserve Board should have no concern about what happens in Wall Street.

Mr. Eccles said that he thought there was no need to follow market developments hour by hour and that a daily review by means of the newspaper of what has happened is sufficient for their purposes.

Mr. Eccles asked me to tell Mr. Morgenthau that he saw no reason for passing along the information about Switzerland and Belgium to any other members of the Board or the Federal Reserve staff.

Both Mr. Eccles and Mr. Ransom seemed very much pleased at the evidence of Treasury cooperation and seemed happy to be let in on current negotiations.

Upm.

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October 15, 1936  
4:00 P. M.

The Secretary having sent for Mr. Mallet and Mr. Bewley, they came in to see him at 4:00 o'clock. Mr. Lochhead and Mr. Taylor were also present.

Mr. Mallet said to the Secretary, "I gave my wife, thanks to you, a wonderful reception. It was marvelous. She got such a surprise. She thought she had seen a ghost." (The Secretary had arranged for the Coast Guard to take Mr. Mallet down the Bay to meet the Aquitania, on which Mrs. Mallet was arriving from England.)

Mr. Mallet added, "It was most awfully kind of you to take so much trouble. It was a lot of fun."

The Secretary then said, "The reason I asked you gentlemen to come down, carrying out my agreement, is this: Belgium and Switzerland would like to do business, and I want to take a minute to explain. In the case of Switzerland, they sent a cable -- their Central Bank did -- to New York and they asked a lot of questions of the Federal Reserve Bank and the Federal Reserve wired them back that the Swiss Treasury would have to take it up with us. Belgium did something a little bit different. The Federal Reserve sent out this announcement, which I made on the morning of the 13th, to all the Central Banks and Belgium simply wired back, 'We accept.' Now, I don't know just what that means because Belgium's case is a little bit -- are they on the gold standard; what do they think they're on?"

Bewley inquired, "They haven't got a stabilization fund?" And H.M.Jr. answered, "No." Bewley then asked, "They wouldn't come under the terms of your announcement, or am I wrong?" The Secretary answered, "I don't quite know but their wording was practically, 'We accept. Thank you very much.' In their case, too, we sent word back and asked them would they please take it up through diplomatic channels and through the Treasuries. That only happened today. I informed the French Government of the same thing and I am going to handle it in just the same way. I have asked Mr. Cochran to approach the Minister of Finance in Switzerland and also in Belgium; just what have they got in their mind, and inform them that I am also informing the British Government and the French Government."

Mr. Mallet asked, "Cochran is going down to Switzerland and Belgium?" Mr. Morgenthau answered, "I told him I left it to him. I didn't know. In both Switzerland and Belgium, he knows the Central Banks very well but he doesn't know the Finance Ministers. But I very much want to continue the same way, keeping it in the hands of the governments and using the Central Banks to carry it out." Both Mr. Mallet and Mr. Bewley agreed, saying, "Yes. Quite."

Continuing his remarks, the Secretary said, "That pattern is one we very much want to keep up here, rather than let the Central Banks get together and decide what they want to do. Of course, again in Belgium's case, I want to make this plain: We are very anxious that the more countries who feel they can join us, the better. Now, we have one pattern at present but the fact that Belgium has not got a stabilization fund doesn't mean that we would not do business with her if their Government would assure us that they would give up gold on a reciprocal basis. We will sort of feel our way along. But the fact that Belgium does not have a stabilization fund -- I am not going to say we will not do business." Mr. Bewley and Mr. Mallet both said, "Yes."

The Secretary then added, "I have pretty good evidence to believe that France is doing business with Belgium right now. They haven't told us but they have transferred some of their funds that they have had on deposit here, to Belgium -- some of the French funds -- so they must be doing business, and as I say, we are not going to simply say we have only one kind of model and we will only do that; and we are so anxious that this continuance spread. It would be very easy -- we could do business with Belgium on the 1934 proclamation, or whatever you want to call it, and just say we will do it between gold points. But the way we feel here, for the time being, we would much rather be doing business with the rest of the world on one kind of basis rather than doing it with France on the October, 1933 proclamation and doing it with Belgium on the January, 1934 proclamation. You have those proclamations?" Bewley answered, "Oh, yes. I am quite sure we have."

H.M.Jr. then said, "I want to make it clear: Just because Belgium does not have a stabilization fund, we will not refuse to permit her to have a reciprocal agreement." Bewley said, "Quite." Continuing, the Secretary said, "I don't know how you feel over there but I think it is much better to have one model and there would not be any other countries, as far as we know, who could qualify, besides Belgium, under the January 31, 1934 announcement. I don't think there is any other country. It immediately brings up the question, Have we two kinds of gold standards?" Bewley said, "Yes. Quite."

"It is so difficult to explain to the general public," Mr. Morgenthau said. Bewley answered, "Oh, yes. I quite agree." H.M.Jr. then said, "So we would much rather have Belgium come in. In Switzerland, their Central Bank has been very much detached, as I understand it, from the Government and I don't know what the answer is going to be. But I repeat, we like doing business between the Governments and having the policies laid down as we started.

"If you would pass this word along to Mr. Chamberlain, I

would like his reactions and his suggestions, and we passed it along to Mr. Auriol. That is what I had in mind when I asked you to call."

The Secretary then said to Mr. Mallet and Mr. Bewley, "I am not going to put this in the form of a question, just passing a remark, which you can take up or not as you wish. If I don't hear, my feelings won't be hurt. But our papers here have been full of some sort of a loan to China by Great Britain and the people in the State Department don't know anything about it. But, as I say, if I don't hear anything about it, I will just take it that, for reasons, you could not answer."

Bewley replied, "I know no more about it than you, but I think it was an export credit's guarantee. That was the impression I got. I may be wrong about that," Mallet said, "There was talk about an export credit." Bewley added, "Yes, there was talk about an export credit scheme and it has been extended over most of the world."

The Secretary then said, "I am just mentioning it." Mallet asked, "In what papers was it?" The Secretary replied, "In all the papers, yesterday; all the papers carried it." Mallet then remarked, "Oh, yes. I remember it. I read it." Taylor said, "I got the same impression you did, that it was export guarantee funds." Bewley then said, "I knew that was under discussion some time ago, so it is very likely it might have become active."

The Secretary then inquired of Mr. Taylor and Mr. Oliphant, "Have I overlooked anything?" They said he had not. "And the other thing," the Secretary said to Mr. Bewley and Mr. Mallet, "this is Thursday, the third day since our announcement and everything is going along beautifully. We are entirely satisfied; everything is going along beautifully." Mallet asked, "Our machinery is working smoothly?" And the Secretary answered, "Very smoothly. And inasmuch as the pound has been falling, we have been able to make use of this machine and so have the French. So far, it has not creaked and the whole thing, I am very much pleased. Three days, and considering that it is only two and one-half weeks of the campaign remaining, I think we got a remarkable press."

Bewley's comment was: "There has been very little criticism." And the Secretary added, "Montague Norman told Cochran he was simply dumbfounded to think we would do this before the election. Nobody dreamed that we would do such a thing before election. They met at the monthly meeting of the International Bank at Basle." Mallet inquired, "He was very pleased?" The Secretary answered, "He seemed to be. But the man who went stomping around, Schacht, his position was, if the International

Bank at Basle did not know of this, what use were they? Why not abolish it? If they did not know it was going to happen, he was in favor of abolishing it; that, as far as he was concerned, they were useless. He was very much upset that he went to Paris and they didn't tell him anything about this. And the interesting thing, they were there Sunday and Monday and we all announced this Monday night and there were no leaks. And they didn't know again until Mr. Schacht picked up his paper again. On Tuesday he had another Schacht (shock)!"

Mr. Mallet inquired, "He is still holding out against devaluation?" Mr. Morgenthau answered, "They did not say they would not. At no time in two days have they said they would not. But the whole thing upset him very much.

"Now, on this thing, as we say, we will let you know and we will appreciate it if you will do the same." Mr. Mallet asked, "Is it a matter of urgency?" The Secretary replied, "I think so. The New York Federal Reserve Bank asked me again please to hurry because these shifts are so tremendous. There has been an awful lot of gold taken out of England. Gold is moving to France and Switzerland and the French are moving money from here to Belgium. There is a tremendous readjustment taking place and, from your standpoint, I should think you, particularly, would want to have an answer on this because if we give Belgium and Switzerland permission to take it, it's that much less strain on you." Bewley agreed, saying, "Exactly."

Continuing, the Secretary said, "Right now they are moving French funds from New York to Belgium and Switzerland is moving funds from you, so you are losing a great amount of gold and I should think your people would be in a greater hurry than we are." Bewley answered, "Oh, yes. Oh, yes." The Secretary then said, "All these things, the quicker they are adjusted, the better. If Belgium and Switzerland can draw on us, so much the better. So, I think the answer to your question is, Yes."

Mallet said, "We will do it as quickly as we can." And Mr. Taylor remarked, "After all, we have issued a joint invitation to join the party and we have to be able to take care of the guests."

The Secretary then said to Mr. Mallet and Mr. Bewley, "You might make a note. Bulgaria wanted to buy some gold from us. The thing is going so fast I am going to stall a little with them until we get the Swiss and the Belgians cleared up. Bulgaria wanted to buy a little gold. We just thought if you have anything on Bulgaria, why they want gold, you might let us know, but I am going to wait a day or two on them. We can only do now so much, but I wanted to let you know about Bulgaria." Bewley inquired, "If we have any views on Bulgaria, you would be interested?" Mr. Morgenthau replied, "Yes. If

you have any news on Bulgaria, we would like to have it." Bewley remarked, "I wouldn't have thought they had much spare funds to buy gold in Bulgaria." Taylor explained, "It's a small order, but, after all, we have to take care of the customers." And the Secretary added, "And Mr. Lochhead keeps getting more orders and he gets 1/4 of 1% on the gold, so it all helps. It all keeps the pot boiling."

## TELEGRAM SENT

LMS

SPECIAL GRAY

October 15, 1936

5 p. m.

AMEMBASSY

PARIS (FRANCE).

406.

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

The following are the texts of (1) telegram dated October 14, 1936, from Bank Nationale Suisse, Bern, to the Federal Reserve Bank of New York, and (2) telegram dated October 14 from Governor Franck, Banque Nationale de Belgique, Brussels, to same:

QUOTE. (1) Referring to declaration of Morgenthau concerning your new gold transaction practices are you prepared to buy and sell gold from and to us? Are you further prepared to accept gold sold to you by us earmarked your account at Bank of England instead of to be sent New York? Are you prepared to earmark for us gold bought from you? Please cable conditions you would apply to such transactions.

(2) On reciprocal conditions your cable we conform our agreement sell gold to United States our legal parity congratulations upon your efforts please transmit

Treasury.

LMS 2-No. 406 to Amembassy, Paris.

Treasury. ENDQUOTE.

The replies of the Federal Reserve Bank will be transmitted to you in another telegram.

CARR, ACTING  
(FL)

EA:PL:LW

PARTIAL PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: October 15, 1936, noon

NO.: 405.

RUSH.

FOR THE AMBASSADOR AND COCHRAN ONLY. STRICTLY  
CONFIDENTIAL.

Secretary Morgenthau wishes to establish contact with the Swiss financial authorities and negotiate with them through Cochran with regard to the Swiss National Bank's request to be included in the gold arrangement recently consummated. The Department is agreeable to this provided you have no objection. Secretary Morgenthau asks that Cochran keep the American Minister to Switzerland informed regarding the discussions that take place. The American Minister to Switzerland has not yet been instructed with regard to this matter, and before Cochran establishes contact with the Swiss governmental authorities, he should of course consult the Minister.

The foregoing applies mutatis mutandis also with respect to negotiations with Belgium.

Cochran will be instructed directly by the Secretary of the Treasury.

Keep these matters entirely confidential.

CARR, ACTING.

EA:LWW

October 15, 1936  
10:06 a.m.

Operator: I have Mr. Cochran.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello?

Cochran: Hello, Mr. Morgenthau.

H.M.Jr: How are you?

C: All right - thank you.

H.M.Jr: Cochran, we're not on the diplomatic wire, so I'll try to be a little bit careful.

C: All right.

H.M.Jr: Now there are two things: Your friends in Switzerland -

C: Yes.

H.M.Jr: - cabled in and they want - to the Federal Reserve here, and they want to do business, see? Hello?

C: The ones in the town where I was or the headquarters?

H.M.Jr: Oh, well, no - the - the State Bank.

C: The State Bank?

H.M.Jr: Yes. Now what we're doing is this - the Federal is answering them and saying that they've got to take that up through the Treasury and through diplomatic channels, see?

C: Yes.

H.M.Jr: I - I'm doing - you will receive an authorization from the State Department authorizing you to handle these negotiations for me.

C: I see.

H.M.Jr: You see?

C: Yes.

H.M.Jr: - Keeping Mr. Wilson in Geneva informed - that's up to you. They're not sending Wilson any instructions.

C: No.

H.M.Jr: But they're sending you instructions that you can act for me.

C: I see.

H.M.Jr: Now - and it's up to you to keep Wilson, our Minister in Switzerland, informed, see?

C: Yes, yes.

H.M.Jr: Now, I think that you might start in right away and not wait until these cables come because it will be four or five hours. By that time, you'll lose a day.

C: Yes.

H.M.Jr: And get in touch with the - whoever the Minister of Finance is for Switzerland - you see?

C: It was from him and not from the Central Bank?

H.M.Jr: Well, I don't care - I mean the point is we want to do business with the Minister of Finance in Switzerland.

C: I see.

H.M.Jr: You see?

C: Yes.

H.M.Jr: And find out what he wants.

C: Yes.

H.M.Jr: And if they want this thing - just what does he want and what does his country want, and explain to him that these things are worked out through diplomatic channels, and through the Minister or Secretary of Treasury.

C: I see.

H.M.Jr: Rather - it's between Governments rather than between Central Banks.

- 3 -

C: I see.

H.M.Jr: Well, you know the procedure.

C: Yes, surely.

H.M.Jr: And the Department here - the State Department is entirely willing that you do this for me.

C: I see.

H.M.Jr: And - but you're - but you're to keep the Minister in Switzerland informed what you do.

C: Yes.

H.M.Jr: And you think you can do that on the telephone?

C: I can make arrangements - I - I doubt a little whether I can go the whole way by the telephone.

H.M.Jr: Well, the trouble is I'm going to give you similar instructions for Belgium in a minute.

C: Yes - all right.

H.M.Jr: So I just wonder if -

C: It would be necessary to call?

H.M.Jr: Well, or whether they'd come to see you.

C: Yes.

H.M.Jr: I'll leave that entirely in your hands, see?

C: I know Bachmann of the Central Bank, but I don't know whether he does the working of their Stabilization Fund or not.

H.M.Jr: No, but I don't want to - I don't - this is a new order. We don't want to do it through Bachmann. That's the telegram. We want to do it through the Minister of Finance in Switzerland.

C: I - I - I get the point, but I say I don't know him, but I can meet him, of course.

H.M.Jr: Well, you - you - you've got to make his acquaintance, you see?

C: Surely.

- 4 -

H.M.Jr: I'll leave it to you.

C: All right.

H.M.Jr: Now, we also have questions up from Belgium, you see?

C: Yes.

H.M.Jr: And what happened is this: The Federal Reserve sent out a copy of my cable to all Central Banks. Hello?

C: Yes.

H.M.Jr: On receiving that, the Central Bank of Belgium - I'll read this very slowly. It's very short, so you can take it down, you see?

C: All right.

H.M.Jr: They sent a cable to Harrison in New York -

C: Yes,

H.M.Jr: - which reads as follows: 'On reciprocal conditions -

C: Yes.

H.M.Jr: - 'your cable -

C: Yes.

H.M.Jr: - 'we confirm our agreement -

C: Yes.

H.M.Jr: - 'to sell gold to the United States.

C: To sell gold to the United States.

H.M.Jr: - 'to the United States.

C: United States.

H.M.Jr: - 'Our legal parity -

C: Yes.

H.M.Jr: - 'Please transmit to Treasury.' I'll repeat it so that you get it, see?

C: I'll read it as I have it. Do you mind?

- 5 -

H.M.Jr: Well, it's easier for me to read it, I think.

C: Yes.

H.M.Jr: 'On reciprocal conditions, your cable, we confirm our agreement to sell gold to the United States our legal parity. Transmit Treasury.' Now that's signed by Governor Frank.

C: Frank signed it?

H.M.Jr: Yes. Now we're going to tell him - we're going to send him word through the Federal Reserve that if they want to do business, they've got to do it the way everybody else does it.

C: Yes.

H.M.Jr: Now, here's the other thing. I have told the British here that any country that comes in and wants this agreement, I will inform Great Britain and France first; that is, I'll inform the Chancellor of the Exchequer -

C: Yes.

H.M.Jr: - and I will inform, through you, Mr. Auriol, -

C: I see.

H.M.Jr: - and I will give them the opportunity to say they want to join us again before I make any new agreements.

C: I see.

H.M.Jr: And I want you to tell Mr. Auriol that both Switzerland and Belgium have raised this question, and would they care to do it with us jointly on the new basis -

C: I see.

H.M.Jr: - and we also want to know, have they any agreement with Switzerland, and have they any agreement with Belgium.

C: I see.

H.M.Jr: And I'm going to tell the - the British the same thing.

C: Yes.

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H.M.Jr: We've got an agreement and before we take any new partners on, I'm going to consult my present two partners.

C: Yes.

H.M.Jr: Do you get that?

C: Yes.

H.M.Jr: And -

C: I'm to inform Auriol that these two have approached us to go in.

H.M.Jr: Right.

C: Do the French want to join us including these new partners -

H.M.Jr: That's right.

C: - or have they any agreement so far with them?

H.M.Jr: That's right.

C: Have they already any arrangements?

H.M.Jr: Now, for your own confidential information -

C: Yes.

H.M.Jr: - We don't want Belgium to operate on that old order of February 1, 1934, see? Hello?

C: Yes.

H.M.Jr: But we don't want to cancel that until we conclude a new agreement, you see?

C: I see.

H.M.Jr: Because if we cancel that without a new agreement, it would get too much publicity.

C: Yes.

H.M.Jr: But, after all, as far as we know now, Belgium is the only country which could come under the February 1, 1934.

- C: Yes.
- H.M.Jr: If we conclude a new agreement with her, then simultaneously we'll withdraw the February 1, 1934 -
- C: Yes.
- H.M.Jr: - and everybody will have to operate on the October 13, 1936, statement, you see?
- C: I see. But, of course, their - their fund is abolished now.
- H.M.Jr: Pardon me?
- C: I say their stabilization fund is no longer existent.
- H.M.Jr: I know, but our attitude is this - if we - we - if a country like Belgium wants to come in without a stabilization fund, we'll work it out the best we can to fit her needs and at the same time take care of our own internal situation.
- C: Yes, so it - it isn't essential to the working arrangement that they set up a -
- H.M.Jr: It's not essential. It would be helpful but it's not essential, but we want it - the agreement - reciprocal agreement on giving up gold. We want that with the Government -
- C: Yes.
- H.M.Jr: - the guarantee, and not with the Bank.
- C: Yes.
- H.M.Jr: In other words, I'm insisting here that all of these agreements go through diplomatic channels to the Secretary of the Treasury, and when we go into an agreement - a reciprocal agreement, it's between - giving up gold - it's between Governments and not between Central Banks.
- C: I see.
- H.M.Jr: The Central Banks will be the agents, of course, -
- C: Yes.

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- H.M.Jr: - but they will not be the first party of the - of the contract. I mean - you follow me?
- C: Yes, absolutely.
- H.M.Jr: I mean, now, we've - we've established this procedure, and this is the procedure that both the President and I wish to follow.
- C: Yes, but when you say through diplomatic channels, you don't mean necessarily that it goes through their Belgian Ambassador?
- H.M.Jr: I - no, it's a - it's a Morgenthau diplomatic - the Morgenthau-Cochran diplomatic channels.
- C: A special setup there?
- H.M.Jr: I say it's the Morgenthau-Cochran diplomatic channels.
- C: I see. I see.
- H.M.Jr: See?
- C: Yes.
- H.M.Jr: But, I mean, we'll follow it this way, and I'll take care of the British here in Washington, but you take care of the French.
- C: Yes, I'll - I'll inform them right away of these two applications.
- H.M.Jr: Yes, and you better also inform Mr. Bullitt so he knows what is going on.
- C: Yes.
- H.M.Jr: And - but the Department here is entirely agreeable and they're delighted to have you act for me and will give you the authority, -
- C: Fine.
- H.M.Jr: - but - but they're not informing the American Ambassador in Brussels or the American Minister in Switzerland. That's up to you, -
- C: Yes, yes.
- H.M.Jr: - to keep them informed.

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C: Yes.

H.M.Jr: Do you understand?

C: Yes.

H.M.Jr: And if there is any question in your mind, ask me and I'll try and clear it.

C: The only point is whether you think I should make my appointment to those people or just go there and call on the Ambassadors like I usually do in the course of -

H.M.Jr: I'll leave that to your good sense.

C: Yes.

H.M.Jr: We don't want to offend anybody, and we don't want any American diplomat to be able to say that we haven't kept him informed. There's a difference between consulting him and keeping him informed.

C: Yes, yes.

H.M.Jr: He should be kept informed.

C: My - my only point was on - on the approach, you see?

H.M.Jr: Pardon me?

C: - To make the appointment -

H.M.Jr: Oh, I'll - I'll leave that to you Cochran.

C: - and such with them, and then -

H.M.Jr: Well, Cochran, you've got to use your judgement. I can't give you detailed instructions.

C: Yes, well I - I can work that out all right.

H.M.Jr: I mean - now just a minute - I want to ask the people here in the room whether I've overlooked anything. Just - just hold on, please:

(Pause during which conversation is carried on in H.M.Jr.'s office.)

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H.M.Jr: Hello?

C: Hello?

H.M.Jr: Now, you understand that as you go into these things - I mean, we'll naturally - there will be some things that we'll have to iron out.

C: Oh, yes, I can't answer all the questions.

H.M.Jr: No, no, and - but I feel confident that you've done these others and - which were far more difficult because they were new - and I know - I'm quite sure that - that you'll be able to conduct these as successfully.

C: Well, I'll try.

H.M.Jr: Of course, it's an advantage if a country has a stabilization fund, but if it's impossible to create one, why we can't insist on it.

C: Yes, yes.

H.M.Jr: But we do want some kind of a guarantee that they'll hold up their end of their own exchange, you see?

C: Yes.

H.M.Jr: I mean if they haven't got a stabilization fund, what means are they going to have to hold it up?

C: Yes.

H.M.Jr: We - we - we want some pretty good - because we don't want to do our own and have to do theirs as well.

C: Yes, yes.

H.M.Jr: In other words, we don't want any more lame ducks than necessary.

C: No, no.

H.M.Jr: But we're very anxious to - as quickly as possible - to wipe out the January 1, '34, and start on the new one which is the October 13th.

C: I see.

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H.M.Jr: Now, are we all right?

C: Yes, yes; I have it exactly.

H.M.Jr: All right, and the cables will be coming along in their usual speed and you - but I don't want to wait for them.

C: But I - I'll start with the French this afternoon -

H.M.Jr: Yes.

C: While - while you want me to see these others, of course, it's understood that I'm going to take it up with the Treasury -

H.M.Jr: Pardon me.

C: I say, while it's definitely understood that I am to go through the Treasury -

H.M.Jr: Yes.

C: - would you have any objection to my asking to make the appointment - I mean

H.M.Jr: You - You decide that. You know your situation. I mean, how you get to see the people is up to you.

C: - not very well.

H.M.Jr: You - you get in. You be a Fuller brush salesman. You get in and see your clients.

C: All right. That's the best way to get in. I'd rather get in through them -

H.M.Jr: All right. Well, you're selling Fuller brushes - it's up to you to get your foot in the door. I don't care how you do it as long as you're polite about it.

C: All right.

H.M.Jr: All right?

C: Yes. I'm afraid it may be necessary to go to see (squealing noise).

- 12 -

H.M.Jr: Well, that's all right. You've got to - you've got to decide that on the ground. I - I can't - I'll leave that to you.

C: Fine - I'll -

H.M.Jr: I'm giving you a job to go out and to do it, and it's up to you to carry the message to Garcia, but you've got to decide how.

C: All right; fine.

H.M.Jr: All right.

C: Then the wire is coming tonight authorizing -

H.M.Jr: Yes, it's - most likely it has left already.

C: I see.

H.M.Jr: They've al- - I imagine the cable is on the way now. (Pause) Hello?

C: Yes.

H.M.Jr: Anything else?

C: No, that's everything. They - the Bank of France had a good statement today.

H.M.Jr: Good.

C: They gained 5 million francs in gold, but reduced the discount rate to 2 per cent.

H.M.Jr: Fine.

C: And everything is going nicely.

H.M.Jr: Good. Well, this - this -

C: I'll go over to the Ministry of Finance now and get busy.

H.M.Jr: Cochran?

C: Yes.

H.M.Jr: Don't forget to stress to them that we're handing to them something on a silver platter or rather a gold platter, whatever you want to call it, when

- 13 -

we tell them that we won't make these arrangements without consulting France and Great Britain first. Now, this is a most generous thing that we're doing.

C: Yes, yes.

H.M.Jr: And don't forget to rub it in a little bit - that here is the American generosity and desire for world peace, and we're not crippling - what do we get out of this?

C: Surely, surely.

H.M.Jr: Well, don't forget to draw that to their attention, You see?

C: All right - fine.

H.M.Jr: And it's perfectly true because we could go ahead and do this, and we wouldn't have to wait for them, and when we permit France and England each time to sit in on each one of these things -

C: Yes.

H.M.Jr: We're really handing them something that's quite useful.

C: Well, I'll - I'll speak to them.

H.M.Jr: And I'm very conscious of it and I hope that they are, too, and don't hesitate to draw their attention to it.

C: All right - fine.

H.M.Jr: O.K. Goodbye.

C: If I make any of these trips, I shall not wire you until I get back because it'll be just one day if I go to Belgium.

H.M.Jr: But if you go, send me a wire that you've left.

C: Surely, surely.

H.M.Jr: All right.

C: But when I'm away, I shall not wire you from -

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H.M.Jr: No, no - until you get back.

C: Yes.

H.M.Jr: Thank you.

C: All right.

H.M.Jr: Goodbye.

C: Goodbye.

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October 15, 1936  
11:25 a.m.

H.M.Jr: Hello?

Operator: Governor Harrison.  
George  
Harrison: Hello?

H.M.Jr: Hello, George?

H: Hello, Henry.

H.M.Jr: How are you?

H: I'm first rate, thank you.

H.M.Jr: George, I want to - are you - are you so that  
you can talk for a few minutes?

H: Yes, absolutely.

H.M.Jr: Good.

Now there are a couple of things which have come  
across my desk this morning. The first thing is  
this matter of the Central Bank of Switzerland.

H: Yes.

H.M.Jr: And I want to tell you how I'm figuring on handling  
it. I don't know how - whether the answer has gone  
back - I mean, I don't know just what the exact  
status is between your shop and mine, but let me  
tell you how I feel about it, see?

H: Yes.

H.M.Jr: Now, we've set the pattern here at - I mean, at the  
direction of the President - that these negotiations  
should be carried on between the Treasuries through  
diplomatic channels, you see?

H: Yes.

H.M.Jr: And in the case of Switzerland and in the case of  
Belgium -

H: Yes.

H.M.Jr: - which are the two ones which have gotten to me so  
far - I want to follow the same pattern which I  
followed with England and France, see?

- 2 -

H: Yes.

H.M.Jr: And under - which you are now familiar with.

H: Yes.

H.M.Jr: If and when we do come to an agreement with the Secretary of Treasury or the Minister of Finance, whatever they call the gentlemen in Switzerland and Belgium, and then work it out - then we turn it over to the Federal Reserve in New York as our fiscal agent.

H: Yes.

H.M.Jr: But I - I want to continue doing this thing and continue to consult my other two partners before I make any moves.

H: I see.

H.M.Jr: And I feel that it's a tremendous advantage to England and France to have us do that. Fortunately, we have two oceans on either side. They don't.

H: Yes.

H.M.Jr: And it's a great advantage to them; and I think to democratic form of Government in the sense of its usual use and not the party sense, if you know what I mean.

H: Yes.

H.M.Jr: Now I took the thing up with the State Department this morning, and I've gotten their approval to let Cochran talk in Paris to the Swiss and to the Belgians, you see?

H: Yes.

H.M.Jr: And I want to follow exactly the same pattern as I followed with England and with France.

H: Yes.

H.M.Jr: Now, I just wanted to let you know, and until we can work it out with the Governments -

H: Yes.

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H.M.Jr: - I want to sit tight.

H: All right.

H.M.Jr: Now --

H: But I think what we'll do is just to send a cable that we referred the matter to the Treasury Department now.

H.M.Jr: Yes, yes. Now, I understand others have come in, but they're coming so fast that I haven't got time. I hear that something - Archie just told me about Sweden and something - some country - Bulgaria. But I'm going to take it one at a time -

H: Yes.

H.M.Jr: - and I certainly feel that the fact that we were very careful in these other two has been - so far has shown -

H: Well, we'll do it any way you want.

H.M.Jr: Well, I just wanted to explain it to you, and -

H: Yes. Well, I'm - I'm much obliged to you and -

H.M.Jr: Now - now, just one second. I also want you to know that we're keeping Eccles and Ransom informed at this end what we're doing -

H: Yes.

H.M.Jr: - so that they know.

H: Good.

H.M.Jr: And that keeps - I mean as far as I am concerned, the Treasury, it keeps our relations with yours legal and, as far as I know it's satisfactory to them.

H: Yes. Well, that's first rate.

H.M.Jr: But I wanted to make that clear.

H: Yes, well there's no question as to our legal position. We're your fiscal agent, and we go ahead no matter what anybody says.

- H.M.Jr: Well -
- H: But it helps me, on the other hand, if you do keep them informed.
- H.M.Jr: Well, what I'm trying to do to the best of my ability is to keep the Federal Reserve Board happy and the State Department happy, see? And up to now I think I've been able to do both.
- H: Yes.
- H.M.Jr: And I don't want - I mean, the thing is so much bigger than any individual that I don't want it to be tripped up by an individual, if you know what I mean.
- H: Yes.
- H.M.Jr: And - because I - nothing is - if I never have any other part in anything else since I have come to Washington or in the future, I think this is the biggest opportunity that I've had.
- H: Yes.
- H.M.Jr: And I'm very hopeful that what's going to happen over the next year or so. Don't you feel -
- H: Well, I think it's - it's leaning that way anyway.
- H.M.Jr: I mean, I don't - time will tell.
- H: Yes.
- H.M.Jr: But in the meantime, I want to say again - Knoke is doing a grand job.
- H: Oh, he's - he's a great fellow.
- H.M.Jr: And would you feel free this way - after all, he knows minute to minute what we're doing because he's doing it for us.
- H: Yes.
- H.M.Jr: Now if something comes up that you feel is a mistake, I wish you'd call me on the phone and tell me so.
- H: All right, I shall.

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- H.M.Jr: Now, I mean, the fact that I don't call you every hour doesn't mean that I don't want your advice because I do.
- H: All right, Henry. Well, I'll do it. You saw I did it the other day.
- H.M.Jr: Yes. Now, if something comes up that you feel is a mistake, you tell me.
- H: Yes, all right. I shall.
- H.M.Jr: And I'll appreciate it.
- H: All right. I shall, indeed.
- H.M.Jr: Now, are we all in the clear?
- H: Yes, we're all in the clear, and I'm watching it carefully because I keep in touch with both Bob and Knoke continuously.
- H.M.Jr: Well, now, you feel that up to date everything is all right - I mean this week?
- H: Oh, yes. I think it's going on very well now. I hope you can settle these other fellows pretty quickly because they may get stuck.
- H.M.Jr: Well, I - I - I've already phoned Cochran.
- G: Yes.
- H.M.Jr: And I told him that his formal authorization from the State Department would get there the way it usually does, in four or five hours, but not to wait for it.
- H: Yes (laughs).
- H.M.Jr: And - but I - I didn't want to lose four or five hours.
- H: Yes. That's first rate.
- H.M.Jr: And it would mean a day on account of the difference in time.
- H: Well, I hope you'll be able to work it out with them even though they haven't got a Stabilization Fund.

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- H.M.Jr: Now, I'm glad you brought that point up. At my press conference, I made it perfectly clear that we'd have to try and suit the pattern to the situation.
- H: Yes.
- H.M.Jr: But I am not going to say that because a country has not got a stabilization fund that we'll not do business with them.
- H: No, and I understand in some countries they're much better off not having one.
- H.M.Jr: But each country has to do its own job in its own way.
- H: Yes.
- H.M.Jr: And what we want is - this is the way I feel - that what we're trying to do is - is through currencies smooth out the way so that we can have world recovery in business.
- H: That's right.
- H.M.Jr: All we can do is to do it, and I'm not going to stick on the letter of the law. I mean - I don't mean that - I mean as to the method.
- H: Yes.
- H.M.Jr: And if Belgium has one situation and Switzerland has another, - now this evening, I don't know what they want - the Secretary of the Treasury of the Argentine has sent his representative. He's coming in this afternoon, which will be the first South American country to come in.
- H: Yes.
- H.M.Jr: And -
- H: Say, some of these fellows won't be able to afford a stabilization fund.
- H.M.Jr: No, but if, let's say we should make a deal with Belgium without a stabilization fund, then they'll say, 'Well, if you'll do that with Belgium, will you do it for us?' And the answer would be 'yes.'

H: Yes.

H.M.Jr: What?

H: Yes.

H.M.Jr: But the thing that we want is, we want to know that we're doing business with the Government -

H: Yes.

H.M.Jr: That's the point.

H: Yes.

H.M.Jr: And - but - we want them to have the -

H: The way - the way you can handle that is Government or duly constituted Governmental agency.

H.M.Jr: Yes, but I mean we want to have it - take Belgium, I mean, or Switzerland, we want - I don't know what - the Prime Minister of Belgium - we want his word that he's backing it.

H: Yes, yes. That's right.

H.M.Jr: You see what I mean?

H: Yes.

H.M.Jr: And if it's a question of giving up gold, we want to know if the Prime Minister of Belgium will O.K. it.

H: Yes.

H.M.Jr: - And will his Cabinet O.K. it.

H: Yes.

H.M.Jr: You see?

H: That's right.

H.M.Jr: Because they could perfectly well put in restrictions which would keep us from getting it.

H: Yes, that's right.

H.M.Jr: Isn't that true?

H: Yes, quite right.

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H.M.Jr: So I'm trying to keep my feet on the ground, and my attitude is I need all the help and advice I can get, so don't hesitate please to call me.

H: All right, I shall, Henry.

H.M.Jr: Thank you very much.

H: It's first rate, and thank you for calling me.

H.M.Jr: Thank you.

October 15, 1936  
3:30 p.m.

H.M.Jr: Hello?

Operator: Governor Harrison.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello?

George Harrison: Hello?

H.M.Jr: Hello, George.

H: Yes, Henry.

H.M.Jr: They said you called me.

H: Oh, well, I just called - after I first talked to you - to take advantage of your suggestion that I might call you.

H.M.Jr: Please.

H: It came to me in the case of Belgium -

H.M.Jr: Yes.

H: - that you might want to put them in a different category from the other group any way -

H.M.Jr: Yes.

H: - on the theory that they are a gold standard country, and that the telegram merely confirms that fact, that they are still operating.

H.M.Jr: Yes.

H: And that it isn't necessarily, therefore, agreements one way or the other, that they should get their gold from us only on the old basis - under the old original license.

H.M.Jr: Well, it makes - it makes it awfully difficult to explain. Let's say eventually, say in a couple of weeks, we're doing business with 10 countries on one basis and Belgium on another, see?

H: Yes.

- 2 -

- H.M.Jr: - and, after all, we have to keep explaining all the time so that the people in the - can understand what we're doing, -
- H: Yes.
- H.M.Jr: - and if we're doing business with 10 countries on one basis and Belgium on another, they're going to keep asking me twice a week, 'Well, why?'
- H: Yes.
- H.M.Jr: It's awfully hard to explain.
- H: Yes. Well, of course, -
- H.M.Jr: I mean -
- H: - looking toward the time when you'll get what you want; that is, if they become stabilized on gold as you are -
- H.M.Jr: Yes.
- H: - then you'll want to go in reverse any way. Supposing France should go back on her old gold basis at the new rate.
- H.M.Jr: Yes.
- H: There would be no occasion to keep up the new arrangement - you'd just keep up the old arrangement.
- H.M.Jr: No, but what I'd like to do - I mean, we've done nothing, but I'd like to do is to do business with everybody on the same basis.
- H: Yes.
- H.M.Jr: In other words, I'd like to be a one-price house.
- H: Yes. Well, when you go into reverse -
- H.M.Jr: Yes.
- H: - you'll have to do it on two different bases because it's not likely that they will all go back on a gold standard the same moment any way.
- H.M.Jr: No, but in the interim -
- H: Yes.

- 3 -

H.M.Jr: - it's much easier to explain one method.

H: Yes.

H.M.Jr: It's hard enough to explain that, but I - I get what you have in mind.

H: You see my point?

H.M.Jr: And I think you see what I have.

H: Yes, I see perfectly. I just wanted to be sure that -

H.M.Jr: It's awfully - we - we had a big discussion here on this thing, and we just feel that for the time being, one month or three months, whatever it is, or a year, we'd like to do business with the rest of the world on a similar basis.

H: Yes.

H.M.Jr: Now, after all, we consult our partners in this thing and they may feel differently about it.

H: Yes.

H.M.Jr: You see what I mean?

H: Yes. Well, all I wanted to be sure was that you didn't - hadn't done anything or say anything that might give to the world or to Belgium your judgment that Belgium is not on a gold standard.

H.M.Jr: No, no. No, no.

H: You see what I mean?

H.M.Jr: No. I'm not saying what kind of a standard anybody is on, except ourselves.

H: Yes, yes.

H.M.Jr: And don't ask me that too closely.

H: Yes.

H.M.Jr: But -

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H: I mean, they may think they are and they may think that this telegram is a confirmation of that.

HMjr: No - well, I don't know, but I think in Cochran we have about as good a man as we could have. And when he talks face to face with him he'll find out just what they have in mind.

H: Yes, that's all right. I just wanted to be sure that you had that other point in mind.

HMjr: No, you - you call me once, twice or three times a day -

H: Yes

HMjr: Anytime you get an idea I wish you'd call me.

H: All right, sir, I will. - Henry, I'm going to be in Washington tomorrow; I won't come near you unless you want me.

HMjr: Well, I certainly do want you. When do you get in?

H: Well, I am going down late tonight some time.

HMjr: Well, you - you go - you go up through

H: Yes

HMjr: Why don't you - I get in here about nine, I - why don't you call me between nine and nine-thirty?

H: I'll call you in the morning between nine and nine-thirty.

HMjr: Will you do that?

H: Yes

HMjr: Thank you.

H: First rate.

HMjr: Goodbye

H: Goodbye.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 15, 1936.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF FRANCE.

I called Mr. Cariguel at 12:21 today. Things were quiet, he said; so far he had purchased about \$1,000,000 which he expected to have converted. His purchases yesterday were \$838,000, likewise to be converted according to a cable now on the way. I pointed out to him that whenever we purchased sterling here, as we had done recently, we advised London the same day and at the same time requested conversion; should we ever buy francs, we would proceed in the same way. This, we felt was in line with the arrangement recently made. That being so, would he please make it a point to advise us of dollar purchases also the same day and request conversion of such purchases ~~also~~ the same day. I made this request, I explained, because recently his cables had been dispatched the following morning only, which made matters very awkward for me. Likewise, in cases where he asked us to sell francs for his account in this market, would he please either send us one general cable to the effect that the proceeds of any such sales were always to be converted, or else, would he kindly add to each cable ordering the sale of francs a few words to the effect that the proceeds of any sales effected under this order were to be converted into gold.

Cariguel replied that he had delayed dispatching his message until the following morning out of consideration for his staff, which was heavily overworked, particularly at closing time; he seemed a little irritated at my insistence on earlier advice but finally agreed to comply with my request.

FEDERAL RESERVE BANK  
OF NEW YORK

RECEIVED 10:30 AM 10-15-36

OFFICE CORRESPONDENCE

DATE October 15, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

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We talked briefly about market conditions. I explained that francs were rather well bid here at 486 1/8, sterling steady at 4.89 9/16, guilders rather firm with business done at 5360. Cariguel, the same as Bolton yesterday, seemed to be interested in the flow of foreign capital into our stock market and asked as to my ideas. I talked to him much along the lines of my conversation with Bolton yesterday.

LWK:KMC

October 15, 1936

The following were present in the Secretary's office to discuss the cable received by the Federal Reserve Bank of New York from the Governor of the Belgian National Bank: Mr. Taylor, Mr. Gaston, Mr. Oliphant, Mr. White, Mr. Upham and Mr. Lochhead.

The Secretary asked Mr. Lochhead to acquaint the group with the matter under discussion.

Mr. Lochhead said, "There was a cable received by the Federal Reserve Bank of New York from Governor Franck of the National Bank of Belgium, which said:

'Confidential for President Harrison.  
On reciprocal conditions your cable  
we confirm our agreement sell gold to  
United States our legal parity. Con-  
gratulations upon your efforts. Please  
transmit Treasury.

(Signed) Governor Franck  
Banque Nationale de  
Belgique.'

Continuing, Mr. Lochhead said, "The cable that was sent out by the Federal Reserve was a cable to all the central banks in which they quoted the announcement of the Secretary of the Treasury of October 13."

HM, Jr. asked Lochhead, "Have you had a chance to talk to Knoke?" Lochhead replied, "I spoke to Knoke and he feels that undoubtedly they come under the January 31, 1934, condition of sale of gold. They no longer have a stabilization fund. At one certain period they had a stabilization fund, but they have eliminated that and they now have a fixed gold standard. The point is, this cable gives us assurance that they stand willing to sell gold, which we did not have up to this time."

The Secretary inquired, "Why is he congratulating George Harrison?" Mr. Lochhead replied, "That is Central Bank diplomacy."

Mr. Morgenthau then said, "There is a Governmental side to this, and I am not so sure -- I am little suspicious, that this may not be a trick to put me in the

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hole, to show that this is not a new gold standard, and I agree that the wording of it is very amusing, but I think the purpose back of it may be very serious." Mr. Oliphant agreed, saying, "I think so. The Boston inquiry put me on my guard." (He referred to the telephone call of Mr. Coolidge to Governor Harrison in which Mr. Coolidge asked whether gold could still be obtained for shipment to Belgium under the Jan. 31 announcement.)

Continuing his remarks, the Secretary said, "After all, if I have to go through all this question of explaining that we have two gold standards -- we have the so-called Morgenthau gold standard and then we have something else, and what is the something else. That's rather difficult. Then we have this other thing -- this statement which I made to the British, and it goes for the French, that I won't do anything with any other country without letting those two countries know. I am not so sure about this thing. Oliphant, just review this thing from a legal standpoint. What does that mean and what do they think they are doing?"

Mr. Oliphant said, "They are proceeding under the letter of January 31, 1934, where we . . ." Interrupting him, Mr. Lochhead said, "Their cable does not say that. They refer to the cable containing the October 13 declaration. That's the odd part. They refer to that cable." Oliphant's response was, "I would like very much to see Harrison's cable gram." Lochhead said, "I have a copy of that -- the outgoing cable." HM, Jr. said, "I will read it:

'October 13, 1934.  
Governor, Banque Nationale de Belgique,  
Brussels.

Referring to our cable of February 1, 1934, No. 2, we quote below for your information the text of two statements issued last night by the Secretary of the Treasury for release today:

'Supplementing the announcements made by him on January 31 and February 1, 1934, to the effect that the Treasury would buy gold, and on January 31, 1934, referring to the sale of gold for export, the Secretary of the Treasury states

October 13, 1936.

Foreign

Governor, Banque Nationale de Belgique, Brussels.

#5

Referring to our cable of February 1, 1934 No. 3 we quote below for your information the text of two statements issued last night by the Secretary of the Treasury for release today:

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

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

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"The Secretary of the Treasury today named Great Britain and France as complying with the conditions specified in his press release of October 15, 1936, for the purchase of gold from the United States for immediate export or earmark."

FEDERAL RESERVE BANK OF NEW YORK

C A B L E

FROM: BRUSSELS

TO: FED. RES. BK. OF N.Y.

DATE: WED., OCT. 14, 1936

No. 6. CONFIDENTIAL FOR PRESIDENT HARRISON.

ON RECIPROCAL CONDITIONS YOUR CABLE WE CONFIRM OUR  
AGREEMENT SELL GOLD TO UNITED STATES OUR LEGAL PARITY  
CONGRATULATIONS UPON YOUR EFFORTS PLEASE TRANSMIT TREASURY.

(SIGNED) GOVERNOR FRANCK  
BANQUE NATIONALE DE  
BELGIQUE

Oct 15 1936

REFERENCE YOUR CABLE NO. 6 OF OCTOBER 14. I TRANSMITTED IT TO THE  
TREASURY AS YOU REQUESTED AND AM ADVISED THAT IT IS THE TREASURY'S  
VIEW THAT RECENT DEVELOPMENTS HAVE MADE IT NECESSARY TO RE-EXAMINE THIS  
PROBLEM IN CONVERSATIONS AMONG THE TREASURIES OF THE GOVERNMENTS CONCERNED  
WHICH IS BEING GIVEN IMMEDIATE ATTENTION.

Paymond cable from Federal Reserve Bk.

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

Sales of gold will be made at \$35.00 per fine ounce, plus one-quarter per cent handling charge, and sales and earmarking will be governed by the Regulations issued under the Gold Reserve Act of 1934.

The Secretary of the Treasury today named Great Britain and France as complying with the conditions specified in his press release of October 13, 1936, for the purchase of gold from the United States for immediate export or earmark.

(Signed) Federal Reserve Bank  
of New York."

The Secretary then said, "It is perfectly straight on Harrison's part. Evidently Harrison sent our announcement..." Mr. Lochhead interrupting to add, "To a list of the twelve central banks."

Mr. Oliphant inquired, "What is that cable 'of February 1, 1934 No. 2'?" Mr. Lochhead explained, Cable of

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February 1, No. 2 covers the whole statement which the Secretary made -- his statement of January 31 and February 1. They transmit all those messages -- the Bank does; their Information Department does." Gaston explained further, "And that February 1, that he refers to, was that we would buy and sell at the gold point."

The Secretary said to the group, "I don't like this at all. I think Harrison is all right on this, but I don't like it. I don't want to be operating on two standards." White inquired, "Why could not your more recent statement supercede the other?"

Continuing his remarks, the Secretary said, "As a matter of fact, Belgium will be the only one that can avail herself of this thing. When I said this did not affect the man on the street, I had an object in mind. What I was trying to get over, what I meant -- that it does not affect the man on the street -- was that I did not believe it would affect his cost of living and he would not know, and what I did explain was if it did affect the man on the street that's why we stay on a 24-hour basis. Using the average man, rather than the man on the street, this story has gone over and we have explained that this is a new gold standard and the papers have run this thing for about three days. Now we come along and we have a different kind of system and every paper in the United States will say, 'So we are back on the old gold standard and Morgenthau did not mean what he said.' The important thing is public relations -- just as I decided I did not want, the first day after this was decided, to let sterling go below \$4.90 because as a matter of public relations I thought it would be misinterpreted and I was right. But I will keep quiet and you people can talk. I think it will be a tremendous mistake to have two methods of letting gold go."

Taylor's comment was: "Actually you haven't got two methods. The whole thing is on a basis of reciprocity and Belgium is on exactly the same basis, only on a 24-hour basis, just as the other people are, only they fix a point and you can tie them into your second announcement rather than the first. You can say that Belgium does not have a stabilization fund, but they have an equivalent because their central bank is operating for them."

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The Secretary's response to Mr. Taylor's comment was: "But they are going to operate on something as of February 1, 1934." Mr. Taylor then said, "You can work it around so that it is tied under this same thing on a reciprocal basis, and whether they have a stabilization fund or whether they haven't, as far as I can see, doesn't make any difference." HM, Jr. replied, "But that is not the question at stake."

Mr. Oliphant said to the Secretary, "Let me risk being discreet. I agree 100% with what you say." The Secretary inquired, "Is that discreet?" Oliphant continued: "I am going to add to that. You just imagine a room in New York in which our friend Cameron and Jeff Coolidge and the other crowd that would be headed up by Prof. Cameron are seated. They say the world depends upon getting back to the old gold standard and whatever happens, we must preserve Belgium as the point around which the world will go back to the old gold standard. And that's the sort of sucker game they are asking us to subscribe to. If Belgium disapproves, then the game is up." Mr. Taylor said, "Suppose you tie them into your second announcement, which you can do."

Mr. Oliphant then said, "I have a concrete suggestion. Ask Belgium, 'What is your arrangement with France and Great Britain for securing gold?'" Lochhead answered, "As far as Belgium is concerned, they have an arrangement for selling gold to France." Oliphant's next comment was, "Ask what are their arrangements and then say we will take the matter under consideration." Lochhead said, "I know they have a working arrangement."

The Secretary said to the group, "I have a third suggestion. All old arrangements prior to October 13 have been cancelled. Everything is cancelled. Everything up to that date is off. We wiped the slate clean. Mr. Belgium, do you want to come in on the New Deal? O.K. We will take it up with our partners La Belle France and John Bull and we will see if this thing is agreeable to them. But anything prior to October 13 is in the ocean and we start anew."

Mr. Taylor said, "You have to cancel your regulation," but Mr. Oliphant disagreed with this statement, saying,

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"No. They don't operate until they make application for a specific transaction and they must have bought exchange. We don't want to get into the newspapers the cancellation of that thing. We don't have to worry about that for a week or so. We can go ahead and work out the substance of an arrangement with Belgium." Taylor's comment was, "The new thing is available rather than the old one, and whether they have a central bank or a stabilization fund does not make a damn bit of difference."

"Let me just do one thing at a time," the Secretary said to the group. "Does anybody in this room disagree with the position that I am taking that any agreements as to the export of gold prior to October 13 are cancelled? I don't say cancelled today, but that we will as quickly as possible cancel them?" All present indicated they were in accord with his position. Continuing the Secretary said, "In other words, the gold standard we are going to operate on is a new gold standard and it's the October 13 standard. Anybody disagree." All answered no. Then the Secretary said, "Then the thing to do is to simply tell these people -- I am going to tell Dunn that I also want him to authorize Cochran to negotiate with Belgium. I don't want to go too quickly and we will tell them that this thing has to come up through our diplomatic channels and that Mr. Cochran will talk to the Secretary of the Treasury of Belgium."

Mr. White remarked, "We are not turning them down because they are not yet ready to act because of the earlier order. The earlier order said when gold export point has been reached. It has not been reached. When you issue an order which countermands or supersedes the previous order, you will not be denying them any privilege which they had up to that moment. Therefore you can't say you have changed your mind, that you are not going to give them something they are not entitled to. In other words, it has not reached the gold export point." Lockheed commented, "You don't want to put that order out yet."

The Secretary then said, "I think from a public relations standpoint, I think the thing Mr. Oliphant pointed out, that if I cancelled Belgium today and have nothing to put in its place, that's a front page

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story, but if we do fix up Belgium and Switzerland and at that time we announce that anything previous is 'over the dam', that takes care of the public relations thing, and if someone is trying to make a monkey out of me they have not been successful. As far as I am concerned, the old thing is buried and this is a swell opportunity to bury it. What's worrying you is, will we only do business with a country that has a stabilization fund and that is something that I told the press that when that came up we decided this was the pattern which looked all right and which fitted England and France and when some other country comes up we would take each country on its merits and we have got to do that, because, after all, no one has pointed out that we have this relation with China. But the fact that a country has not got a stabilization fund does not preclude that I will not sit down and talk, but we have to do these things very carefully." Oliphant remarked, "I want a chance to canvass that very carefully."

At this point the Secretary spoke to Mr. Dunn in the State Department over the telephone, and the following is a record of their conversation.

October 15, 1936.  
10:00 a.m.

H.M.Jr: Hello?

Operator: Mr. Dunn.

H.M.Jr: Hello?

Dunn: Yes, Mr. Secretary.

H.M.Jr: I have another request to make.

D: Good.

H.M.Jr: I'd like Cochran also to be authorized to handle Belgium.

D: Oh, well, we'll just put that in the same -

H.M.Jr: Cable.

D: - same cable. Now I have a cable here that I was going to read to you. Would you like to hear it?

H.M.Jr: If you please.

D: 'The Secretary of the Treasury wishes - this is to Paris - the Embassy in Paris -

H.M.Jr: Yes.

D: 'The Secretary of the Treasury wishes to establish contact with the Swiss financial authorities and negotiate with them through Mr. Cochran regarding the request of the Swiss Nat. - Swiss National Bank -

H.M.Jr: Yes.

D: - 'to be included in the recent gold arrangements.'

H.M.Jr: Yes.

D: - 'This will be agreeable to the Department if you have no objections. The Secretary of the Treasury requests that Mr. Cochran keep the American Minister to Switzerland informed of the discussions. The Department has not yet instructed the American Minister to Switzerland in the matter, and Mr. Cochran should, of course, consult with him before establishing contact with Governmental authorities in Switzerland.'

H.M.Jr: Yes, that's the usual practice.

- 2 -

D: Now we'll just - we'll just add to that -  
H.M.Jr: Belgium.  
D: - the same thing for Belgium.  
H.M.Jr: Yes.  
D: Well, we'll shoot that right off.  
H.M.Jr: Right. And now on the Belgium thing, it's - they're sort of jumping to conclusions, you see?  
D: Yes.  
H.M.Jr: That they are included, and we're going to work on this thing very carefully, and it isn't something that just can be settled in five minutes, but Cochran is ideally suited to handle the negotiations, and, of course, all our cables clear through you, so you people will be advised.  
D: Yes.  
H.M.Jr: And as soon as Feis comes back, why I want his advice and I'll keep him informed, and I take it that Secretary Hull will be kept informed also.  
D: Well, he's - he's going to communicate with us later on in the morning and we'll tell him about it. There's no question about that at all.  
H.M.Jr: Fine. Well, this - this is a matter - once we get hold of Cochran on the phone, it isn't going to be a matter that can be settled in 24 hours.  
D: No.  
H.M.Jr: But having him over there is of great assistance to me.  
D: Yes, because - oh, yes, I can understand that.  
H.M.Jr: Yes, and it gives us a clearance point, -  
D: Yes.  
H.M.Jr: - and as we go along, I'm going to tell him to keep the French advised and we'll keep the English advised at this end.  
D: Good.

- 2 -

H.M.Jr: And then Wayne Taylor sits in on all of this, and he'll keep you people advised hourly if there are any changes.

D: Good - good.

H.M.Jr: All right.

D: You'll do - you're going to do the British here and Cochran will keep the French?

H.M.Jr: Right.

D: Yes.

H.M.Jr: Right.

D: All right - thank you very much.

H.M.Jr: Thank you.

D: Goodbye.

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The Secretary said, "What I think we should do is this: immediately prepare a cable for Cochran giving him, first, the cable that Switzerland sent to the Federal Reserve Bank and the one that the Federal Reserve is going to send in reply. Then the same thing on Belgium." Lochhead explained, "On the Belgian cable, they haven't replied to that yet. I think it will be pretty necessary for you to speak to the Federal Reserve before they send a reply because under the regulations they have there, I think their idea would be to cable back and refer to January 31, 1934." The Secretary inquired, "Can we do that on legal grounds?" Oliphant answered, "What is to be said is that the whole situation is being canvassed." The Secretary then asked, "Should I do it through Harrison," and Oliphant replied, "I would do it with Harrison." Taylor's expressed his opinion as follows: "Say that the reason for the delay is because you have an agreement with the French and British that you would talk to them about everything."

Mr. Gaston's comment was, "Is it necessary for the Federal to reply to that Belgian cable at all? It's a reply to his cable and it accepts the existing arrangement and I doubt if it is necessary to reply." Mr. White said, "I have a possible suggestion. There may be some virtue in issuing an order merely defeating that order of January because it will indicate definitely that there is no particular advantage of any country being on the gold standard. They no longer have any privileges here by virtue of being on the gold standard."

Oliphant asked, "Do you mind letting me take a shot at drafting a reply?" HM, Jr's answer was, "What I will do, I will call up George Harrison and explain informally just what we are doing." His remarks were interrupted while he spoke to Cochran on the telephone. Following is a record of the telephone conversation.

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Resuming his remarks to the group, after he had concluded his conversation with Cochran, the Secretary said, "When I get through with me press conference, I will call up George Harrison and explain what I have done. I am thinking fast. My thought was -- the reason I particularly asked Upham to be here was, I think Upham ought to walk across the street and see Eccles and tell him what we are doing. Anybody see any reason why we should not?" All answered no. "I will call him up," the Secretary then said, "and tell him that we are making some new moves and I would like to have Upham see him." Taylor's comment was, "It's just right," and Upham said, "Fine." To Upham the Secretary said, "And you keep sending me reports on what you do."

The Secretary then gave instructions to invite Bewley and Mallet to come in at four o'clock.

Lochhead then said to the Secretary, "By the way, I think Appert is due down today and he's dropping in with a copy of the translation." The Secretary said, "Let him come in to see me. We are keeping up the cordiality -- we are taking Ambassador and Mrs. Laboulaye to the theatre this week."

Addressing the group, the Secretary said, "Gentlemen, I will call up George Harrison as soon as my press conference is over and tell him what I have done. You fellows can work on the cable and suppose you have some of those cables ready for me at about 12:15."

Upham remained for the press conference and the Secretary said to him, "For Heavens sake! tell Eccles this is just for him and Ransome and for the moment it does not concern their staff. This is for him and Ransome." Upham asked, "Tell them together?" The Secretary answered, "Yes, but it does not concern his Board."

Transcript of the Secretary's answers and the newspaper men's questions follows:

Cable sent to the National Bank of Belgium by the Federal Reserve Bank of  
New York on October 15, 1936

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REFERENCE YOUR CABLE NO. 6 OF OCTOBER 14. I TRANSMITTED IT TO THE  
TREASURY AS YOU REQUESTED AND AM ADVISED THAT IT IS THE TREASURY'S  
VIEW THAT RECENT DEVELOPMENTS HAVE MADE IT NECESSARY TO RE-EXAMINE THIS  
PROBLEM IN CONVERSATIONS AMONG THE TREASURIES OF THE GOVERNMENTS CONCERNED  
WHICH IS BEING GIVEN IMMEDIATE ATTENTION.

C A B L E

From: Brussels

To: Federal Reserve Bank of N. Y.

Date: Wednesday, October 14, 1936

No. 6. Confidential for President Harrison.

On reciprocal conditions your cable we confirm our agreement  
sell gold to United States our legal parity congratulations upon  
your efforts please transmit Treasury.

(Signed) Governor Franck  
Banque Nationale de Belgique

October 18, 1936.

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Foreign

Governor, Banque Nationale de Belgique, Brussels.

Referring to our cable of February 1, 1934 No. 2 we quote below for your information the text of two statements issued last night by the Secretary of the Treasury for release today:

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

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

(QUOTE) The Secretary of the Treasury today named Great Britain and France as complying with the conditions specified in his press release of October 18, 1936, for the purchase of gold from the United States for immediate export or earmark (UNQUOTE)

FEDERAL RESERVE BANK OF NEW YORK

Suggested reply by Federal Reserve Bank of N. Y. in answer to Cable from  
Bank Nationale Suisse, Bern, Switzerland

October 16, 1936

AS MENTIONED IN OUR NO. 14 WE COMMUNICATED YOUR INQUIRY TO THE  
TREASURY AND ARE NOW ADVISED THAT IT WOULD PREFER TO HAVE US DELAY  
DISCUSSION OF THE DETAILS MENTIONED IN YOUR CABLE UNTIL GENERAL  
ARRANGEMENTS HAVE BEEN MADE BETWEEN THE TREASURIES OF THE SWISS  
GOVERNMENT AND THE UNITED STATES GOVERNMENT. WE ARE ALSO ADVISED  
THAT THE MATTER OF DISCUSSING SUCH GENERAL ARRANGEMENTS IS BEING GIVEN  
IMMEDIATE ATTENTION.

Federal Reserve Bank of New York

C A B L E

From: Bank Nationale Suisse  
Berns, Switzerland

To: Federal Reserve Bank of N. Y.

Date: OCT 14 1936

REFERRING TO DECLARATION OF MORGENTHAU CONCERNING YOUR NEW GOLD TRANSACTION PRACTICES ARE YOU PREPARED TO BUY AND SELL GOLD FROM AND TO US? ARE YOU FURTHER PREPARED TO ACCEPT GOLD SOLD TO YOU BY US EARMARKED YOUR ACCOUNT AT BANK OF ENGLAND INSTEAD OF TO BE SENT NEW YORK? ARE YOU PREPARED TO EARMARK FOR US GOLD BOUGHT FROM YOU? PLEASE CABLE CONDITIONS YOU WOULD APPLY TO SUCH TRANSACTIONS?

(Signed) Bank Nationale Suisse

COPY - OUTGOING CABLEGRAM

Foreign Exchange Division  
Exchange Section

October 16, 1936

Sveriges Riksbank,  
Stockholm

We have communicated your No. 12 to our Treasury and it is suggested that general question of reciprocal dealings in gold be taken up by your Treasury with our Treasury through the Swedish Legation at Washington. If general question is decided through this channel we would be in position to discuss with you subsidiary questions such as are mentioned in your cable

FEDERAL RESERVE BANK OF NEW YORK

C A B L E

From: Sveriges Riks Bank  
Stockholm, Sweden

Date: October 15, 1936

To: Federal Reserve Bank of N. Y.

\* CABLE RECEIVED STUDYING MATTER. NO SWEDISH STABILIZATION FUND:  
TRANSACTIONS BY SVERIGES RIKS BANK FOR OWN ACCOUNT. PROVIDED YOU  
MAY BUY GOLD FROM US WOULD YOU FIRSTLY ACCEPT PRICE CALCULATED ON  
LONDON GOLD PRICE. SECONDLY SELL GOLD TO US IRRESPECTIVE OF EXCHANGE  
RATES OF GOLD STANDARD CURRENCY.

\* Same as cable sent to N/B of Belgium <sup>Oct</sup> Sep 13, 1936

Copy of Cable sent to Bank Nationale de Bulgarie by the  
Federal Reserve Bank of New York

October 15, 1936

Referring to your cablegram No. 1 we are advised by the Treasury that it would be necessary for the matter to be taken up by the Treasuries of the respective Governments through diplomatic channels.

C A B L E

From: Bank Nationale de Bulgarie  
(Administration Centrale)  
Sofia, Bulgaria

To: Federal Reserve Bank of N. Y.

Date: Wednesday, October 14, 1936

NO. 1

WE WISH TO BUY BAR GOLD FOR \$600,000 WHICH TO BE DEPOSITED  
WITH YOU. CABLE PRICE AND TERMS.

Thursday  
October 15, 1936  
4:27 p. m.

HMjr: Hello  
Gordon  
Rentschler: Hello, Mr. Secretary, how are you?  
HMjr: Oh, I'm fine.  
R: Gordon Rentschler speaking -  
HMjr: Yes  
R: I called back to tell you that we've thoroughly checked the whole situation again today.  
HMjr: Yes  
R: And there's no excitement in it at all and everybody now seems to understand.  
HMjr: Fine  
R: I think the editorial in the Times yesterday was very constructive.  
HMjr: Yes  
R: Did you see it?  
HMjr: Well, I guess I've read it but it didn't make a particular impression. I just don't happen to . .  
R: Well, it was all right, and that plus the other things that have been done I think have got it all in the clear.  
HMjr: Yes  
R: It's moving very smoothly as far as we can see.  
HMjr: Well, as far as the commercial end of it - ?  
R: Yes, the commercial end is moving very smoothly.  
HMjr: Yes  
R: And our customers aren't concerned about it now they think they understand what it's about.  
HMjr: They do?  
R: So that I - I don't think you need to give it

-2-

very much more concern. I don't believe there'll be much more discussion about it.

- HMjr: Well, I think when you consider - two and a half weeks before Presidential election and that we had the nerve to take the move - I think that there's - I would say that the comment was excellent.
- R: Yes, I think it's all right; I don't think you need to concern yourself about it a lot --
- HMjr: I mean, when you . . .
- R: I've asked Leo to keep me closely in touch and if anything does break out well, let me know.
- HMjr: Well now, let me ask you this. Have you seen any, from your customers, any decided pick-up or falling-off in any particular direction with any countries?
- R: No, nothing in particular as yet.
- HMjr: I mean . . .
- R: I think it's a little too early for that.
- HMjr: I mean that they didn't get any orders particularly from one place or sell any - that there's any particular shifting in the channels of trade.
- R: No, I don't think so as yet. I think it's a little bit too early to see that registered.
- HMjr: You do?
- R: Yes, I think the first thing you would see would be orders being placed and then you'd begin to get it in the money market afterwards.
- HMjr: Yes, but I mean, you haven't seen it yet with your commercial accounts?
- R: No, with - no, nothing in that so far.
- HMjr: Yes
- R: But I don't think there is any question about fellows making plans to begin to work on a more positive basis.

HMjr: On a more what?

R: On a more positive basis. I think some of the directors take commitments for business abroad -

HMjr: Yes

R: I think you've got to let them have a week or two to soak in.

HMjr: Yes, well --

R: I rather expect to see that start some time after the election, don't you?

HMjr: Well, I don't know, this thing has moved so much faster than I ever thought it would move that - just how quickly people take commercial advantage of a thing I don't know.

R: Oh, they'll move into it pretty promptly, but -

HMjr: But, certainly --

R: I mean by "promptly" a month, rather than a week.

HMjr: Oh, yes - Well, that would be prompt, I mean . . .

R: That would be very prompt.

HMjr: When you consider how many years we've had behind us with nothing like this.

R: Oh, yes - Then of course, too, there's still a lot of fear on what's going on in places like Spain -

HMjr: Yes

R: - and France; and then hearing these reports about something in Peru which we understand cannot be confirmed.

HMjr: Yes

R: But there's a lot of - there's a lot of unrest with relation/abroad you know?

HMjr: Oh yes, oh yes -  
to business

R: I think this is constructive in the right direction, it worked out just as well as we thought it would.

-4-

HMjr: Yes - we laid the foundation last . . .

R: Remember, I was overly optimistic at one stage of the game, but I think it was right.

HMjr: Yes, well we laid the foundation in June.

R: Yes, I think it's all right.

HMjr: Yes

R: But if there's anything that goes askew or if you see anything that you want us to check why give us a ring.

HMjr: Well, I just wanted to make sure that everybody who is doing business between countries understood it and you tell me they are.

R: Yes, I think they do now.

HMjr: Well, that's fine.

R: I think - I think it's all right.

HMjr: Thank you very much.

R: All right, fine.

HMjr: Goodbye.

R: Bye bye.

Thursday  
October 15, 1936  
4:27 p. m.

Knoke: Knoke -  
HMjr: Now, Knoke, how are you behaving?  
K: Oh, perfectly -  
HMjr: Perfectly?  
K: The market is entirely - is very quiet -  
HMjr: Yes  
K: - with no tendency one way or the other -  
HMjr: Yes  
K: And it certainly doesn't in my opinion call for  
any intervention at all.  
HMjr: No, no - no, I haven't -  
K: Yes  
HMjr: And everything else is nice?  
K: It's - I think it's today so very very - the way  
it should be.  
HMjr: Fine - all right, thank you.  
K: All right, sir.

Thursday  
October 15, 1936  
4:55 p. m.

Operator: Mr. Knoke  
Knoke: Yes, Mr. Secretary  
HMjr: Well, now, how are you putting that closing on?  
K: A half bid - nine sixteenths offered  
HMjr: Well, that's all right.  
K: Yes, I think it's --  
HMjr: And we didn't do a thing.  
K: Not a thing; nor did the British today.  
HMjr: Nor did the British?  
K: No  
HMjr: What about the French?  
K: Well, the French, he told me over the telephone he had bought about a million dollars by noon time and I'm still waiting for his cable giving the final figure.  
HMjr: But the British didn't do anything and we didn't?  
K: That's right.  
HMjr: Well, that's ---  
K: All the British did was to offer fifteen bars of gold in the London market this morning which is equivalent to support of sterling.  
HMjr: Yes, well, I'd say that was the mini- that's almost doing nothing.  
K: Surely, - I said - - that shows - I mentioned it merely because I think it shows the intention.  
HMjr: Right - thank you.  
K: All right, sir.  
HMjr: Goodbye.

WCNS22

GOLD STOCKS OF THE U.S. TODAY SET AN ALL TIME HIGH WHEN THEY PASSED THE \$11,000,000,000 MARK.

A STEADY INFLOW OF GOLD FROM ABROAD WAS SHOWN TO HAVE BOOSTED THE STOCKS TO \$11,001,612,764 ON THE DAILY TREASURY STATEMENT FOR OCT.

13.

10/15--R950A

WCNS40

ADD GOLD

SECRETARY MORGENTHAU SAID THAT THE INCREASE IN GOLD STOCKS HAD NOTHING TO DO WITH THE AGREEMENT AMONG THE U.S., GREAT BRITAIN AND FRANCE TO PERMIT THE BUYING AND SELLING OF GOLD AMONG THEIR STABILIZATION FUNDS, EFFECTIVE TUESDAY.

HE EXPLAINED THAT THE INCREASE REPRESENTED GOLD THAT WAS IN TRANSIT WHEN THE AGREEMENT WENT INTO EFFECT. HE INDICATED, HOWEVER, THAT THE TREASURY EXPECTED TO MAINTAIN SECRECY ABOUT TRANSACTIONS UNDER THE AGREEMENT.

UNDER THE RECENT TRI-NATION AGREEMENT, GREAT BRITAIN, THE UNITED STATES AND FRANCE PLEDGED THEMSELVES TO USE THEIR STABILIZATION FUNDS TO PREVENT WIDE FLUCTUATIONS IN EACH OTHERS CURRENCIES.

10/15--R1122A

11.00

*Mesa. Long.*

MORGENTHAU SAYS GOLD STOCKS INCREASED  
HAS NO RELATION TO NEW AGREEMENT

OCT 15 1936

WASHN- SECY MORGENTHAU SAID TODAY THAT  
THE INCREASE IN GOLD STOCKS TO BRING THE TOTAL  
BEYOND THE 11 000 000 000 DLR MARK WAS NOT  
DUE TO ANY DEVELOPMENTS IN CONNECTION WITH  
THE GOLD AGREEMENT BETWEEN THE U S GREAT  
BRITAIN AND FRANCE- HE POINTED OUT THAT THE  
INCREASE OCCURRED OCT 13 AND THAT THE IMPORTS  
RESULTING IN THE INCREASE WERE IN TRANSIT TO  
THIS COUNTRY BEFORE THE GOLD EXCHANGE AGREEMENT  
WAS REACHED

ADD MORGENTHAU

WASHN- MR MORGENTHAU STATED THAT HE COULD  
MAKE NO COMMENT TODAY ON ANY FURTHER DEVELOPMENT  
-S IN THE GOLD PROGRAM BETWEEN THE THREE COUNT  
-RIES

DISCUSSING THE PRICE AT WHICH THE THREE  
COUNTRIES WILL SELL EACH OTHER GOLD THE  
SECRETARY STATED IN RESPONSE TO QUESTIONS THAT  
IF THE TREASURY WANTED TO BUY GOLD WITH THE  
CURRENCIES OF GREAT BRITAIN OR FRANCE THERE  
WOULD HAVE TO BE A PRICE FIXED FOR THE  
PURCHASES- THIS WAS TAKEN TO MEAN THAT THE  
TREASURY HERE IS RECEIVING A PRICE QUOTATION  
FROM BOTH PARIS AND LONDON

OCT 15 1936

11.12

OCT 15 1936

ADD MORGENTHAU

WASHN - SECY MORGENTHAU STATED THAT HE HAD NO COMMENT TO MAKE ON THE RADIO SPEECH OF CHAIRMAN JONES OF THE R F C IN WHICH THE LATTER EXPRESSED CONFIDENCE THAT PRESIDENT ROOSEVELT WAS WILLING TO HAVE THE UNDISTRIBUTED PROFITS TAX LAW ADOPTED BY CONGRESS LAST YEAR REVIEWED AND MODIFIED BY CONGRESS AT THE COMING SESSION - THE SECY HOWEVER STATED THAT THE CONGRESSIONAL STUDY OF THE TAX STRUCTURE WAS PROGRESSING AND THAT EXPERTS ON CAPITOL HILL HAVE FREQUENTLY REQUESTED FROM TREASURY CERTAIN TAX DATA IN CONNECTION WITH THE STUDY

THE SECY SAID THAT TRANSACTIONS MADE BY THE UNITED STATES UNDER THE GOLD AGREEMENT MIGHT ULTIMATELY BE REFLECTED IN THE DAILY QUOTED FIGURE ON GOLD STOCKS IN THE TREASURY - HE DID NOT HOWEVER BELIEVE THAT TRANSACTIONS WOULD BE MADE PUBLIC DAILY

THE SECY HAD NO COMMENT TO MAKE ON THE STATEMENT BY THE BELGIAN AMBASSADOR AT THE STATE DEPT ON WEDNESDAY THAT HIS COUNTRY WAS WILLING TO COOPERATE IN THE EXCHANGE AGREEMENT

THE SECY SAID THAT NO NOTE HAD BEEN RECEIVED AT THE TREASURY FROM BELGIUM REQUESTING THE RIGHT TO PARTICIPATE IN THE GOLD EXCHANGE AGREEMENT BETWEEN UNITED STATES GREAT BRITAIN AND FRANCE

ADD MORGENTHAU

BUT THAT THE PRICE IS NOT BEING MADE PUBLIC  
ALTHOUGH THE UNITED STATES HAS PUBLICLY ANNOUN-  
CED ITS PRICE OF 35 DLS PER OUNCE

THE SECRETARY STATED THAT THE 200 000 000  
DLS ON BALANCE IN THE RESERVE BANK IN NEW YORK  
OUT OF THE 2 000 000 000 DLS STABILIZATION  
FUND IS SUFFICIENT TO TAKE CARE OF THE UNITED  
STATES PART OF THE AGREEMENT TO EXCHANGE GOLD  
BETWEEN THE 3 COUNTRIES

OCT 15 1936

9861 91 100

ADD MORGENTHAU

WASHN- THE GOLD STOCKS OF THE U S PASSED  
THE ELEVEN BILLION MARK ON OCT 13 ACCORDING  
TO DAILY TREASURY STATEMENT WHICH SHOWS THAT  
THE GOLD ASSETS IN THE TREASURY WERE 11 001  
612 764 DLS ON THAT DAY VS 10 985 641 500 DLS  
ON OCT 12

-0-

October 15, 1936  
(DJ 8:55 am)

Col. Leonard P. Ayres in Cleveland Trust Co. bulletin declares if all important countries continue to operate with budget deficits their currencies cannot be kept stabilized with one another no matter how their secret funds are manipulated. Present relationships between the important currencies are about what they were when this cycle of devaluation started. The bulletin states, "The cooperative agreement is an attempt to hold them there. It is a worthy undertaking and far better than a relapse into monetary competition. A return to sound currencies would be better yet."

PARIS -- THE BANK OF FRANCE DISCOUNT RATE WAS REDUCED TODAY FROM  
4 PER CENT.

10/15--K443A

*London* OCT 15 1936 *8.571*  
 BANK OF ENGLAND STATEMENT AS OF OCT 14  
 SHOWS CIRCULATION 446 367 000 PDS VS 450 842  
 000 PDS ON OCT 7 - RATIO 40 8 PC VS 39 3 PC -  
 BULLION 249 732 000 PDS VS 249 751 000 PDS

ADD BANK OF ENGLAND STATEMENT

LONDON -	OCT 14	OCT 7
CIRCULATION	446 367	450 842
PUBLIC DEPOSITS	31 616	24 752
PRIV DEPOSITS	123 387	125 134
BANKERS ACCT	82 156	84 192
OTH ACCOUNTS	41 231	40 942
GOVT SECUR	80 368	79 753
OTH SECUR	28 930	28 860

OCT 15 1936  
 ADD BANK OF ENGLAND STATEMENT

DISC AND ADV	9 553	9 291
SECURITIES	19 377	19 569
RESERVES	63 366	58 909
PROP RES TO LIAB	40 8 PC	39 3 PC
BULLION	249 732	249 751
BANK RATE	2 PC	2 PC

IN ABOVE FIGURES ARE IN POUND STERLING WITH  
 000 OMITTED

-0-

OCT 15 1936

BANK OF ENGLAND RATE UNCHANGED  
 LONDON - THE BANK OF ENGLAND MADE NO CHANGE  
 IN ITS DISCOUNT RATE OF 2 PC

-0-

*8.15*

FRENCH BANK RATE REDUCED TO 2 PC FROM  
2 1-2 PC *9.00*

PARIS - BANK OF FRANCE HAS REDUCED DISCOUNT  
RATE TO 2 PC FROM 2 1-2 PC *OCT 15 1936*

-0-

BANK OF FRANCE STATEMENT *9.15* *OCT 15 1936*

PARIS- STATEMENT AS OF OCT 9 SHOWS GOLD  
62 358 000 000 FRANCS VS 57 358 000 000 ON OCT  
2- CIRCULATION 85 778 000 000 VS 86 026 000 000-  
RATIO 63 38 PC VS 60 47 PC

-0-

*OCT 15 1936*

*9.35*

ADD FRENCH BANK RATE REDUCED  
PARIS- ADVANCES ON BONDS WERE REDUCED  
TO 3 PC AND ON 30 DAY LOANS TO 2 PC

-0-

ADD BANK OF FRANCE STATEMENT  
 PARIS - IN FRANCS AND 000 000 OMITTED

	OCT 9	OCT 2
GOLD	62 358	57 358
SIGHT BAL ABROAD	17	15
NEG BILLS BOT ABRD	1 464	1 464
COMM BILLS FRANCE	7 267	7 528
ADV AGNST SECUR	3 645	4 007
30-DAY ADVANCES	826	1 626
NEG BONDS OF S F	5 639	5 639
TEMP ADV TO STATE	12 302	12 304
CIRCULATION	85 778	86 026
TOT CR CURR ACCTS	12 603	8 827
TREASURY	1 514	592
SINKING FUND	1 769	1 536
PRIVATE	9 212	6 616
TOT SIGHT LIAB	98 381	94 854
RATIO	63 38 PC	60 47 PC
BANK RATE	-A- 2 PC	-B- 3 PC

-A- REDUCED TO 2 PC OCT 9

-B- RATE WAS REDUCED ON OCT 2 TO 3 PC

AND TO 2 1-2 PC ON OCT 8

FOOTNOTE -A- SHOULD READ - REDUCED TO 2 PC

OCT 15-

OCT 15 1936

BANK OF FRANCE

PARIS - ADDRESSING SHAREHOLDERS OF BANK OF FRANCE GOVERNOR LEBEYRIE REFUTED INSINUATIONS THAT THE SECRECY OF THE OPERATIONS OF THE EXCHANGE FUND WOULD PERMIT FALSIFICATION OF THE WEEKLY STATEMENTS OF BANK OF FRANCE PARTICULARLY IN THE ITEM OF GOLD RESERVES

HE ADMITTED THAT INASMUCH AS THE FUND MUST BUY AND SELL GOLD WITH THE BANK ITS OPERATIONS MUST AFFECT THE WEEKLY STATEMENTS OF CONDITION OF THE BANK BUT HE DECLARED THAT THE GOLD RESERVE THERE INSCRIBED MUST CONTINUE TO BE LESS THAN THE TOTAL MONETARY RESERVE WHICH FRANCE POSSESSES

HE ADDED THAT THE WEEKLY STATEMENTS WOULD NEVER DISCLOSE THE TOTAL RESERVE BECAUSE THE RELATIVE PROPORTION OF GOLD AND NOTES CONSTITUTING THE FUND WOULD ARBITRARILY BE MADE TO VARY

OCT 15 1936

HE ASSERTED THAT THE SPECULATIVE OPERATIONS BASED ON MOVEMENTS OF THE GOLD RESERVE OF THE CENTRAL BANKS COULD ONLY COMPROMISE THE EFFORT TOWARD GENERAL STABILIZATION OF EXCHANGES WHICH CENTRAL BANK GOVERNORS AT THEIR RECENT MEETING IN BASLE RECOGNIZED AS INDISPENSABLE FOR ECONOMIC EQUILIBIRUM OF THE WORLD

HE CONCLUDED BY SAYING THAT THE VARIATION IN THE GOLD RESERVES WOULD BE KNOWN BY THE PUBLIC ONLY WHEN IMPORTANT MOVEMENTS DEVELOPED

TO WHAT EXTENT THE EXCHANGE FUND-S GOLD IS INCLUDED IN RESERVES OF THE BANK OF FRANCE AND THE FUND-S NOTES ARE INCLUDED IN THE TREAS-

URY-S BALANCE OR IN PRIVATE DEPOSITS WITH THE BANK OF FRANCE REMAINS THEREFORE PURE GUESS-  
WORK

A 2 PC BANK RATE HAS NOT BEEN IN EFFECT SINCE THE SUMMER OF 1931

-0-

UCT 15 1936

*Di. 45*  
FRENCH DEHOARDING MONEY

REDUCTION IN DISCOUNT RATE OF BANK OF FRANCE THIS MORNING TO 2 PC THE LOWEST LEVEL SINCE 19

<sup>3</sup> I WAS ACCOMPANIED BY DEFINITE INDICATIONS THAT FRENCH PEOPLE ARE BEGINNING TO DEHOARD MONEY AS WELL AS A REDUCTION IN EMERGENCY DEMAND FOR BANK OF FRANCE CREDIT

GOLD RESERVES OF BANK OF FRANCE INCREASED AN EVEN 5 000 000 000 FRANCS - WHILE THIS INCREASE PARTLY REFLECTS SOME OFFICIAL EXCHANGE OPERATIONS THE INCREASE IN GOLD RESERVES WOULD TEND TO CONFIRM RECENT AUTHORITATIVE STATEMENTS MADE IN PARIS TO THE EFFECT THAT A RETURN FLOW OF GOLD IS TAKING PLACE AT A HIGHLY SATISFACTORY RATE

NOTE CIRCULATION ITSELF DECLINED ONLY 248 000 000 FRANCS - THIS DECLINE IS NOT SIGNIFICANT AS THE TOTAL CIRCULATION FLUCTUATES AND THE REDUCTION IS NOT AN ABNORMAL AMOUNT

A REDUCTION IN CIRCULATION OF BANK OF ENGLAND BY 4 475 000 PDS HOWEVER IS HIGHLY SIGNIFICANT - A SEASONAL REDUCTION TAKES

PLACE IN THIS WEEK BUT DECLINE THIS YEAR IS LARGEST SHOWN FOR CORRESPONDING WEEK OF ANY RECENT YEARS - IT COMPARES WITH A REDUCTION OF 2 497 000 PDS IN SAME WEEK LAST YEAR

NOTE CIRCULATION OF BANK OF ENGLAND HAD SWOLLEN TO ABNORMAL PROPORTIONS BY THE FRENCH DEMAND FOR HOARDING PURPOSES - A GREATER THAN SEASONAL REDUCTION THEREFORE POINTS TO PROBABILITY THAT SOME OF THE HOARDED BANK OF ENGLAND NOTES ARE BEING RETURNED

THIS ALSO IS CONFIRMED BY A COMPARISON OF CIRCULATION FIGURES EACH WEEK FOR PAST TWO MONTHS WITH CORRESPONDING WEEK OF LAST YEAR - WHEN SEASONAL CIRCULATION PEAK WAS REACHED ON AUGUST 5 CIRCULATION WAS 42 571 000 PDS HIGHER THAN CORRESPONDING WEEK OF PREVIOUS YEAR - THE SPREAD GREW STEADILY WIDER UNTIL OCT 7 WHEN CIRCULATION WAS 48 727 000 PDS HIGHER THAN A YEAR AGO - THIS WEEK THE SPREAD NARROWED TO 46 749 000 PDS THE FIRST TIME THAT THERE WAS A SUBSTANTIAL NARROWING OF THE SPREAD DURING THAT PERIOD

CURRENT STATEMENT OF CONDITION OF THE BANK OF FRANCE SHOWED THAT THE FORMER HEAVY DEMAND FROM PRIVATE SOURCES FOR BANK OF FRANCE CREDIT IS BEGINNING TO DECLINE - THIS WAS SHOWN BY A DECLINE OF 261 000 000 FRANCS IN THE PORTFOLIO OF COMMERCIAL DISCOUNTS OF 422 000 000 FRANCS IN ADVANCES AGAINST SECURITIES AND 500 000 000 FRANCS IN THE AMOUNT OF 30 DAY ADVANCES

(1,57) ADD FRENCH BANK STATEMENT

9861 91 150

PARIS- REFLECTING HEAVY INFLOW OF FUNDS FROM ABROAD THE BANK STATEMENT SHOWS THE HIGHEST TREASURY BALANCE SINCE END OF 1934 AND THE HIGHEST PRIVATE DEPOSITS SINCE JULY 1935 THE FORMER INCREASING BY 900 000 000 FRANCS AND LATER BY 2 597 000 000

GOLD INCREASE OF EXACTLY 5 000 000 000 FRANCS PRESUMABLY INDICATES THE EXCHANGE FUND IS SELLING A PORTION OF ITS 10 000 000 000 FRANC-S METAL AGAINST NOTES IN ORDER TO ABSORB OFFERS OF STERLING AND DOLLARS BUT AS GOVERNOR LEBEYRIE HAS WARNED NO DEFINITE CONCLUSIONS CAN BE DRAWN THEREFROM ABOUT THE POSITION OR OPERATIONS OF THE FUND

INFLUX OF FUNDS HAS PERMITTED REDUCTION IN BANK RATE AND CONFORMS WITH GOVERNMENT-S POLICY OF MAKING SHORT AND THEN LONG MONEY CHEAP

BOURSE WAS FAVORABLY IMPRESSED WITH THE BANK STATEMENT AND RENTES AFTER A RELAPSE AT THE OPENING LATER MADE UP THE LOSSES

-0-

October 16, 1936.  
10:35 A.M.

H.M.Jr: Hello.

Stanley High: Good morning, sir.

H.M.Jr: How are you?

H: I'm fine, thank you.

H.M.Jr: Good.

H: In the first place, I wonder if you would be willing to. . . You asked me about somebody who might be of some assistance to you.

H.M.Jr: Yes.

H: Now then, I have a great deal of respect for the judgment and the phrase-making ability of Tom Corcoran.

H.M.Jr: Yes.

H: Now, Tom would be delighted to help you.

H.M.Jr: Yes.

H: If you would be willing to have him.

H.M.Jr: I see. Well. . .

H: Anything you wanted to do; I mean come in at the last minute or early or anything else.

H.M.Jr: Let me think that over, huh?

H: All right, sir.

H.M.Jr: And, here's the thought. . .

H: Yes.

H.M.Jr: We've been talking it over here. Now, who actually handles this business? You handle it?

H: I can't understand that.

H.M.Jr: Who handles the dinner? Do you handle it?

- 2 -

- H: No, Joe's handling - Joe Kennedy's going to preside. I've got charge of all the arrangements, but I'm not going to say anything, I don't think.
- H.M.Jr: But I mean Kennedy is going to preside.
- H: Yes, Kennedy will preside. I may introduce Kennedy; I don't know.
- H.M.Jr: I see. Well then, this question of who's going to announce it. I mean they've heard about it here. We're saying nothing at this end of the line.
- H: Yes. Well, we haven't said anything either.
- H.M.Jr: Well, are you going to announce it?
- H: Yes, I'll announce it.
- H.M.Jr: Well, the answer to this thing is that we shouldn't have any title.
- H: Yes.
- H.M.Jr: Just say the Secretary of the Treasury is going to speak.
- H: Yes, that's how they usually do it.
- H.M.Jr: Now, the other thing is this: I've spent one hour here with my staff, and they say that what I've outlined, what I want to say, I can't say under 30 minutes.
- H: Yes.
- H.M.Jr: Now, they say it's the only time I've talked and it's ridiculous to try to say it in fifteen minutes. I don't know whether they're right or not. As I understand from Kennedy, who seems quite enthusiastic about my coming up. . .
- H: Yes.
- H.M.Jr: I'm to be - he's to be - the President will talk over the radio.
- H: Yes.

- 3 -

H.M.Jr: Then Kennedy's going to introduce me and I'm the only speaker.

H: Yes.

H.M.Jr: Well now, do I speak on the air or do I just talk to the audience?

H: It's on the air.

H.M.Jr: I do.

H: But we - the only point was we only had half an hour.

H.M.Jr: Sure.

H: And the President probably should take about six or seven minutes.

H.M.Jr: I see.

H: He certainly won't talk more than seven minutes.

H.M.Jr: I see.

H: Which we sort of figured would have left about twenty-one or -two.

H.M.Jr: Well, I didn't know that. You think he'll talk about seven?

H: I think that he certainly won't talk more than that.

H.M.Jr: Well, that leaves me twenty or twenty-one minutes.

H: Yes.

H.M.Jr: Well, we'll put it into that, that's all.

H: That's - that would be fine, because that would just keep us inside the limit very nicely.

H.M.Jr: I won't pull a "Frances Perkins" on you.

H: Ha, ha, ha; that was terrible.

H.M.Jr: Yes. Now, let me ask you: Do you know already what

- 4 -

station it's going to be?

H: What station?

H.M.Jr: Yes.

H: It's going to be coast-to-coast, and it's going to be on, as I recall it, the - I'm not sure whether it's the Red or the Blue Network of N.B.C. In fact, I don't know the hook-up, but it's coast-to-coast.

H.M.Jr: But you don't know what station.

H: No, I was just told it's Columbia; it's Columbia.

H.M.Jr: Columbia; good. Do you know what time?

H: The time will be ten to ten-thirty; and the only thing I haven't settled is whether the President wants to speak first or second.

H.M.Jr: I see.

H: I thought I'd ask him about that.

H.M.Jr: Naturally.

H: Yes.

H.M.Jr: Well now, for instance, when I go on do I speak to the other dinners as well, or just. . .

H: Yes, you'll be speaking to the other dinners too.

H.M.Jr: I see.

H: Yes.

H.M.Jr: Now, of course, when I do this - I mean I am very particular about the number of words.

H: Yes.

H.M.Jr: See? And if you say. . . I do a hundred words a minute.

H: Yes.

- 5 -

H.M.Jr: Can't do more than that.

H: Yes.

H.M.Jr: So if you tell me it's twenty minutes or eighteen minutes, whatever it is, I'll stick within that, you see.

H: I think if you figured on twenty minutes, it gives us plenty of chance for the introduction, you know, and plenty of elbow room.

H.M.Jr: Well, twenty minutes for me is two thousand words.

H: Yes.

H.M.Jr: Well. . .

H: That's fine.

H.M.Jr: Well, supposing I keep it within that.

H: I think that would be the safest thing to do.

H.M.Jr: Right.

H: Oh, fine. Now, will you let me know if you have a thought on Tom Corcoran, that is, you want any help on it, I'll be glad to get in touch with him right away.

H.M.Jr: Well, I know him moderately well. I meant he's never worked with us, and that's the only reason why; I don't know how he'd feel about it.

H: Yes.

H.M.Jr: But I know he's very able and I admire his ability.

H: Yes.

H.M.Jr: And, just let me turn it over. . .

H: All right, sir.

H.M.Jr: . . . because it's a question of studying the relationship between people. I mean, you know. . .

- 6 -

H: That's quite all right, sir.

H.M.Jr: What? And I don't want Corcoran to get the idea that we don't want him, but. . . .

H: No, I . . . He'd understand, I'm sure, anything about that, but he's just anxious to be helpful or to do nothing.

H.M.Jr: Have you said anything to him?

H: Well, no; I asked him whether or not he was going to be free over the weekend.

H.M.Jr: Oh.

H: And he said he would.

H.M.Jr: I see. Well, I've started our boys and I've given them so much stuff that they say they won't be able to be ready until Monday.

H: Yes. Good.

H.M.Jr: But I'll have it in plenty of time.

H: Fine.

H.M.Jr: And I outlined. . . . What I'm going to attempt to do is to lay this goat in place.

H: Yes.

H.M.Jr: And that's what I'm going to do.

H: Oh, that's swell.

H.M.Jr: And that's what I'm going to do - this "bogeyman" which they've raised, I'm going to try and lay it.

H: That's grand.

H.M.Jr: And I don't - what I'm going to talk, I'd like to not have it known, so that they won't be preparing to answer.

H: Yes, I think that's much better strategy.

- 7 -

H.M.Jr: But I'm going to talk on just one thing - the President and inflation. Have we got it, haven't we got it, do we have to fear it?

H: Yes.

H.M.Jr: And I think, after talking to Joe, and talking to my father - they both feel that that is the most important thing.

H: Well, I think that's absolutely right.

H.M.Jr: What do you think?

H: I think it's absolutely right; I think it's the biggest question to be answered.

H.M.Jr: And it hasn't been answered.

H: No, it hasn't been talked about at all.

H.M.Jr: No.

H: No.

H.M.Jr: Well, and that's why I thought better no title.

H: All right, sir.

H.M.Jr: Now, Steve Gibbons is in the room with me.

H: Yes.

H.M.Jr: He's coming up Sunday or Monday.

H: Yes.

H.M.Jr: And he's going to work with Joe and help put this across.

H: Yes.

H.M.Jr: And we have lot of friends up there; I have lot of friends up in New York, and I don't think you'll have any trouble filling the hall.

H: Well, that's - I know there won't be any trouble about it.

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H.M.Jr: How much you going to charge?  
H: Five dollars.  
H.M.Jr: Five dollars, huh.  
H: Because we want to make it self-financing.  
H.M.Jr: And where you going to have it?  
H: Waldorf.  
H.M.Jr: I see.  
H: Yes.  
H.M.Jr: Fine.  
H: All right, sir.  
H.M.Jr: And then, you're going to take care of the announcement?  
H: Yes, I am. I'll pick that all up.  
H.M.Jr: I think - I mean that inasmuch as it's around here, I think that. . . . When you going to do it?  
H: Well, we'll probably have a - I'm going to have a consultation about that today. I think the first announcement will be in the paper on Monday, because we ought to have the chance for people who want to come on the basis of the announcement, to get their word back to them.  
H.M.Jr: Right.  
H: Yes.  
H.M.Jr: All right.  
H: All right, sir.  
H.M.Jr: Thank you.  
H: Thank you very much.  
H.M.Jr: Goodbye.

October 15, 1936  
10:55 a.m.

Dr.  
Lubin: Hello, Mr. Secretary.

H.M.jr: How are you?

L: Fine.

H.M.Jr: Dr. Lubin, would you be ready tomorrow morning to give me a short lecture on the cost of living, what you've got?

L: Sure - certainly.

H.M.Jr: You could do that?

L: Yes.

H.M.Jr: Would you - could you come over here, say about 11 o'clock?

L: Certainly be glad to.

H.M.Jr: And then - I mean bring me up to date. By that time, I'll have a clearance on that money that you need.

L: Yes.

H.M.Jr: See?

L: I'd love to do it.

H.M.Jr: All right, but I mean, I'd like to be brought up to date on it.

L: Yes, all right, fine.

H.M.Jr: Thank you very much.

L: Don't mention it.

October 15, 1936  
11:00 a.m.

H.M.Jr: Hello?

Operator: Mr. High.

H.M.Jr: O.K.

Operator: Go ahead.

High: Hello?

H.M.Jr: Yes, - Morgenthau.

H: Mr. Secretary, how are you today?

H.M.Jr: I'm pretty well, thank you?

H: How did you like the President's speech last night?

H.M.Jr: Well, I - you - you say first.

H: (Laughs) Well, of course, I thought it was a very - the kind of a speech that's bound to be very popular.

H.M.Jr: Well, I prefer his Syracuse speech.

H: Yes, well, of course, I did too, for that matter (laughs).

H.M.Jr: Yes.

H: Here's the thing I had particularly in mind. I talked to him in Kansas City about this Business men's Dinner -

H.M.Jr: Yes.

H: - and after we had talked about it, and I'd gone over the whole thing here, the decision was to postpone it until the 23rd. Now we've - we've got 15 business men - we've got 15 cities in which simultaneous dinners are going to be held, and we're sending out people like Mr. Roper and Jesse Jones, and so forth, speaking in these various places, and the President is going to make his radio talk from Hyde Park if he doesn't come down to this New York show.

H.M.Jr: Yes.

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- H: Now, I - (laughs) - I asked him to have his permission to ask you to come to the - to be our guest of honor at the meeting here. Of course, that's what everybody wants here, and he - he was very anxious that I do that, and we're going to have, I think, about 1500 business men present, and an extraordinarily fine crowd at the speaker's table; and I wanted to clear that with you right away.
- H.M.Jr: Well, I don't know - it's getting so - so - so short now that - so near and I've got so much to do down here, I - I just wonder whether I - I should go and can go and so forth and so on.
- H: Well, of course, we - we were - we were banking heavily on the possibility of your - of your presence. Everybody is sort of -
- H.M.Jr: Well, I mean, I'm a very frank person, and it seemed to me that when you wanted it before, people like, you said, Mr. Watson and Mr. Gerard seemed to object - now what - what difference is there this week that there wasn't last week?
- H: Well, except for the fact that we wanted more time to work on it, and we had several preliminary matters to get out of the way, including the President's own schedule.
- H.M.Jr: Yes.
- H: We wanted it at a time when he could make the speech.
- H.M.Jr: Yes.
- H: And he felt that if we had it this week, he couldn't possibly do it from out there.
- H.M.Jr: But your idea is just to have me come up there and sit there like a -
- H: No, what - if you ask me really frankly, what we'd like to have you do, we'd like to have you make a little talk.
- H.M.Jr: Yes. Well, let me talk it over with some of my people here -
- H: All right.

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- H.M.Jr: - and I'll give you an answer this afternoon.
- H: Well, I'd appreciate that very much.
- H.M.Jr: Are you going to be around?
- H: Yes, sir, I'll be at the Committee this afternoon.
- H.M.Jr: Well, supposing I say that I'll call you at 4:30?
- H: Well, that will be perfectly fine.
- H.M.Jr: But I - I sort of got the feeling that some of the people up there just as leave not have me, and it's such an effort on me, and that -
- H: Well, as a matter of fact, everybody up here feels that the dinner - that the one chief thing in the dinner is having you present.
- H.M.Jr: Well, you sound as though you've been associating with diplomats.
- H: (Laughs). Well, no, but that - that's the feeling. I talked this morning to Joe Kennedy and to several others of them.
- H.M.Jr: Yes. Well, how does the President feel?
- H: He - he was very anxious. He was the one who particularly - spoke to me particularly insistently.
- H.M.Jr: I see.
- H: And -
- H.M.Jr: In other words, he has sold you to me.
- H: Yes, yes, he did.
- H.M.Jr: He sold me to you?
- H: Yes.
- H.M.Jr: Me to you. Well, let me think it over because, as I say, I don't - I got the kind of feeling that somebody up there didn't want me and -
- H: Well, that's - if that's the case, I've not run into it at all because I've been in on the thing right from the beginning.

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H.M.Jr: Yes.

H: And I've not heard the slightest inkling of that sort.

H.M.Jr: Yes.

H: Yes.

H.M.Jr: Well, the way I feel, I'll call you at 4:30 -

H: All right - fine.

H.M.Jr: If I do go up there, I mean, it would be silly for me to sit there and not say something.

H: Yes. Well, I think so, too. I mean that's the thing - I just hesitated to ask you because you seemed a little doubtful about coming and, of course we want you to come even if you don't make a speech. But we - the President particularly wanted to have you make a talk.

H.M.Jr: Yes. Well, I'll - I'll talk it over with some of them here.

H: Yes.

H.M.Jr: Is that definite now?

H: That's absolutely definite for the 23rd. Yes, sir, at the Waldorf-Astoria.

H.M.Jr: The 23rd?

H: Yes, that's Friday night.

H.M.Jr: Well, that's a Friday. That's a week from this Friday.

H: A week from tomorrow night.

H.M.Jr: Right.

H: Thank you, sir, very much.

H.M.Jr: Thank you.

H: All right.

October 15, 1936  
11:25 a.m.

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H.M.Jr: Hello?

Operator: Governor Harrison.  
George

Harrison: Hello?

H.M.Jr: Hello, George?

H: Hello, Henry.

H.M.Jr: How are you?

H: I'm first rate, thank you.

H.M.Jr: George, I want to - are you - are you so that  
you can talk for a few minutes?

H: Yes, absolutely.

H.M.Jr: Good.

Now there are a couple of things which have come  
across my desk this morning. The first thing is  
this matter of the Central Bank of Switzerland.

H: Yes.

H.M.Jr: And I want to tell you how I'm figuring on handling  
it. I don't know how - whether the answer has gone  
back - I mean, I don't know just what the exact  
status is between your shop and mine, but let me  
tell you how I feel about it, see?

H: Yes.

H.M.Jr: Now, we've set the pattern here at - I mean, at the  
direction of the President - that these negotiations  
should be carried on between the Treasuries through  
diplomatic channels, you see?

H: Yes.

H.M.Jr: And in the case of Switzerland and in the case of  
Belgium -

H: Yes.

H.M.Jr: - which are the two ones which have gotten to me so  
far - I want to follow the same pattern which I  
followed with England and France, see?

- H: Yes.
- H.M.Jr: And under - which you are now familiar with.
- H: Yes.
- H.M.Jr: If and when we do come to an agreement with the Secretary of Treasury or the Minister of Finance, whatever they call the gentlemen in Switzerland and Belgium, and then work it out - then we turn it over to the Federal Reserve in New York as our fiscal agent.
- H: Yes.
- H.M.Jr: But I - I want to continue doing this thing and continue to consult my other two partners before I make any moves.
- H: I see.
- H.M.Jr: And I feel that it's a tremendous advantage to England and France to have us do that. Fortunately, we have two oceans on either side. They don't.
- H: Yes.
- H.M.Jr: And it's a great advantage to them; and I think to democratic form of Government in the sense of its usual use and not the party sense, if you know what I mean.
- H: Yes.
- H.M.Jr: Now I took the thing up with the State Department this morning, and I've gotten their approval to let Cochran talk in Paris to the Swiss and to the Belgians, you see?
- H: Yes.
- H.M.Jr: And I want to follow exactly the same pattern as I followed with England and with France.
- H: Yes.
- H.M.Jr: Now, I just wanted to let you know, and until we can work it out with the Governments -
- H: Yes.

H.M.Jr: - I want to sit tight.

H: All right.

H.M.Jr: Now -

H: But I think what we'll do is just to send a cable that we referred the matter to the Treasury Department now.

H.M.Jr: Yes, yes. Now, I understand others have come in, but they're coming so fast that I haven't got time. I hear that something - Archie just told me about Sweden and something - some country - Bulgaria. But I'm going to take it one at a time -

H: Yes.

H.M.Jr: - and I certainly feel that the fact that we were very careful in these other two has been - so far has shown -

H: Well, we'll do it any way you want.

H.M.Jr: Well, I just wanted to explain it to you, and -

H: Yes. Well, I'm - I'm much obliged to you and -

H.M.Jr: Now - now, just one second. I also want you to know that we're keeping Eccles and Ransom informed at this end what we're doing -

H: Yes.

H.M.Jr: - so that they know.

H: Good.

H.M.Jr: And that keeps - I mean as far as I am concerned, the Treasury, it keeps our relations with yours legal and, as far as I know it's satisfactory to them.

H: Yes. Well, that's first rate.

H.M.Jr: But I wanted to make that clear.

H: Yes, well there's no question as to our legal position. We're your fiscal agent, and we go ahead no matter what anybody says.

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- H.M.Jr: Well -
- H: But it helps me, on the other hand, if you do keep them informed.
- H.M.Jr: Well, what I'm trying to do to the best of my ability is to keep the Federal Reserve Board happy and the State Department happy, see? And up to now I think I've been able to do both.
- H: Yes.
- H.M.Jr: And I don't want - I mean, the thing is so much bigger than any individual that I don't want it to be tripped up by an individual, if you know what I mean.
- H: Yes.
- H.M.Jr: And - because I - nothing is - if I never have any other part in anything else since I have come to Washington or in the future, I think this is the biggest opportunity that I've had.
- H: Yes.
- H.M.Jr: And I'm very hopeful that what's going to happen over the next year or so. Don't you feel -
- H: Well, I think it's - it's leaning that way any way.
- H.M.Jr: I mean, I don't - time will tell.
- H: Yes.
- H.M.Jr: But in the meantime, I want to say again - Knoke is doing a grand job.
- H: Oh, he's - he's a great fellow.
- H.M.Jr: And would you feel free this way - after all, he knows minute to minute what we're doing because he's doing it for us.
- H: Yes.
- H.M.Jr: Now if something comes up that you feel is a mistake, I wish you'd call me on the phone and tell me so.
- H: All right, I shall.

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- H.M.Jr: Now, I mean, the fact that I don't call you every hour doesn't mean that I don't want your advice because I do.
- H: All right, Henry. Well, I'll do it. You saw I did it the other day.
- H.M.Jr: Yes. Now, if something comes up that you feel is a mistake, you tell me.
- H: Yes, all right. I shall.
- H.M.Jr: And I'll appreciate it.
- H: All right. I shall, indeed.
- H.M.Jr: Now, are we all in the clear?
- H: Yes, we're all in the clear, and I'm watching it carefully because I keep in touch with both Bob and Knoke continuously.
- H.M.Jr: Well, now, you feel that up to date everything is all right - I mean this week?
- H: Oh yes. I think it's going on very well now. I hope you can settle these other fellows pretty quickly because they may get stuck.
- H.M.Jr: Well, I - I - I've already phoned Cochran.
- H: Yes.
- H.M.Jr: And I told him that his formal authorization from the State Department would get there the way it usually does, in four or five hours, but not to wait for it.
- H: Yes (laughs).
- H.M.Jr: And - but I - I didn't want to lose four or five hours.
- H: Yes. That's first rate.
- H.M.Jr: And it would mean a day on account of the difference in time.
- H: Well, I hope you'll be able to work it out with them even though they haven't got a Stabilization Fund.

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- H.M.Jr: Now, I'm glad you brought that point up. At my press conference, I made it perfectly clear that we'd have to try and suit the pattern to the situation.
- H: Yes.
- H.M.Jr: But I am not going to say that because a country has not got a stabilization fund that we'll not do business with them.
- H: No, and I understand in some countries they're much better off not having one.
- H.M.Jr: But each country has to do its own job in its own way.
- H: Yes.
- H.M.Jr: And what we want is - this is the way I feel - that what we're trying to do is - is through currencies smooth out the way so that we can have world recovery in business.
- H: That's right.
- H.M.Jr: All we can do is to do it, and I'm not going to stick on the letter of the law. I mean - I don't mean that - I mean as to the method.
- H: Yes.
- H.M.Jr: And if Belgium has one situation and Switzerland has another, - now this evening, I don't know what they want - the Secretary of the Treasury of the Argentine has sent his representative. He's coming in this afternoon, which will be the first South American country to come in.
- H: Yes.
- H.M.Jr: And -
- H: Say, some of these fellows won't be able to afford a stabilization fund.
- H.M.Jr: No, but if, let's say we should make a deal with Belgium without a stabilization fund, then they'll say, 'Well, if you'll do that with Belgium, will you do it for us?' And the answer would be 'yes.'

H: Yes.

H.M.Jr: What?

H: Yes.

H.M.Jr: But the thing that we want is; we want to know that we're doing business with the Government -

H: Yes.

H.M.Jr: That's the point.

H: Yes.

H.M.Jr: And - but - we want them to have the -

H: The way - the way you can handle that is Government or duly constituted Governmental agency.

H.M.Jr: Yes, but I mean we want to have it - take Belgium, I mean, or Switzerland, we want - I don't know what - the Prime Minister of Belgium - we want his word that he's backing it.

H: Yes, yes. That's right.

H.M.Jr: You see what I mean?

H: Yes.

H.M.Jr: And if it's a question of giving up gold, we want to know if the Prime Minister of Belgium will O.K. it.

H: Yes.

H.M.Jr: - And will his Cabinet O.K. it.

H: Yes.

H.M.Jr: You see?

H: That's right.

H.M.Jr: Because they could perfectly well put in restrictions which would keep us from getting it.

H: Yes, that's right.

H.M.Jr: Isn't that true?

H: Yes, quite right.

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H.M.Jr: So I'm trying to keep my feet on the ground, and my attitude is I need all the help and advice I can get, so don't hesitate please to call me.

H: All right, I shall, Henry.

H.M.Jr: Thank you very much.

H: It's first rate, and thank you for calling me.

H.M.Jr: Thank you.

October 15, 1936  
12:12 p.m.

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Joseph P. Kennedy: How are you?

H.M.Jr: Oh, I'm pretty well. How are you?

K: Are you only pretty well?

H.M.Jr: Well, they've been pushing me a little hard.

K: Well, what the hell? You're making history, boy. You're doing big things, and this is just a lot of hot water in the snow.

H.M.Jr: Right. But I'm - I can't help but be happy.

K: You should be.

H.M.Jr: Joe, I was just talking - early in the morning Stanley High called me - and then I was talking to Steve Early, -

K: Yes.

H.M.Jr: About my coming up there a week from Friday.

K: Yes.

H.M.Jr: And I hear that you're the nigger in the woodpile.

K: Well, I - why am I the nigger?

H.M.Jr: Well, I understand that you think I'd be all right up there.

K: I think you'd be marvelous.

H.M.Jr: Well -

K: I mean I think that if they can't get the President they ought to get you.

H.M.Jr: Well, that's damn nice of you, but I - you know I do this so seldom, I'm terribly afraid -

K: Well, Henry, I'll tell you what the trouble with the thing is now. I mean let's not be kidding ourselves about it.

H.M.Jr: Right.

- K: This thing is a God damn important thing that you've done.
- H.M.Jr: Yes.
- K: And there's no God damn - I mean it's all right to be going along, and having people say, 'Well, what the hell - he's down there and he won't come out, and I mean he's afraid all the time that he doesn't want to take the spotlight away from somebody or something like that,' but that's the same kind of thing that's God damn bad for the job as Secretary of the Treasury.
- H.M.Jr: I see.
- K: I mean if you weren't the retiring kind of a guy you were, this thing would be blazing. Now I talked to the editor yesterday of the biggest Paris paper -
- H.M.Jr: Yes.
- K: - who asked me to write an article. Winston Churchill is writing on England, and I'm writing one on the political situation here, -
- H.M.Jr: Yes.
- K: - and he told me that he thought that if France would say that you had saved it -
- H.M.Jr: Yes.
- K: Now God damn it, he didn't have - he wasn't going to see you, and he didn't figure I'd ever see you -
- H.M.Jr: No.
- K: - and he told me that. Now I think, Henry, that if the President of the United States can't be here that you should be here, and I think that you ought to do it for yourself, for the job that you've got, and the job that you've done, and your family. I mean, for Christ's sake you've got to stop being down there and only seeing people once in awhile. I don't care what you do - just let them look at you.
- H.M.Jr: Yes.
- K: I mean but you can rally around. You can say - well, you can point to the things that have been done, and

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you'll get enthusiasm, and I'll underwrite it.

H.M.Jr: Yes. Well, now, that's - I appreciate that more than I can say.

K: Well, it's true, Henry.

H.M.Jr: Well, you know the - well, you know how I work and -

K: I know how you work and I know the feeling, and I know - I know exactly what you've done, and I know all that better than anybody else here. I mean twice - I mean you know that I'd just as leave say 'ass-hole' as I would say you're a great guy.

H.M.Jr: Yes.

K: But I tell you that this - this thing has gotten beyond people. They don't know what the hell has been done for them.

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

K: Yes.

H.M.Jr: I can give one of two speeches.

K: Yes.

H.M.Jr: I can give a talk about this foreign thing -

K: Yes.

H.M.Jr: - or I can give a speech which has not yet been given -

K: Yes.

H.M.Jr: - and that is - at least I don't think it has been - I could talk about taxes and inflation.

K: Yes.

H.M.Jr: And we crossed this bridge last January when we decided to ask for taxes rather than to borrow the money to pay for the bonus, etc., and so on.

K: Yes.

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- H.M.Jr: Now which do you think would be more effective?
- K: Well, Henry, I - of course, I think that the second would be - would probably be more effective, but the first one would be - I mean would still have - would be statesmanlike. I mean, to me, I would pick the one whichever I felt that I could handle best with.
- H.M.Jr: Yes.
- K: But either one of those things will be sensational.
- H.M.Jr: Well, which one do you think ought to be most effective for the President?
- K: I think the second one.
- H.M.Jr: You mean the -
- K: The one on - the one on taxes and budgets.
- H.M.Jr: Yes.
- K: And, by the way, I'm going to give our pal Ray a kick in the ass today.
- H.M.Jr: Yes.
- K: You saw where he took us - you and me - over the humps this morning?
- H.M.Jr: Yes. Well, I had my regular press conference, and do you know what I told them?
- K: No.
- H.M.Jr: I said, 'Now off the record,' I said, 'I'm not going to get into an argument with a fellow who doesn't know his French.'
- K: That's right.
- H.M.Jr: 'Now,' I said, 'Mr. Mellon and Mr. Ogden Mills established the method of our keeping the books, -
- K: Yes.
- H.M.Jr: - 'and if we call it a - let's call it a non-partisan method of keeping the books, -

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- K: Yes.
- H.M.Jr: - 'and Mr. Moley doesn't know his facts and I'm not going to get into an argument with a man who doesn't know what he's talking about.'
- K: Well, I think you were very gentlemanly. My opening remark was, 'Ray should confine himself to running economic conferences in London.'
- H.M.Jr: (Hearty Laughter)
- K: (Hearty Laughter)
- H.M.Jr: But if you want to use that, you could say it's a non-partisan method of keeping books -
- K: Yes.
- H.M.Jr: - because the method was laid down by Mr. Mellon and Mr. Mills.
- K: Well, of course, Henry, between you and me, he can scarcely add a column of figures let alone talk about Government bookkeeping.
- H.M.Jr: I know.
- K: And between you and me also, all these fellows - Mr. Vincent Astor sent word to me yesterday that he didn't want to be in this situation.
- H.M.Jr: Who shouldn't?
- K: Vincent - Mr. Vincent Astor.
- H.M.Jr: He doesn't want to be in on it?
- K: No.
- H.M.Jr: You mean he doesn't want to come to the dinner?
- K: No.
- H.M.Jr: Yes.
- K: If that isn't a pain in the ass.
- H.M.Jr: Well, listen -
- K: Yes.

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H.M.Jr: If I decide to come up there --

K: Well, listen now boy, they can put this dinner over, and be the biggest thing -

H.M.Jr: Yes.

K: - I'm telling you that next to the President, you're the best card they've got.

H.M.Jr: Well, I'm -

K: The boss is here - I mean he called me on the phone himself -

H.M.Jr: Who?

K: The boss did.

H.M.Jr: When was that?

K: Just five minutes before he got on the train.

H.M.Jr: Yes, and he wants me to go up there.

K: And he says - well, he didn't say that - he said, 'You go ahead and put this on - I - it's more important to me.'

H.M.Jr: Yes.

K: And I've been trying to stall along with him all week, and he wants this thing done -

H.M.Jr: All right.

K: And he said, 'Anything that's necessary.' As a matter of fact, he was - he suggested that four members of the Cabinet come up.

H.M.Jr: Yes.

K: And I said, 'No, we'll take this one.'

H.M.Jr: Yes.

K: 'You can take the other three and put them out in the country.'

H.M.Jr: O. K. All right. Well, on your say so, I'm coming now.

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K: Well, Henry, I mean positively - I mean I'll see that the God damn - that it'll be - I mean if I don't do a good job for you boy, don't ever speak to me.

H.M.Jr: Yes. Well, listen -

K: What?

H.M.Jr: I'll tell you what I think I'll do, if you think well of it. I'll send Steve Gibbons up there and let him spend a couple of days on this.

K: That's swell.

H.M.Jr: Because, after all, we have three collectors of internal revenue and a couple of collectors of customs, and let them get busy.

K: That's swell. That's swell, Henry.

H.M.Jr: What?

K: Oh, that's marvelous because his pal, Eddie Moore, is here and they'll get along great.

H.M.Jr: Well, I mean, I'll let Steve go up there and spend enough time up there, and let some of these collectors get busy.

K: That's great.

H.M.Jr: What?

K: We - that'll be fine, Henry. We'll have - and listen -

H.M.Jr: Yes.

K: - if you're coming and going to make a speech, I'll underwrite the crowd, don't worry.

H.M.Jr: Well, I'll come now.

K: Yes.

H.M.Jr: I'll come.

K: And there - and I mean it'll be a hell of a job in either one of those you state - and even if you brought in the second, Henry, don't - don't miss the fact of putting in - don't miss the fact to put in

- 8 -

about the foreign thing, because everybody is tipping their hat to that.

H.M.Jr: Well, I'll talk it over here. Are you going to talk?

K: Well, I'm going to introduce you and the boss.

H.M.Jr: Good enough.

K: Yes.

H.M.Jr: There's no one I'd rather have introduce me.

K: Well, I'm going to introduce you and the President.

H.M.Jr: All right.

K: I'll take care of it boy.

H.M.Jr: All right. Well, I feel much better now.

K: All right - don't you worry. I mean it'll be just nice and peaceful and calm, and we can - anything you want - think about - I'll take care of everything.

H.M.Jr: O.K.

K: All right, Henry.

H.M.Jr: Thank you.

K: All right, boy.

October 15, 1936  
3:00 p.m.

162

H.M.Jr: Hello?

Operator: Governor Harrison.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello?  
George  
Harrison: Hello?

H.M.Jr: Hello, George.

H: Yes, Henry.

H.M.Jr: They said you called me.

H: Oh, well, I just called - after I first talked to you - to take advantage of your suggestion that I might call you.

H.M.Jr: Please.

H: It came to me in the case of Belgium -

H.M.Jr: Yes.

H: - that you might want to put them in a different category from the other group anyway -

H.M.Jr: - Yes.

H: - on the theory that they are a gold standard country, and that the telegram merely confirms that fact, that they are still operating.

H.M.Jr: Yes.

H: And that it isn't necessarily, therefore, agreements one way or the other, that they should get their gold from us only on the old basis - under the old original license.

H.M.Jr: Well, it makes - it makes it awfully difficult to explain. Let's say eventually, say in a couple of weeks, we're doing business with 10 countries on one basis and Belgium on another, see?

H: Yes.

- H.M.Jr: - and, after all, we have to keep explaining all the time so that the people in the - can understand what we're doing, -
- H: Yes.
- H.M.Jr: - and if we're doing business with 10 countries on one basis and Belgium on another, they're going to keep asking me twice a week, 'Well, why?'
- H: Yes.
- H.M.Jr: It's awfully hard to explain.
- H: Yes. Well, of course, -
- H.M.Jr: I mean -
- H: - looking toward the time when you'll get what you want; that is, if they become stabilized on gold as you are -
- H.M.Jr: Yes.
- H: - then you'll want to go in reverse anyway. Supposing France should go back on her old gold basis at the new rate.
- H.M.Jr: Yes.
- H: There would be no occasion to keep up the new arrangement - you'd just keep up the old arrangement.
- H.M.Jr: No, but what I'd like to do - I mean, we've done nothing, but I'd like to do is to do business with everybody on the same basis.
- H: Yes.
- H.M.Jr: In other words, I'd like to be a one-price house.
- H: Yes. Well, when you go into reverse -
- H.M.Jr: Yes.
- H: - you'll have to do it on two different bases because it's not likely that they will all go back on a gold standard the same moment any way.
- H.M.Jr: No, but in the interim -
- H: Yes.

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H.M.Jr: - it's much easier to explain one method.

H: Yes.

H.M.Jr: It's hard enough to explain that, but I - I get what you have in mind.

H: You see my point?

H.M.Jr: And I think you see what I have.

H: Yes, I see perfectly. I just wanted to be sure that -

H.M.Jr: It's awfully - we - we had a big discussion here on this thing, and we just feel that for the time being, one month or three months, whatever it is, or a year, we'd like to do business with the rest of the world on a similar basis.

H: Yes.

H.M.Jr: Now, after all, we consult our partners in this thing and they may feel differently about it.

H: Yes.

H.M.Jr: You see what I mean?

H: Yes. Well, all I wanted to be sure was that you didn't - hadn't done anything or say anything that might give to the world or to Belgium your judgment that Belgium is not on a gold standard.

H.M.Jr: No, no. No, no.

H: You see what I mean?

H.M.Jr: No. I'm not saying what kind of a standard anybody is on, except ourselves.

H: Yes, yes.

H.M.Jr: And don't ask me that too closely.

H: Yes.

H.M.Jr: But -

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H: I mean, they may think they are and they may think that this telegram is a confirmation of that.

HMJr: No - well, I don't know, but I think in Cochran we have about as good a man as we could have. And when he talks face to face with him he'll find out just what they have in mind.

H: Yes, that's all right. I just wanted to be sure that you had that other point in mind.

HMJr: No, you - you call me once, twice or three times a day -

H: Yes

HMJr: Any time you get an idea I wish you'd call me.

H: All right, sir, I will. - Henry, I'm going to be in Washington tomorrow; I won't come near you unless you want me.

H.M.Jr: Well, I certainly do want you. When do you get in?

H: Well, I am going down late tonight some time.

HMJr: Well, you - you go - you go up through

H: Yes

HMJr: Why don't you - I get in here about nine, I - why don't you call me between nine and nine-thirty?

H: I'll call you in the morning between nine and nine-thirty.

HMJr: Will you do that?

H: Yes

HMJr: Thank you.

H: First rate.

HMJr: Goodbye.

H: Goodbye.

Thursday  
October 15, 1936  
4:27 p.m.

186

H.M.Jr: Hello?

Operator: Stanley High -

H.M.Jr: Hello -

Operator: Go ahead.

H.M.Jr: Hello  
Stanley  
High: Hello, Mr. Secretary -

H.M.Jr: Hello

H: Yes, sir

H.M.Jr: Can you hear me all right?

H: Yes, sir - fine.

H.M.Jr: Well, I've been doing a little consulting -

H: Yes

H.M.Jr: And after consulting I've decided I'll be glad to come up.

H: Well, that's perfectly swell!

H.M.Jr: And - - amongst others, I mean, I talked to Steve Early and I've talked to Joe Kennedy and now - I suppose you'd like to know what I'm going to talk about?

H: I certainly would, that'll be a big help.

H.M.Jr: I suppose, I don't know, that the thing that they're most interested in is this question of stabilization.

H: Well, yes - if we could tie that up some way to deafen taxation and inflation it would be a good idea too, I think.

H.M.Jr: You - you - you want, you like that thing that I talked to the President about?

H: Yes - well, Joe told me that he had a hunch about a subject - I don't know whether he -

H.M.Jr: Well, I talked, I don't know - I could talk about taxes and inflation or I could talk upon this question of stability and peace in commerce - I don't care.

-2-

H: I think the - I think that the "Taxes and Inflation" makes a better subject for the reason that all the talk that you hear over here is the inevitability of inflation and so forth.

H.M.Jr: I see.

H: Yes

H.M.Jr: I see.

H: I'm not a very good judge but that's my guess and I think that's what Joe felt.

H.M.Jr: Yes - well, what I'm trying to do is to promote - to be of help.

H: Yes, sir, well - yes - Well, I think my - it's just my superficial reaction, Mr. Secretary.

H.M.Jr: It would be "Taxes and Inflation"?

H: Yes - yes

H.M.Jr: Well, all right, I can touch on the other thing as well, maybe, I don't know ...

H: Yes, absolutely -

H.M.Jr: Now, as to the time, I like - I won't talk more than fifteen minutes, I think that's plenty.

H: All right.

H.M.Jr: What?

H: Yes, I think that's a good time.

H.M.Jr: Don't you?

H: I think that's very good, yes, sir, because I think that - I don't care who the speaker is - more than fifteen minutes is difficult.

H.M.Jr: Well, there's three or four times that I've talked on the radio since I've been here, I've kept myself to fifteen minutes.

H: Yes, well I think that's good strategy.

H.M.Jr: And - as to the announcement I'll leave that to you, huh?

-3-

H: Yes, sir - all right -

H.M.Jr: Now - then you'll let me know about the time and all that sort of --- ?

H: Yes, sir, I'll give you all the particulars.

H.M.Jr: Now - is that for men only?

H: No, no, I should say not. We - decidedly not.

H.M.Jr: Yes

H: The men have their wives.

H.M.Jr: Oh -

H: - or anyone else they want to bring.

H.M.Jr: Well, I - well, I think that - I think Mrs. Morgenthau will come along with me.

H: Delighted to have her and of course we'd want her to sit at the table.

H.M.Jr: And so if you'd keep her in mind -

H: Yes, sir

H.M.Jr: Now the other thing that I told Joe was this, as long as I'm to do this I thought that I'd ask Steve Gibbons to go up and pitch in and help.

H: Oh, that would be fine.

H.M.Jr: And -

H: - a great help.

H.M.Jr: He has a lot of connections with a lot of people up there if he just get to work and go to it.

H: Well, I think it would be a great asset to us.

H.M.Jr: And - as I understand it, the President is going to speak and Kennedy is going to introduce the President and then introduce me, is that -?

H: That's right, yes, sir.

H.M.Jr: Are you going to have any other speakers?

H: No, I don't think there'll be any - I don't believe that there'll be any other speakers.

-4-

H.M.Jr: Yes - now, have you got any suggestions as to who might work with me on a talk like that?

H: Oh, let's - now, let's see - of course it's a pretty specialized subject, as far as the phraseology goes -

H.M.Jr: Yes

H: May I think about that until - and call you tomorrow?

H.M.Jr: Will you do that?

H: Yes, I will.

H.M.Jr: Now, don't forget about it.

H: No, sir (Laughs), I won't.

H.M.Jr: All right.

H: All right.

H.M.Jr: All right.

H: Thank you very much.

H.M.Jr: Goodbye

H: Goodbye

Thursday  
October 15, 1936  
4:27 p.m.

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HMjr: Yes  
Dr.  
Pearson: You remember a week ago when I was down, we discussed the material that you wanted me to go over?

HMjr: Pardon me?

P: I say you - we discussed the material that you wanted me to go over some time.

HMjr: Yes

P: Would it be all right for me to come down on - be there Friday and Saturday or Monday and Tuesday, which would be better?

HMjr: Well, Monday -

P: All right.

HMjr: Because our boys are so tired that if they can have Sundays off I let them have Sundays off.

P: Surely - well, I'll be down there Monday and Tuesday.

HMjr: All right, that'll be fine.

P: Doctor Warren sends his best wishes.

HMjr: Thank you - mine to him.

P: We've read with interest - the monetary policy worked all right.

HMjr: Good

P: All right, bye bye

HMjr: Goodbye

Thursday  
October 15, 1936  
4:27 p.m.

Knoke: Knoke -

HMJr: Now, Knoke, how are you behaving?

K: Oh, perfectly -

HMJr: Perfectly?

K: The market is entirely - is very quiet -

HMJr: Yes

K: - with no tendency one way or the other -

HMJr: Yes

K: And it certainly doesn't in my opinion call for any intervention at all.

HMJr: No, no - no, I haven't -

K: Yes

HMJr: And everything else is nice?

K: It's - I think it's today so very very - the way it should be.

HMJr: Fine - all right, thank you.

K: All right, sir.

Thursday  
October 15, 1936  
4:27 p. m.

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HMjr: Hello?

Operator: Stanley High -

HMjr: Hello -

Operator: Go ahead.

HMjr: Hello

Stanley High: Hello, Mr. Secretary -

HMjr: Hello

H: Yes, sir

HMjr: Can you hear me all right?

H: Yes, sir - fine.

HMjr: Well, I've been doing a little consulting -

H: Yes

HMjr: And after consulting I've decided I'll be glad to come up.

H: Well, that's perfectly swell!

HMjr: And - - amongst others, I mean, I talked to Steve Early and I've talked to Joe Kennedy and now - I suppose you'd like to know what I'm going to talk about?

H: I certainly would, that'll be a big help.

HMjr: I suppose, I don't know, that the thing that they're most interested in is this question of stabilization.

H: Well, yes - if we could tie that up some way to deafen taxation and inflation it would be a good idea too, I think.

HMjr: You - you - you want, you like that thing that I talked to the President about?

H: Yes - well, Joe told me that he had a hunch about a subject - I don't know whether he -

HMjr: Well, I talked, I don't know - I could talk about taxes and inflation or I could talk upon this question of stability and peace in commerce - I don't care.

H: I think the - I think that the "Taxes and Inflation" makes a better subject for the reason that all the talk that you hear over here is the inevitability of inflation and so forth.

HMjr: I see.

H: Yes

HMjr: I see.

H: I'm not a very good judge but that's my guess and I think that's what Joe felt.

HMjr: Yes - well, what I'm trying to do is to promote - to be of help.

H: Yes, sir, well - yes - Well, I think my - it's just my superficial reaction, Mr. Secretary.

HMjr: It would be "Taxes and Inflation"?

H: Yes - yes

HMjr: Well, all right, I can touch on the other thing as well, maybe, I don't know ...

H: Yes, absolutely -

HMjr: Now, as to the time, I like - I won't talk more than fifteen minutes, I think that's plenty.

H: All right.

HMjr: What?

H: Yes, I think that's a good time.

HMjr: Don't you?

H: I think that's very good, yes, sir, because I think that - I don't care who the speaker is - more than fifteen minutes is difficult.

HMjr: Well, there's three or four times that I've talked on the radio since I've been here, I've kept myself to fifteen minutes.

H: Yes, well I think that's good strategy.

HMjr: And - as to the announcement I'll leave that to you, huh?

H: Yes, sir - all right -

HMjr: Now - then you'll let me know about the time and all that sort of --- ?

H: Yes, sir, I'll give you all the particulars.

HMjr: Now - is that for men only?

H: No, no, I should say not. We - decidely not.

HMjr: Yes

H: The men have their wives.

HMjr: Oh -

H: - or anyone else they want to bring.

HMjr: Well, I - well, I think that - I think Mrs. Morgenthau will come along with me.

H: Delighted to have her and of course we'd want her to sit at the table.

HMjr: And so if you'd keep her in mind -

H: Yes, sir

HMjr: Now the other thing that I told Joe was this, as long as I'm to do this I thought that I'd ask Steve Gibbons to go up and pitch in and help.

H: Oh, that would be fine.

HMjr: And -

H: - a great help.

HMjr: He has a lot of connections with a lot of people up there if he just get to work and go to it.

H: Well, I think it would be a great asset to us.

HMjr: And - as I understand it, the President is going to speak and Kennedy is going to introduce the President and then introduce me, is that -?

H: That's right, yes, sir.

HMjr: Are you going to have any other speakers?

H: No, I don't think there'll be any - I don't believe that there'll be any other speakers.

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HMjr: Yes - now, have you got any suggestions as to who might work with me on a talk like that?

H: Oh, let's - now, let's see - of course it's a pretty specialized subject, as far as the phraseology goes -

HMjr: Yes

H: May I think about that until - and call you tomorrow?

HMjr: Will you do that?

H: Yes, I will.

HMjr: Now, don't forget about it.

H: No, sir (Laughs), I won't.

HMjr: All right.

H: All right.

HMjr: All right.

H: Thank you very much.

HMjr: Goodbye

H: Goodbye

Thursday  
October 15, 1936  
4:35 p.m.

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HMJr: Hello  
Gordon  
Rentschler: Hello, Mr. Secretary, how are you?

HMJr: Oh, I'm fine.

R: Gordon Rentschler speaking -

HMJr: Yes

R: I called back to tell you that we've thoroughly checked the whole situation again today.

HMJr: Yes

R: And there's no excitement in it at all and everybody now seems to understand.

HMJr: Fine

R: I think the editorial in the Times yesterday was very constructive.

HMJr: Yes

R: Did you see it?

HMJr: Well, I guess I've read it but it didn't make a particular impression. I just don't happen to . .

R: Well, it was all right, and that plus the other things that have been done I think have got it all in the clear.

HMJr: Yes

R: It's moving very smoothly as far as we can see.

HMJr: Well, as far as the commercial end of it - ?

R: Yes, the commercial end is moving very smoothly.

HMJr: Yes

R: And our customers aren't concerned about it now they think they understand what it's about.

HMJr: They do?

R: So that I - I don't think you need to give it

very much more concern. I don't believe there'll be much more discussion about it.

HMJr: Well, I think when you consider - two and a half weeks before Presidential election and that we had the nerve to take the move - I think that there's - I would say that the comment was excellent.

R: Yes, I think it's all right; I don't think you need to concern yourself about it a lot --

HMJr: I mean, when you . . .

R: I've asked Leo to keep me closely in touch and if anything does break out well, let me know.

HMJr: Well now, let me ask you this. Have you seen any, from your customers, any decided pick-up or falling-off in any particular direction with any countries?

R: No, nothing in particular as yet.

HMJr: I mean . . .

R: I think it's a little too early for that.

HMJr: I mean that they didn't get any orders particularly from one place or sell any - that there's any particular shifting in the channels of trade.

R: No, I don't think so as yet. I think it's a little bit too early to see that registered.

HMJr: You do?

R: Yes, I think the first thing you would see would be orders being placed and then you'd begin to get it in the money market afterwards.

HMJr: Yes, but I mean, you haven't seen it yet with your commercial accounts?

R: No, with - no, nothing in that so far.

HMJr: Yes

R: But I don't think there is any question about fellows making plans to begin to work on a more positive basis.

- HMJr: On a more what?
- R: On a more positive basis. I think some of the directors take commitments for business abroad -
- HMJr: Yes
- R: I think you've got to let them have a week or two to soak in.
- HMJr: Yes, well -
- R: I rather expect to see that start some time after the election, don't you?
- HMJr: Well, I don't know, this thing has moved so much faster than I ever thought it would move that - just how quickly people take commercial advantage of a thing I don't know.
- R: Oh, they'll move into it pretty promptly, but -
- HMJr: But, certainly --
- R: I mean by "promptly" a month, rather than a week.
- HMJr: Oh, yes - Well, that would be prompt, I mean . . .
- R: That would be very prompt.
- HMJr: When you consider how many years we've had behind us with nothing like this.
- R: Oh, yes - Then of course, too, there's still a lot of fear on what's going on in places like Spain -
- HMJr: Yes
- R: - and France; and then hearing these reports about something in Peru which we understand cannot be confirmed.
- HMJr: Yes
- R: But there's a lot of - there's a lot of unrest with relation to business abroad, you know?
- HMJr: Oh yes, oh yes -
- R: I think this is constructive in the right direction, it worked out just as well as we thought it would.

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HMJr: Yes - we laid the foundation last . . .

R: Remember, I was overly optimistic at one stage of the game, but I think it was right.

HMJr: Yes, well we laid the foundation in June.

R: Yes, I think it's all right.

HMJr: Yes

R: But if there's anything that goes askew or if you see anything that you want us to check why give us a ring.

HMJr: Well, I just wanted to make sure that everybody who is doing business between countries understood it and you tell me they are.

R: Yes, I think they do now.

HMJr: Well, that's fine.

R: I think - I think it's all right.

HMJr: Thank you very much.

R: All right, fine.

HMJr: Goodbye.

R: Bye bye.

Friday  
October 16, 1936  
10:48 a.m.

Joe  
Kennedy: Hello

HMjr: Hello

K: Good morning, Henry.

HMjr: I'm talking over the leased wire so it's not so clear, see?

K: Yes, all right, Henry.

HMjr: Now, I just talked to Stanley High and I guess we're all set, see?

K: Fine

HMjr: And I told him this - and I'm going to try and look to you, Joe, on this, rather than Stanley - -

K: You are going to try what, Henry?

HMjr: I'm going to try and look to you on this thing.

K: All right.

HMjr: Now, I told him this, that I didn't want any title, see? - I mean, as to what I was going to talk about.

K: Yes

HMjr: Because I don't want to check my hand.

K: I see.

HMjr: Don't you think so?

K: Well, all right, we can - I think we do - all we ought to say is that anything coming from the Secretary of the Treasury ought to be sewed up as a very interesting subject.

HMjr: Well, I mean I think, after all, this is the first public dinner I've ever talked to.

K: Yes

HMjr: It's the first --

K: - on that basis.

- 2 -

HMjr: And it's the first time I've ever - it's the one and only campaign speech -

K: Yes

HMjr: And I've never talked to a banquet before - in three and a half years.

K: Well, that's good for you.

HMjr: I'm glad to come, but I just wanted to tell you.

K: Well, I'll take care of it, boy, you will go back out of this when you will be perfectly satisfied or we won't have the dinner.

HMjr: Right - now, Steve Gibbons of course is asking, he said, where can he find you on Monday.

K: He'll be in New York Monday?

HMjr: Yes

K: Why, well will he give me a ring?

HMjr: Well where?

K: At my office.

HMjr: Well, he don't know where that is.

K: It's in Rockefeller Plaza.

HMjr: Oh -

K: - Steve's got it there on his desk anyway.

HMjr: I see.

K: He's had enough letters from me.

HMjr: All right. Well, he'll be up there Monday and he's going to put his shoulder and he says that we'll help.

K: Well, Henry, that's swell. But I'll have all these plans in your hands by Sunday so you can see the whole picture and the whole story and then we make whatever changes are not perfectly okay.

HMjr: How are you going to get them to me?

K: What?

- 3 -

HMjr: How are you going to get them to me?  
K: Well, are you going to the country?  
HMjr: No, I'm staying right here.  
K: I'll have them down there to you  
It'll be a Special Delivery.  
HMjr: Do you want to write down my house address?  
K: Yes  
HMjr: Twenty two-0-one -  
K: Twenty two-0-one?  
H.M.Jr: R -  
K: R street?  
HMjr: Right  
K: All right, it'll be there in your hands and you'll  
have the whole picture for the country and every-  
thing.  
HMjr: Now, what I'm going to do is, I talked it over with  
my father last night and then with my wife and I'm  
going to stick my neck out and try and lay this  
bogeyman, inflation, under the ground.  
K: That's a marvelous talk, -  
HMjr: See?  
K: - a marvelous talk.  
HMjr: I'm going to talk about inflation and why we -  
the whole business; and I'm going to go right  
after it.  
K: That's great, Henry.  
HMjr: Now -  
K: Well, how much time do you want to talk?  
HMjr: Well, High just called me and he said they've got  
thirty minutes only.  
K: They've got how many?  
HMjr: Thirty minutes on the radio.  
K: Yes, well, the Boss has got fifteen and I think

- 4 -

you'd probably only take ten.

HMjr: Yes - well, I told him - before he told me I said I thought I'd need thirty. Well, he said he didn't think I could have it.

K: Yes

HMjr: But he said I could have twenty minutes.

K: Yes

HMjr: But, I -

K: The Boss feels - the Boss feels that, I mean, I know how he feels about speeches; he figures that that's a hell of a long time to make a speech. He says that when he - even when he goes a half an hour he finds he's too long.

HMjr: Well, - I -

K: But that's a hell of a lot of work to try and cover twenty minutes, Henry.

HMjr: Well, I don't want them to take more than thirty minutes on the radio.

K: Yes

HMjr: And, I mean, all - but if they'll just tell me whether I get fifteen minutes or sixteen minutes - whatever they tell me I'll - I won't go --

K: Well, why don't you take - if you want to, take twenty?

HMjr: I'll do the job in twenty.

K: Twenty minutes?

HMjr: Yes

K: That's swell, Henry.

HMjr: And I won't pull a "Frances Perkins" on you either.

K: Oh, the hell with that.

HMjr: You know what she did?

K: Oh, she - (Laughs) talked sixteen minutes over?

- 5 -

HMjr: Yes

K: Yes, well we - that's all right, if you talk twenty and the Boss talks fifteen, that's okay.

HMjr: Well, whatever you tell me, Joe, I'll keep within it to the second.

K: Well, start on twenty minutes now and then I'll - if there's any change I'll call you this afternoon, so you ought to know today.

HMjr: Oh, hell, if I know Monday it's time enough.

K: Well, I know, but I'll let you know today.

HMjr: All right. Now, Steve's coming up there and . . .

K: Well, I - I'm going to - I'll talk to your dad too, will he be in town?

HMjr: Yes

K: Well, I'll talk to him.

HMjr: He's in town now.

K: Yes, well, I'll have a talk with him and then we'll see that everything is set here.

HMjr: Right

K: All right, Henry.

HMjr: And it's going to be at the Waldorf?

K: That's right. And Mrs. Morgenthau will be up?

HMjr: Yes

K: All right, well, tell El we'll save her whatever table she wants.

HMjr: Well -

K: I mean, as to what - and your dad too -

HMjr: Righto

K: All right, Henry.

HMjr: Thank you.

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K: I'll take care of it and you'll hear from me.

HMjr: I'll bet you.

K: All right.

HMjr: Goodbye.

October 16, 1936.  
3 P.M.

Knoke: (Laughing) I'm sure he didn't answer. (More laughter)

H.M.Jr: No, he didn't answer. Everything quiet.

K: Terribly quiet. It's so quiet that I haven't found I should bother you at all.

H.M.Jr: Good.

K: There's no - London told me there was no turn-over there; there is no turn-over here.

H.M.Jr: Good.

K: Yes.

H.M.Jr: Well I have no suggestions.  $89\frac{1}{4}$  is it or what?

K:  $5/16$ ths bid.

H.M.Jr:  $5/16$ ths.

K: Yes, and the only change in the trend is that Francs are a little offered which would help sterling.

H.M.Jr: A little what?

K: On the offered side.

H.M.Jr: And that would help sterling.

K: Yes, that would - if anything ....

H.M.Jr: Well up to now we don't have to watch Francs, do we?

K: No - well we should watch everything I guess.

H.M.Jr: I know. Well it will be interesting now to see what happens with the Belgians and the Swiss.

K: Yes (Laughs)

H.M.Jr: We can sit - I don't think we'll hear anything before Monday.

K: Oh no, I'm sure of that

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H.M.Jr: No. All right.

K: Very well sir.

H.M.Jr: Good-by.

K: Good-by.

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October 16, 1936.  
3:08 P.M.

Present: Mrs. Klotz  
Mr. Upham  
Mr. White  
Mr. Bell  
Mr. Haas  
Mr. Taylor  
Mr. Seltzer  
Mr. Murphy  
Mr. Gaston  
Mr. Oliphant

H.M., Jr.: Now, who has anything to show for this?

Oliphant: Here's this.

H.M., Jr.: This is from Oliver Wendell Holmes: "Every exaction of money. . . ." That isn't it. "Taxes are what we pay for civilized society, including the chance to insure. A penalty on the other hand, is intended to prevent the thing punished." That isn't it. He must have said something else.

Oliphant: I think that's the quotation. There it is.

H.M., Jr.: Do you mind having your man call up Justice Stone's secretary?

Oliphant: Be glad to.

H.M., Jr.: That isn't what it was. If necessary, we'll quote Justice Stone.

Oliphant: Did Stone mention it to you?

H.M., Jr.: Yes. If we can't quote Holmes, quote Stone.

Oliphant: I'll get it.

H.M., Jr.; Now, who else is ready?

Gaston: Well, I just had some thoughts about the general organization of this, and started to type out a sort of introduction to it.

I thought we ought to concentrate on two things. That is, your statement that a crisis was reached,

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a decision of great importance was made, when the President made his statement that we must not have any additional expenditures outside of the budget unless we provided revenue to pay them, and that if we should lose any revenue as a result of the action of the Supreme Court we should have to have a compensating revenue; and discuss what that meant in the whole budget picture. And then, in that discussion, refer back to the opportunities for inflation financing that the President had and that he decided not to use. And then, some discussion of the essential soundness of the position in which we find ourselves now and the adequacy of the tax structure to meet and - to meet expenditures and to reduce the public debt quite rapidly, without being too specific about when the budget is going to be balanced or how soon we are going to show a surplus.

And then some reference could be made to the evidences that the people have already decided that the financial situation of the Government is sound by the manner in which they are going ahead with business, the manner in which they are investing in Government bonds, and the evidence that Europeans think it is sound, the point that George brought up about the investments in American dollars and American securities, and so on.

And that would lead you into a discussion of the international picture and these negotiations, which I think are of very great importance and ought to be a part of the speech.

H.M., Jr.: What about this thing of starting where we were, and where are we now, and where we are going?

Gaston: I thought that you ought to start by saying that you are not going to make a political campaign speech, for several reasons, the first of which is that others, especially the President, are doing that very adequately, and all of the other reasons are that it isn't necessary, with some intimation of the fact that the campaign is all over and what you want to talk about is what the

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direction of our fiscal policy is because you think they'll be interested in it. And no attempt to deal in detail with the record because it is superfluous.

- Taylor: "I won't give you any figures, because they speak for themselves."
- Bell: Is this a political gathering before whom you are speaking?
- H.M., Jr.: Supposedly not. Under the auspices of this Good Neighbor League. It's the same thing as Mr. Hull went up and talked to about a month ago, you remember.
- Gaston: And I think you ought to say a little something about tax theory in your discussion of taxes, the justice of the idea of taxation according to the ability to pay.
- H.M., Jr.: I said that, but I don't want to go beyond that.
- Gaston: Just a little explanation of what that means.
- H.M., Jr.: Do I understand, George, that you are going to do one?
- Haas: Yes. We are not finished yet. Seltzer was writing one. Murphy was writing one. Some of the rest of us too. We're going to marry the several ones in our shop and then we thought we'd bring in one to you.
- Gaston: That's not a broad enough word. Meld, I think, is the better word.
- White: Marry is a better one, because it will probably be pulled apart later.
- H.M., Jr.: What?
- Klotz: Pulled apart later.
- (laughter)
- White: Merely a realist.
- H.M., Jr.: And you're doing one (to Upham)?

Klotz: It's done.

Upham: No, no. I just have the first three pages. But it moves along pretty much in line with what Mr. Gaston has said.

H.M., Jr.: Is your shop doing one (to Oliphant)?

Oliphant: My shop is getting that legislation together.

H.M., Jr.: And that's all.

Oliphant: I'm passing on some tax cases today.

Upham: I think it would make some difference whether it is being broadcast.

H.M., Jr.: It is.

Gaston: It is being broadcast?

H.M., Jr.: Yes.

Upham: That's unfortunate.

Bell: I like that.

H.M., Jr.: They've got 30 minutes, said they think the President will take seven, give me twenty.

Seltzer: Eight or ten typewritten pages, double-spaced?

H.M., Jr.: Don't go on pages. I give you now two thousand words.

Gaston: That's not thirty minutes.

Bell: Twenty minutes.

H.M., Jr.: They've got this time on, and the President is going to use, they say, from seven to ten minutes' time himself.

Gaston: And they only have a half hour's time?

H.M., Jr.: Half hour's time coast to coast.

Gaston: Two thousand is enough then.

H.M., Jr.: Plenty.

Upham: Better than thirty.

H.M., Jr.: What do you mean?

Upham: You can say the right amount in just twenty minutes.

Gaston: Upham means it's better for his purpose than for my purpose that it is twenty.

H.M., Jr.: This is a tough crowd. Now, let me get this thing. You are working on this (to Upham). Your crowd is doing something (to Haas). Bell is getting the figures, whatever I need.

Bell: Yes, I'm getting it.

H.M., Jr.: Herbert's going to have a speech. Right? Well, shall we say ten o'clock Monday morning?

Gaston: . Yes.

H.M., Jr.: Is that too soon.

Haas: No.

Gaston: Ten o'clock tonight if you want it.

Seltzer: Won't be all done by ten o'clock, will you?

Oliphant: Well, no golf tomorrow; it's raining.

Klotz: Aren't you going to work it out over the weekend?

H.M., Jr.: I just didn't want to crowd them too much.

Klotz: They seem ready.

Gaston: Do you want to meet tomorrow night, or tomorrow afternoon, or give up any time on it.

H.M., Jr.: Four o'clock tomorrow afternoon. Would that keep anybody from going anywhere.

Gaston: No.

H.M., Jr.: I don't need everybody. I wouldn't think of having you (to Oliphant).

Oliphant: For this relief, much thanks.

H.M., Jr.: Who will come Friday - Saturday, at 4 o'clock?

Haas: Well, our gang can come, but don't you think. . . .

Bell: I've got football tickets.

White: I need more time than that.

Haas: The trouble is that pinches us quite a bit. Herbert could do it in a half hour, but we're out of our water a little bit. But we'll have something.

H.M., Jr.: When will you be ready? Let's put it that way.

Haas: Your first suggestion would leave us more latitude.

H.M., Jr.: All right, that's plenty of time. Have I anything, Mrs. Klotz, Monday?

Klotz: No.

H.M., Jr.: Keep the time on Monday morning free.

Bell: Mr. Secretary, I have a War Department hearing for all the Army officers and their friends to come over. I can't very well get out.

H.M., Jr.: Can't you give me any figures?

Bell: I can give you my figures. I don't really need to sit in on this conference Monday. I'll furnish the figures to fill in the blank spaces whenever they get ready.

Klotz: Is that part of your speech (to Upham)?

Upham: This is the beginning, yes.

H.M., Jr.: Did you bring it to read it?

Upham: Oh, I'd rather not.

(hearty laughter)

H.M., Jr.: Go ahead and read it. Let's see how it sounds.

Oliphant: Yes, let's have a little entertainment. I move he stands up.

H.M., Jr.: If you come in with a piece of cake in your hand, you don't expect people just to look at it.

Oliphant: I move he stands up.

Bell: Will you hesitate when you want to propose?

Klotz: I tell you, this is a tough crowd.

Upham: I'll compromise. I'll read the first three paragraphs. Is that all right?

H.M., Jr.: Go ahead.

(Upham reads speech, and discussion continues. . . .)

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H.M., Jr.: Go ahead and read it. Let's see how it sounds.

Oliphant: Yes, let's have a little entertainment. I move he stands up.

H.M., Jr.: If you come in with a piece of cake in your hand, you don't expect people just to look at it.

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Bell: Will you hesitate when you want to propose?

Klotz: I tell you, this is a tough crowd.

Upham: I'll compromise. I'll read the first three paragraphs. Is that all right?

H.M., Jr.: Go ahead.

(Upham reads speech, and  
discussion continues. . . .)

October 16, 1936.  
3:40 p.m.

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H.M.Jr: Hello

Yes.

H.M.Jr: Hello Mr. Parker

P: How are you?

H.M.Jr: Very well and you?

P: Everything seems to be fairly serene at the moment.  
How do you feel about the situation?

H.M.Jr: Well (Laughing) I happen to be very optimistic.

P: Yes, well I am too.

H.M.Jr: Mr. Parker, I took the liberty of asking Mr - your friend Mellett whether I could call on your generosity. Has he spoken to you?

P: Yes he told me in a general way -

H.M.Jr: - Yes.

P: - what it was about. Here's my situation. I'm likely to have to go up to New York Monday afternoon or evening and be gone for two or three days...

H.M.Jr: ...Oh

P: But I wanted to ask you - when do you expect to have your manuscript completed on that or in rough draft?

H.M.Jr: Well I just went over it with the boys here and, on account of their needing to do so much research on it, we weren't going to meet again till 9:30 Monday morning.

P: 9:30 Monday morning.

H.M.Jr: Yes.

P: It might be possible to go over the thing maybe Monday afternoon if they have it in some sort of form. I'd be glad to if I don't have to make that trip up there.

H.M.Jr: Fine.

P: Suppose I just wait to hear from you and if I have to duck out why you'll understand.

H.M.Jr: Well would you go up on the midnight?

P: I might go on the midnight or I might take a rather late afternoon train.

H.M.Jr: I see.

P: Now I've got one suggestion.

H.M.Jr: Please.

P: If I'm not here and Tom Stokes, who is out with the President, happens to get back.

H.M.Jr: Yes.

P: I think maybe you'd like to talk to Tom about that.

H.M.Jr: No - no.

P: I think he's followed the ball a little bit more closely on the inflationary phase of the thing than I have.

H.M.Jr: Well it - Tom Stokes is all right but he isn't Parker.

P: Well that's very flattering of you but I - you know when you get to talking about money I kind of feel like Frank Vanderlip who said, "nobody knows anything about it".

H.M.Jr: Well I can ascribe to that but ..

P: Like general philosophy, eh?

H.M.Jr: But we'll have the facts and figures and what I want is somebody who is not in the Treasury, who knows how to write and knows English and who knows the country will take a look at it. You see, we're so close to this thing.

P: Yes, I get you.

H.M.Jr: I mean - we're so close and what I -- and they squeezed me pretty dry here in the last two months.

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- P: I imagine it's been pretty wearing on you.
- H.M.Jr: I'm quite sure I'll have something for you early in the afternoon Monday.
- P: All right, I'll just wait to hear from you.
- H.M.Jr: But I'll give you a ring before noon Monday.
- P: That'll be fine, or if you want it, if it's not - perhaps it would be more convenient for you to call me, say, around two-thirty or three o'clock in the afternoon.
- H.M.Jr: All right.
- P: Then if you've got it together, I'd be glad to duck over there and talk with you.
- H.M.Jr: Fine, and thank you very much for calling.
- P: O.K. Say, there's just one thought.
- H.M.Jr: Please.
- P: I don't think the inflationary stuff that Frank Knox and the rest of them have been trying to build up, including Hoover, has gone over.
- H.M.Jr: I see.
- P: And I'm just wondering whether any speech on inflation might not kind of put the Administration in the position of accepting an issue that hasn't been made.
- H.M.Jr: I see.
- P: Now, that's just a very broad, general thought, and I may be just as wrong as a man can be on that. I know it does stick with a lot of people like - oh, for instance, our treasurer is kind of worried about that, you see - with financial people, perhaps. But the great rank and file I don't believe react to that at all, and sometimes when you start denying something it has the effect of building it up. Now, that's just a general

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thought in connection with the question of the speech and how it's prepared, and so forth.

H.M.Jr: Well, I think that's very important. The people - you see, what they're trying to do, they have this Good Neighbor League, you know. . .

P: Yes.

H.M.Jr: And Mr. Hull went up there two or three weeks ago and made a speech - not too popular, if you remember.

P: Right.

H.M.Jr: And the thought was that I'd come up and talk to the same group, and they're trying - what they'll have is the so-called business man.

P: Yes.

H.M.Jr: And they in New York feel that these men are worried.

P: I see.

H.M.Jr: Now, I don't know; I don't get around enough. But I'm certainly going to think about what you say.

P: Just one other thought.

H.M.Jr: Please.

P: The price level has never got back to where it was in 1929.

H.M.Jr: That's right.

P: And the person who borrowed money, for example - or, for instance, to simplify it down, suppose I'd been in the fortunate position of having a million dollars in three percent Government bonds in 1929; I would have had an income of thirty thousand dollars a year, which by 1933 had turned into an income, in terms of purchasing power, of about sixty thousand, pretty near double.

H.M.Jr: That's right.

P: Now, that is certainly unfair to the payor of that.

H.M.Jr: Yes.

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- P: And the inflationary thing doesn't stand up, in my judgment, just on the grounds that we haven't had it, and until we get back, say, to the 1926-1929 level, what the hell? - the debtor is on the losing side of the thing.
- H.M.Jr: I see.
- P: And it might be pretty well simplified down to that price index thing.
- H.M.Jr: Uh huh.
- P: At least, that, if I were writing the speech, would be one point that I'd try to simplify and spell out.
- H.M.Jr: Uh huh.
- P: Outside of that, I don't have any immediate thought on the subject, but I will be very glad to talk with you Monday if I don't have to go up to New York in the afternoon.
- H.M.Jr: Well, thank you very much.
- P: Thank you.
- H.M.Jr: Goodbye.
- P: Goodbye.



HMjr: Yes

K: It certainly is. I - I don't know how the Guaranty figure it; I take it that they got - they got it from the - an account of the position from abroad, probably from England.

HMjr: I see.

K: But the one half per cent discount for a whole year is a remarkably small discount and speaks very well for the status of sterling.

HMjr: Yes - well, should I sit here until about five minutes of five?

K: Well, I - (Laughs) I wouldn't if I were you.

HMjr: You wouldn't?

K: No (Laughs)

HMjr: Anything around now?

K: Still a small amount offered at five sixteenths and the bids - - -

HMjr: I'm sorry, there was just an automobile passed, I couldn't hear it.

K: I say, we have still a small amount offered at five sixteenths -

HMjr: I see.

K: And bids are in the market at a quarter.

HMjr: Yes, well that's all right.

K: That may change, but I don't think it will change substantially.

HMjr: Have you talked to the Bank of England today?

K: Yes

HMjr: Well, what was the news?

K: Very quiet, they are - they were losing - the Bank was losing gold about five hundred thousand pounds a day -

HMjr: Yes

K: Which, of course, is very insignificant.

HMjr: Yes, and what about the French?

K: Well, I didn't speak to them, but they're - they did two hundred thousand dollars today which is an indication of the very small and orderly market.

HMjr: Yes - I wish Monday that you'd begin, when you talk to these people - various people who talk to you - find out whether there is any particular pick-up anywhere in either imports or exports for anybody; could you do that?

K: Yes

HMjr: I mean, for instance, whether any people are - or their buying from, say, Czechoslovakia has been accelerated, I mean, or if anything - particular shifts in the imports or exports due to this devaluation.

K: Yes, I can ask the question, but I think it's too early, Mr. Secretary. Those reports don't reach through that - don't go through that far.

HMjr: They don't?

K: No, I don't think so.

HMjr: Well, begin to ask here and there a little bit Monday, will you?

K: Yes, I will, yes.

HMjr: You know what I mean?

K: Yes, I - I think I understand what you have in mind.

HMjr: Simply this, if Woolworth's, say, shift in their buying, let's say from Japan or Germany to Czechoslovakia to Italy or vice versa, or something like that, you know?

K: Yes

HMjr: See?

K: Yes, I think I understand what you have in mind.

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K: But probably, you won't be disappointed if I can't get anything?

HMjr: No, I will not.

K: All right, sir.

HMjr: All right.

K: Goodnight

HMjr: Goodnight.

Thursday  
October 15, 1936  
4:55 p.m.

Operator: Mr. Knoke

Knoke: Yes, Mr. Secretary.

HMJr: Well, now, how are you putting that closing on?

K: A half bid - nine sixteenths offered

HMJr: Well, that's all right.

K: Yes, I think it's --

HMJr: And we didn't do a thing.

K: Not a thing; nor did the British today.

HMJr: Nor did the British?

K: No.

HMJr: What about the French?

K: Well, the French, he told me over the telephone he had bought about a million dollars by noon time and I'm still waiting for his cable giving the final figure.

HMJr: But the British didn't do anything and we didn't?

K: That's right.

HMJr: Well, that's ---

K: All the British did was to offer fifteen bars of gold in the London market this morning which is equivalent to support of sterling.

HMJr: Yes, well, I'd say that was the mini- that's almost doing nothing.

K: Surely, - I said - - that shows - I mentioned it merely because I think it shows the intention.

H.M.Jr: Right - thank you.

K: All right, sir.

H.M.Jr: Goodbye.

October 16, 1936.  
9:15 A.M.

Present: Mrs. Klotz  
Mr. Upham  
Mr. White  
Mr. Bell  
Mr. Haas  
Mr. Taylor  
Mr. Murphy  
Mr. Seltzer  
Mr. Oliphant  
Mr. Gaston

H.M., Jr.: Dan, I want you to sit in on this because - if you haven't got the time, I want you to put somebody in on it.

I'm going to give a speech Friday night a week.

Bell: Friday night a week?

H.M., Jr.: A week from Friday night.

Bell: O.K., well, that's a lot of time.

H.M., Jr.: Hello, Herman; sit down. Waiting for you.

Oliphant: I appreciate your confidence.

H.M., Jr.: What I have asked you gentlemen to come in here for - and lady - is this: I'm giving a speech a week from Friday night. I've blocked it out very roughly. I've gone about two thirds of the way. The last third I haven't attempted. It is still very rough, and there's certain places where I need statistics. Because - you know how I work; when I get all through, I don't know how much I'll use.

Can you hear all right?

Seltzer: Not as well as I might.

H.M., Jr.: Why don't you move up here.

The main thing I want to attempt to do in this speech - I have talked to other people and I think it is one of

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principal blind spots as far as the campaign issues go from the financial standpoint; and that is this question of inflation. That's what I'm going to talk about, this question of inflation. Nobody's tackled it and I want to tackle it, and I'd like it to be as letter perfect as our letter to Senator Vandenberg.

I'm going to block it out for you, and then this young man will make copies and we'll give you each a copy. We'll meet again at 3 o'clock, and each of you know where the missing parts - each of you people are going to have to furnish me something.

Now, this is the way I want to start; it's very rough:

"Let us take an inventory of the nation's business: One - Where were we at three years ago, namely, March 4, 1933?"

And right there, George, what I want to put in is, for instance, the Federal Reserve production index. I mean we'll get more statistics than we need and we'll look again. I mean I'm talking physically, you see? The Federal Reserve index, stocks index, Moody's index, commodity index. I'm going to give you more than I need. But the things that go into our arriving at our revenue - imports and exports; I don't know whether they go in.

Haas: National income.

H.M., Jr.: The trouble with national income is I've used different figures from the President and I'm not going to use the same figure that he did.

Haas: The Cleveland Trust Company has a monthly figure which reaches a low in March, 1933. It hasn't been used by anybody, and certainly that source is not biased for the New Deal.

H.M., Jr.: Don't they immediately throw that back in the face of the President?

Haas: It's monthly. It's not comparable with the yearly figures.

H.M., Jr.: What?

Haas: Not comparable with the yearly figures.

H.M., Jr.: Anyway, it's your group's job to give me figures that a business man can understand - to take a cross-section - as I put it, an inventory of the nation's business (that's what I'm calling it) as of March 4, 1933. See?

Now, I don't know what goes into it. I don't want it complicated, not too many figures. I don't want to use the figures the President uses on income because they have been discredited and I can't use the same figures he did; and they weren't accurate. And I'm not going to use a different set of figures and set myself up against the President.

Now, first, "inventory of the nation's business."

Two - "Where are we at now?" See?

Three - "Where may we hope to be three years hence?" I don't know - two years, three years, as far as a couple of years - I don't know just what to say.

Oliphant: Does that mean hope to be, plan to be, or should be, or probably will be?

H.M., Jr.: Probably will be - based on the estimates, the best estimates that we can do. See? Huh? I mean - that is, George will. See? I go back to where we were, the nation's inventory, the nation's business three and a half years ago. I know what's been done, but I want to do it a little bit different. I want to put in those figures, the figures that we use to arrive at the Treasury estimates of income.

So we have - Where are we at now? Where may we hope to be blank years from now? See?

Then I next want to trace the financial and fiscal legislation that has been placed on the books during these past three years.

Oliphant: How about the part that was turned down by Congress?

H.M., Jr.: Just don't - just withhold that a minute, will you?

Oliphant: Yes.

H.M., Jr.: Let me give you the framework, and we'll go back. I mean I want to have yours later.

Now, I want to trace the financial and fiscal legislation that has been placed on the books. I got at it the other way. I was going to show what we did use and what we didn't use. What Oliphant wants to say is the things that we suggested and they didn't take. But I don't know. Anyway, trace the financial and fiscal legislation placed on the books.

Oliphant: If I could interrupt just once more, Henry... What I had in mind was not what we recommended and they didn't do, but what people tried to get through down there and the Democratic Congress didn't pass.

H.M., Jr.: We'll keep that in mind.

Oliphant: That was the thought.

H.M., Jr.: What financial steps, or what fiscal steps, have we taken to bring about recovery? What have we done? What parts of the inflationary legislation placed on the books of Congress have we not used?

Next, what has it cost the country to prime the pump? Now, the thing that I want there is a little different figure than has been used before. I want to start with our net debt position as of March 3. By that I mean the little money that we had - if it was 20 billion; I don't know what it was. I mean whatever we had left in the cash. And I don't think - I don't know whether you want to subtract the recoverables or not. Just take the debt position less whatever cash - what we owed on that and that debt, rather (to Bell). You can do it both ways and see how it looks for me. See what I mean?

Bell: Yes.

H.M., Jr.: Then take the picture now, whatever the similar picture is. Now our gross debt, 34 billion, less our cash.

Bell: Including the stabilization?

H.M., Jr.: No, and I'll tell you why; I'll tell you why not in a minute. In between that gap, whatever it is - 11 or 13 billion, whatever it is - I then want to subtract from that; as I say, it is 13 billion; I want to subtract the figure that has gone into, as we count it, permanent improvements, and then get a figure of the money for which we have nothing to show - in other words, how much have we given away? See? How much have we given away?

Now, I think that that figure - this is my guess - that the money that has been given away, that hasn't been invested in America, will be something around 5 or 6 billion. It's very small. But that's what I want to get from the people in the room. Do you see what I mean?

Bell: Uh huh.

H.M., Jr.: Now, what I want to say is this: How much does it cost to prime the pump? And it's the money we've been giving away; that's the interpretation, unless you fellows say I'm not thinking straight.

Then I say: Has it been worth while? Have the results justified the means? How have we financed the cost of recovery? See?

There have been two methods, two roads that we could take to finance recovery. One was the inflationary, the "printing press" method, and the other has been to borrow through interest-bearing securities in the orthodox manner, plus raising, increasing our revenue through taxes.

Now, I want to say here. . . Wait a minute; I've got ahead of myself. Wait a second. I got the wrong page. How are we financed? And I say. . . I got this - I'll have to go back on this thing. How might we finance?

I say this: How might we finance through existing legislation? Sketch the various methods that we

could have used.

Then I say: We chose the orthodox, conservative method.

Now, this is the whole key of my speech: When did we pass the financial crisis in this country? See? Then - We passed that crisis on the day that the President of the United States, in January or whenever it was, made up his mind that he would finance the increased burden which was thrown on him through the Supreme Court - three A's and the Soldiers' Bonus. And then I want to dramatize that picture, the decision that the President had to make, which road he was to choose. Which road was he going to choose? Every politician, of course, advised him, in the face of election, not to dream of proposing a tax bill. Instead of that, we could have increased our borrowings or used the various inflationary methods we had at our disposal.

Then I say that the time to worry about inflation is ten months behind us. We crossed that bridge last January. Just as you gentlemen know, we are not worrying about "What's the dollar going to be worth tomorrow?" You were worrying about that two years ago, not today. So I say: You people who hold insurance policies and you people who hold mortgages, and you who have money in the savings banks, we crossed that bridge ten months ago.

Now, if President Roosevelt had decided to take the inflationary method. . . This is where I get it. We could have used 2 billion 8 of our profit on gold; we could have used 3 billion of commerce currency, which makes it 5 billion 8; and we could have increased the silver seigniorage to \$1.29, and that was another 500 million. And he's had at his disposal all the time 6 billion dollars that he could have spent, and he hasn't touched one penny of it, and - I hope I am right - that 6 billion dollars which he's had, which he could have spent, equals, more or less, the money that we have had to give away. See? That's the point that I want to get at. That's why I don't want to bring in the credit of 2 billion on the debt. You get the point?

Bell: Uh huh.

H.M., Jr.: I'll just read what I've got here, you see. I'll go back here again on this thing; I want to get it.

I say: Have the results justified the means? How did we finance the cost? How might we have financed through existing legislation (meaning inflation)? We chose the orthodox, conservative method.

When did we pass the financial crisis in the country? Last January, when the President decided to pay for three A's and the bonus through taxes and not by using inflation. It took guts to do that. That crisis is ten months behind us, not before us. We have chosen the tax method, based on the ability to pay, rather than the inflation method.

Then I want to say: No one in this audience will disagree with me as to that decision. They undoubtedly will disagree as to kind of taxes. No one likes taxes. See?

Now, I may or may not go into this, but I want the facts: On whom do the increased taxes fall? See? The 1932 tax, the 1932 Hoover tax bill - he claims it - on top of the depth of the depression, they increased the taxes on the following classes. Now, that's all here, and Helvering has given it to us, hasn't he, Mrs. Klotz?

Klotz: Yes.

Gaston: I have it all.

H.M., Jr.: You have it?

Gaston: Yes, yes.

H.M., Jr.: Now, I want something on that. I want to show - don't want too many brackets - but I want to show that in 1932, the man - that since 1932, the 1934, '35, and '36 tax bills passed under Roosevelt - the man from somewhere about \$25,000 down pays

less; from 25 to 50, he pays a certain percentage more; from 50 to 100 - certain brackets I want to put that in. You have these figures and I'll get somebody to tabulate them.

Then I may want to say this: We have heard a lot about the recent tax bill, and I wanted to satisfy my own curiosity as to just how much it did hurt. So I have taken, I have asked the Bureau of Internal Revenue to take a cross-section of the three hundred sixty richest men and women in America. We have those, but don't give them the names, you see. In this group income averaged in 1932, the taxable income, let us say, averaged one hundred thousand. Their taxes - they paid fifty thousand dollars taxes and they had left fifty thousand dollars. In 1933 the taxable income was so many hundred thousand dollars; they paid so much taxes, an increase, and they had left so much; they still had more left. And it goes right up to 1935. And this shows that, notwithstanding the fact that each year this group paid more taxes, at the end of the year they had more left to spend than they did before. So, while you have paid your government more money, you've got more left in each of the last three years than you had the preceding years to spend.

Now, whether I want to use that or not I don't know. But those figures are there. Mrs. Klotz has got them and they have to run them through a machine to average them up, you see. Will you take care of that, George?

Haas: Yes.

Oliphant: Did they include the tax exempt income of these people?

H.M., Jr.: Well, you'll have to see the figures. It's the taxable income. No, it's simple, you see.

Oliphant: Yes.

H.M., Jr.: Now, I want to say this: We in the Treasury have never taken the position that we know or had the last word on taxes. And therefore, immediately after election, I'm going to follow the same procedure that I did when I was with Governor Roosevelt

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in New York, when the Governor appointed an Agriculture Advisory Commission to study the agricultural problems of the State. That board, incidentally, was composed of 21 members, 18 of which were Republicans. What has happened to the man and woman who lives in the rural districts of New York is well known to everybody in the State. That Commission was a success. I happened to be Chairman of it. Immediately after election, I am going to invite men and women who represent all walks of life to volunteer their time to advise me on taxes, and we will be very glad to receive the advice from anybody in this room, as to who should comprise the membership of this. The only requirement for a member of this board is that the man or woman who sits on it wants to serve his country.

Now let's take a look at the future. How are we going to pay for the priming of the pump, and who is going to pay for it? The record of Mr. Roosevelt's administration for the last three and a half years has proved definitely that his methods, that the fiscal methods which he has followed, both in bringing about recovery and paying for it, are both conservative and have been successful; so that there is every reason for you to have full confidence that these same methods will be followed during the next four years by President Roosevelt.

The President and myself are just as anxious and desirous - if not, and I believe more so than anybody in this audience or in America - that we balance the budget just as fast as is humanly possible to do so, and just as fast as business recovery will produce the revenue with which to meet the expenses of the government.

Our estimates in the Treasury for the next fiscal year show a revenue - that we can reasonably expect a revenue of 7 billion dollars.

Bell: Next year or this year?

H.M., Jr.: Was it this year?

Gaston: '38.

- Haas: It begins July 1 this year.
- H.M., Jr.: 7 billion dollars; isn't that right, George?
- Haas: It's 6 and 9, something like that.
- H.M., Jr.: Well, approximately 7 billion dollars. O.K. I'll match you for the difference.
- Haas: It's very conservative, so I think it will be over 7 billion dollars when it works out.
- H.M., Jr.: We estimate that our ordinary expenditures will be approximately X billion. The only sizeable increase in these expenditures will be for the Army and Navy.
- Bell: May have to modify that a little bit.
- H.M., Jr.: What did I say?
- Oliphant: Only sizeable increase will be for the Army and Navy.
- H.M., Jr.: Yes. The only sizeable increase in expenditures, other than Social Security?
- Bell: Well, you have Social Security. As I say, that will be qualified a little.
- H.M., Jr.: All right. I want you to have plenty of time. This thing has to be letter perfect.

Allowing for five hundred million dollars for public works, which this country can and should afford - should and can afford; allowing for a billion dollars for relief; figuring that we will begin to liquidate some of the emergency agencies, I believe it is conservative to say that during the fiscal year beginning July 1, 1938. . .

- Bell: '38?
- H.M., Jr.: '37, '37. - we may expect . . . (Mr. Bell can fill it in.)

Now let's look into the next year, which is more difficult to forecast. But certainly, if recovery continues at the pace, at the same pace, for the next two years that it has during the last two years, it is reasonable to expect a revenue of. . . How much, George?

- Haas: I can't say offhand. We wouldn't have to make that strong an assumption. At the same pace, you'd balance your budget; you wouldn't have to assume.
- Bell: You'd want to show, I think, a substantial surplus in '38, '39.
- H.M., Jr.: Based on a revenue of how much?
- Haas: It's about 8 billion, or it's more than that.
- Bell: Between 8 and 8½, but 8 billion is all right for this.
- H.M., Jr.: All right, we can expect a revenue of over 8 billion - what did I say, beginning July 1, . . . ?
- Haas: 1938.
- Bell: '38.
- H.M., Jr.: '38. So that, barring some unforeseen catastrophe such as a World War or another drouth, I say that it is safe to estimate that we will have a surplus in 19--, in the fiscal year 1938.
- Bell: Say a substantial surplus.
- H.M., Jr.: A substantial surplus.
- Gaston: '39, fiscal year '38-'39.
- H.M., Jr.: Well, that's '38-'39.
- Bell: That's right, fiscal year '38-'39.
- H.M., Jr.: And, going one year further. . . How much do we have there?

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- Haas: Oh, we got up there, including Social Security, over 11 billion; without, it was about 10 billion, as I remember.
- Bell: That was '41.
- H.M., Jr.: Huh?
- Bell: That was '41 fiscal year, wasn't it?
- Haas: Five years from 1936.
- Gaston: It was '41.
- Haas: It was taxes based on the '39 year.
- Bell: That's right, on the fiscal year 1939. I guess it was.
- Haas: That would be '40. Somewhere around it, what I said.
- H.M., Jr.: Somewhere around it.

Well, figuring. . . What I want to get, George, in here is this. What I'd like to get is that we might say by '41 or '42, somewhere in there, or the next five years - I want to say something that goes like this: Your grandchildren aren't going to pay for recovery; your own children aren't going to pay for recovery; you are going to have that privilege. And it is reasonable to say that recovery will be paid for and the public debt reduced by such and such a year.

Now, of course, the President has got to see this thing. He's got to O.K. it. But I'm willing to say that, see?

Now, I want to say: All of this talk about inflation, and raising this question of this "bogyman" - I prophesy - will die down just as rapidly after election as the question "What will the dollar be worth?" has died down today.

Oh, then in this thing I want to say - in part of this thing, as to recovery I want to bring in this question of world stabilization of currencies. See? I want to bring that in. In the future, I

want to say - I realize what I am talking about, in the next four years - I haven't been able to work this thing out, but do you get the point?

Now, what have I got? What I am trying to do is to say:

Where were we three and a half years ago?  
Where are we now?

How much did it cost?

How did we finance it?

We have done it on the orthodox, conservative method.

The President made his decision last January and February, when he decided he'd rather have new taxes rather than use his commerce currency.

That we are going to continue to finance this government on this conservative, orthodox method.

That, based on the present tax structure, which is the strongest this country has ever seen, we are going to pay for recovery and retire the increased debt within the next five or six years.

That this whole thing is based on the ability to pay.

That our philosophy is to pay off our debts when we are making the money, and not when we are losing it.

And that the time to worry about inflation is past.

That we have been able to finance - the very fact that we have been able to finance recovery at a constantly lowering cost, increasing the length of our debt until the debt now, the public debt, is in a more healthy position than it's been any time in ten years, because it is better distributed.

And frankly, gentlemen - and lady - what have we got to worry about?

And then, in closing, I want to bring in that thing, and Herman, you've got it; if you haven't and can't get it from any place else, call up Justice Stone's

secretary - and I want to say that this whole recovery is based on what Justice Oliver Wendell Holmes said so beautifully: "The privilege to pay one's taxes is the price one pays for civilization." I want to close on that.

Now, let me go around. Be very frank. Do you like it, Mrs. Klotz?

Klotz: I like it very much.

H.M., Jr.: Sort of - I mean are you worried about your money, baby bonds, that sort of stuff, ten years hence?

Klotz: No; I like it very much.

Upham: Yes, I like it very much as a whole. There are one or two points that I . . .

H.M., Jr.: Oh well, I know. I mean the thought, is it new? Has it been presented by anybody?

Upham: That date in January around which it all centers is the thing which, it seems to me, is new and to be dramatized.

H.M., Jr.: Incidentally, somebody get hold of Banker Law's speech. Mrs. Morgenthau heard it. He talked about inflation. Can you get it - the one he gave up at the New York Tribune?

Upham: Oh, yes, the New York Tribune speech.

H.M., Jr.: I mean this was the sort of turning point, ten months back.

White.

White: Number one, with some modifications. I'd go much further than Upham, I might say. But, with that, it would be easily the best speech, in content - I don't know in delivery - that has been made in this campaign. It has that possibility. The idea is wholly new.

Oliphant: He thinks the delivery will be terrible.

Upham: You are thinking of it as a speech for the President?

White: Oh no. As I say, the idea, the general simplicity of the outline, and the effectiveness of the points to be made are both novel and approach easily, in my opinion, the most effective and the most important that have been made in this campaign.

H.M., Jr.: White, I'll see that you get an increase in salary pretty soon.

Upham: Can't we start over again?

(very hearty laughter)

H.M., Jr.: O.K. That's marvelous.

Klotz: They'll all have to say they like it now.

White: I'm sticking my neck out, I know.

Bell: Could I be last?

(hearty laughter)

White: Gentlemen, this is most embarrassing.

Oliphant: The interesting thing - you stopped everybody else.

White: What?

Oliphant: You stopped everybody else.

White: You know I never hesitate to disagree with you, Mr. Secretary.

H.M., Jr.: Listen, White, if I thought you were "yessing" on this, if I hadn't heard you tear things apart, I wouldn't say this. All right, got anything more? Oh, he doesn't mind me. Say, everybody in this room heard him go for everybody else. Are you through, White?

White: I have several ideas, but I presume you want this further discussion.

H.M., Jr.: Dan.

Bell: Generally speaking, I think it's grand, but there are a few things I don't know as to whether or not we ought to go into, whether or not we should go as far as. Shouldn't have said that '38-'41; I question that; that's something for discussion.

H.M., Jr.: All right.

George.

Haas: I think the idea is excellent, and I think the Administration has taken an unnecessary amount of punishment on a thing that is in a beautiful defensible position, and I think you have struck on a way of defending it.

I have one suggestion for a close which will take me about a minute to outline.

H.M., Jr.: Go ahead.

Haas: You might say, after outlining your whole financial program - what you have done, what the situation was, what you have done, what the situation is now - "Well, what do the people think about this?" Then quote Landon, the worst sentence you can pick out. Then. . .

H.M., Jr.: No, no.

Haas: What I am coming to is this; you may not want to do that part of it. Then I wanted to bring out this point - that the people of the United States actually have opinions on this; they have represented them by putting up their money on them - coming to the question of buying these bonds, what they paid for them; to develop that dramatically, and what they paid under Hoover. Then say: "Not only the people of the United States, but the people of the world have expressed themselves on this." Then show the money that has come in on it.

H.M., Jr.: Sure, that's good. But I don't - I just want to say this: It's a political speech, but, on the other hand, I want to keep it very dignified, very temperate. I don't want to refer to Landon or Knox or anybody else, don't want to answer Moley. I mean I want to keep it

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absolutely temperate as possible.

Haas: But here is the situation. It is not only opinion, but opinion which has been expressed in terms of money both in the United States and outside.

H.M., Jr.: That's all right; that's good. But I think the thing is to keep it just as temperate as possible. I think the people are tired of in the last week having people boom at them.

Haas: Why, I guess so.

H.M., Jr.: But I think your idea of showing how people have put money on the barrelhead is O.K.

Haas: Here and abroad.

H.M., Jr.: Wayne.

Taylor: I have got one suggestion in addition. I think it is generally swell. That is hidden taxes. There's been much hullabaloo produced, more produced about hidden taxes than anything else - so much for a loaf of bread, so much for this, and the rest of it. Landon has - I've forgotten which speech it was - talked about hidden taxes. I think you can do a nice job on exploding this.

H.M., Jr.: I'm sorry, it's going to be 1500 words, and you can't - if you don't mind my reaction, you're bringing an entirely foreign subject in. I'm not, for instance, going to discuss the merits of the 1936 tax bill. See? But I'm simply going to say it's there, it's producing the revenue, and the President had guts to ask for a tax bill, and nobody likes taxes anyway.

And I'm going on: Is there a man in the room, if I asked him to write me a tax bill - would it be like any other? There would be 1500 different kinds of tax bills.

I simply want to say, my whole thing is this. The speech is this: Inflation or taxes? And we chose

the tax method instead of the inflation method. Now, that's the thing, isn't it, and that's the decision that the President made when he made it. He could have said, "Well, in face of this election, I'm not going to ask for any new taxes to meet this thing. After all, I said on January 5 that we don't need any new taxes unless Congress passes some legislation." The ink on that wasn't dry; it went up at 12 o'clock on a Monday, when the Supreme Court at 12:01 handed down that decision on three A's. Then came the bonus.

And I say, and I honestly believe this - I mean if I didn't believe it I couldn't make it - that that was when we passed the Rubicon on whether we were going to have inflation or coming out of this thing by paying for it and paying for it out of profits. See?

And I don't want to get into this other business. I mean there are two ways - inflation, or paying it, for it, by taxes, and we chose the tax method. Now, do you mind?

Taylor: No, not a bit.

H.M., Jr.: That's a thing. . .

Taylor: I think somebody ought to do this job.

H.M., Jr.: I've got just one idea that I want to get over, and that is that decision which was made, and that thing is behind us, not ahead of us.

White: You say 1500 words, approximately? Going to be awfully difficult.

Taylor: Can't do it.

H.M., Jr.: No, no, we can do it if we cut out the introduction and the finish.

Klotz: You're not going to use a lot of figures.

H.M., Jr.: We've started, Herbert, haven't we, with about six thousand and cut it down.

- Gaston: But I think you've got material here for at least six thousand words.
- H.M., Jr.: I don't know.
- Oliphant: I'd like just to interrupt. The thing he (Taylor) talks about is awfully good. I'd like to have approved a plan to let Bob Jackson work it up and deliver it on a nationwide hook-up.
- H.M., Jr.: Would Bob do it?
- Oliphant: And do it well.
- H.M., Jr.: But this thing I am talking on; I'm going to stick to my subject - inflation or no inflation.
- Seltzer: I think the chief difficulty would be keeping the speech one speech. That is, you outlined quite a few subjects and I don't think you will get them all in in detail in one speech.
- H.M., Jr.: Well, let's try it anyway and let's see. And you can cut it. There's an awful lot of verbiage. After all, I've written the whole speech on four pages. I haven't got 200 words there.
- Seltzer: I don't think it pays to have too many things.
- H.M., Jr.: I've got just one idea.
- Seltzer: About this tracing the history of tax legislation. . .
- White: It isn't really more than one idea. There are several aspects, but it is a unified whole as traced, if you keep away from those details.
- But I dislike the idea of confining yourself to 1500 words. It seems to me that the importance of the subject that you are taking and the fact that you are making only one speech during the campaign certainly warrants something more than 1500 words.
- Klotz: That's right.
- H.M., Jr.: Well, let's see.

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- Gaston: I should think a half hour's speech wouldn't be too much under the circumstances.
- H.M., Jr.: I'm the only speaker.
- White: Easily a half hour.
- H.M., Jr.: There'll be business men from 15 different cities. The President is going to address them on a joint hook-up. Besides the President, I'm going to be the only one.
- Gaston: Is he going to be there, Mr. Secretary?
- H.M., Jr.: No, he's not.
- White: After all, this is the Secretary of the Treasury speaking on financial matters and budgets, the only speech in the campaign that he is making, I presume. I would go so far as to say it might well even, on a speech of that kind, be somewhere between a half hour and 45 minutes.
- Gaston: Don't want to give them too much. Half hour, I think, is right.
- White: A half hour is much more than 1500 words.
- Gaston: About 3500.
- H.M., Jr.: No, I can't do in 15 minutes' radio time, allowing for introduction, more than 100 words a minute. We've been over it so often.
- Gaston: They cut you a minute and a half off.
- H.M., Jr.: But don't forget you might get a little applause because you're talking right there. You don't get any applause on straight radio.
- Gaston: If it's around 3500 words, it's plenty of room.
- White: That's raising the ante.
- H.M., Jr.: Where was I? With you, Seltzer? Through? Murphy.

- Murphy: It's hard to say things that are both new and true, but it seems to me that the idea is great, but that there is a tremendous problem in compression within three thousand words, because there are fundamentally three subjects: the subject of receipts and expenditures, that is, fiscal policy; the problem of inflation and the monetary aspect - for example, the distribution of government bonds, which is really a different subject; and the subject of taxes. If the thing is going to be put into a half hour dose, which is about all the audience can take, it is probably going to have to have a rather sharp concentration on the central theme, centering around that January, 1936, crisis that you speak of, which I think has tremendous possibilities of dramatization.
- H.M., Jr.: Well, we'll have to all go to it. Herbert.
- Gaston: Well, I agree with what Mr. Murphy has just said. I think that central thought you had of the crossroads and the method of payment is the one thing to center attention on. But I think also that, under the circumstances, making a speech before such a gathering, it would be a mistake not to say something about the monetary negotiations and the monetary settlement.
- H.M., Jr.: Yes, I want to do that. I want to bring in this European thing, the monetary stabilization, what that means in the future, what that means in revenue, and so forth.
- Gaston: I think the speech ought to start with that and then go into this question of how we are going to pay for it and the crossroads of inflation, etc.
- Taylor: I think it's better the way he has it.
- H.M., Jr.: Well, I think that's the key to the whole speech, this question of the crossroads. Dan, you will agree with me on that. In sincerity, don't you think we have passed the crossroads?
- Bell: I think you are right.
- H.M., Jr.: And that has not been shown. Mr. Oliphant.

- aston: And I would be a little shy on going into the question of what is the net cost of recovery, because it's been thrashed over by the President and by different people and the danger of getting confusion and different interpretations of the thing. I think there is so much other fine material that we could pretty well pass that up.
- M.M., Jr.: Well, all right.
- Oliphant: It commits you to the pump-priming, too.
- Murphy: But if you pass up the cost, you definitely do away with the possibility of showing that we, rather than our children, will pay for it, because that was based on figuring out the necessary amount and then figuring out how many years to liquidate it.
- White: I think it can be handled.
- M.M., Jr.: Well, let's see; that's what I've got you people in here for.
- Mr. Oliphant. And I can't raise your salary because of statutory prohibition, so you can speak freely.
- Oliphant: I'm going to say just what is on my mind.
- Oliphant: You can demote me.
- Oliphant: You can fire me. I think the substance of the thing, the material you have there, is material for a grand speech. I am going to make one suggestion about form of presentation. I'd start out something like this: "A lot of people have been talking during this campaign as to what's happened in the past. I want to talk to you tonight about what is ahead of us in the future." I mean to get this thing off of the defensive and on the offensive. And then, in the process of talking about what is going to happen in the future, just weave in what's happened in the past; the best evidence of what is going to happen in the United States is what we have done in the past. See what I mean?
- M.M., Jr.: But as to the nucleus?
- Oliphant: The content, as I started out by saying - the content is there for a real speech.

WCNS29

GOLD IMPORTS INCREASED FROM \$76,009,637 FOR THE WEEK ENDED OCT. 2 TO \$124,938,717 FOR THE WEEK ENDED OCT. 9, THE DEPARTMENT OF COMMERCE ANNOUNCES.

THE LARGE IMPORTS CAME PRINCIPALLY FROM FRANCE AND GREAT BRITAIN. FRANCE SHIPPED \$83,273,678 DURING THE WEEK AND GREAT BRITAIN, DEQNA 352,373.

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GOLD STOCKS INCREASE AGAIN <sup>9861.9 T 100</sup>

WASHN- THE TREASURY MONETARY STOCK OF  
GOLD ON OCT 14 INCREASED BY 1 550 711 DLS TO  
A TOTAL OF 11 003 163 475 DLS

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10.54

ADD GOLD STOCKS

OCT 16 1936

WASHN- IMPORTS OF GOLD DURING WEEK ENDED  
OCT 9 WERE 124 938 717 DLS VS 76 009 637 DLS  
IN PRECEDING WEEK DEPT OF COMMERCE REPORTED  
SILVER IMPORTS DURING WEEK ENDED OCT 9  
WERE 1 619 159 DLS VS 4 322 550 DLS IN PRECEDING  
WEEK

GOLD EXPORTS WERE 19 192 DLS IN WEEK OF  
OCT 9 VS 21 957 DLS IN PRECEDING WEEK WHILE  
SILVER EXPORTS WERE 48 026 DLS VS 48 556 DLS

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OCT 16 1936

8.50

ADHERENCE OF FORMER GOLD BLOC COUNTRIES  
BELGIUM HOLLAND AND SWITZERLAND REPORTED IN  
WASHINGTON AS PROBABLE NEXT STEP IN DEVELOPMENT  
OF NEW TRI-PARTITE GOLD EXCHANGE SYSTEM ESTAB-  
LISHED BY U S BRITAIN AND FRANCE

OCT 16 1936

WCNS10

PARIS.--URGENT REORIENTATION OF FRENCH FOREIGN POLICY WAS FORESHADOWED TODAY AS FRESH DIPLOMATIC PROBLEMS COMPLICATED BELGIUM'S SWITCH TO A POLICY OF NEUTRALITY.

WHILE FOREIGN MINISTER DELBOS WAS STILL DRAFTING A NOTE TO BELGIUM ON KING LEOPOLD'S DECLARATION OF POLICY--A DAMAGING BLOW TO FRANCE--THREE NEW, GRAVE POSSIBILITIES AROSE TO PLAGUE THE WORRIED FOREIGN OFFICE:

1.--A REPORT THAT HITLER MIGHT ANNOUNCE FORMALLY WITHIN A FEW DAYS THAT HIS "SYMBOLICAL" OCCUPATION OF THE RHINELAND WAS A THING OF THE PAST AND THAT THE TERRITORY, DEMILITARIZED UNDER THE VERSAILLES TREATY, WAS NOW ORDINARY GARRISONED TERRITORY.

2.--THE IMMINENT FORMATION OF A STRONG FASCIST BLOC IN CENTRAL EUROPE, WITH GERMANY AND ITALY AS ITS LEADERS. OSTENSIBLY THIS WOULD BE AN ANTI-COMMUNISTIC BLOC; ACTUALLY IT WOULD BE AIMED DIRECTLY AT SOVIET RUSSIA, FRANCE'S ALLY AND WOULD COMPRISE A BAND OF TOTAL-ITARIAN NATIONS GOVERNED BY DICTATORS.

3.--THE PROBABILITY OF TROUBLE WITH THE SPANISH FASCIST GOVERNMENT, IF THE REBELS, NOW WITHIN TWO DAYS' FORCED MARCH OF MADRID, WON THE CIVIL WAR.

FURTHER, A FEROCIOUS ATTACK ON THE LEFT FRONT GOVERNMENT OF PREMIER BLUM, LAUNCHED CONCERTEDLY THIS MORNING BY 300 NEWSPAPERS ALL OVER THE COUNTRY, RAISED THE QUESTION ACUTELY WHETHER THE PRESENT CABINET WILL BE LEFT IN OFFICE TO ATTACK THE NEW PROBLEMS OR ANOTHER MUST BE FORMED THROUGH A COALITION INCLINING MORE TO THE RIGHT.

10/16--R903A

(DJ 9:50 A.M. Oct. 16, 1936): BANK OF ENGLAND NOTES CONVERTED.

LONDON - IT IS ESTIMATED THAT ABOUT ONE-TENTH OF THE 30,000,000 POUNDS BANK OF ENGLAND NOTES HOARDED BY CONTINENTALS HAVE BEEN CONVERTED BACK INTO THEIR OWN CURRENCIES WITHIN THE PAST WEEK. IF THIS RATE OF DISHOARDING CONTINUES THE PROSPECTIVE STRINGENCY IN NOTE ISSUE AT THE YEAR-END PEAK OF CIRCULATION AGAINST WHICH THE BANK OF ENGLAND HAS BEEN PURCHASING GOLD OVER THE LAST FEW MONTHS IS LIKELY TO BE AVOIDED.

## TELEGRAM SENT

LMS

SPECIAL GRAY

October 16, 1936

5 p. m.

AMEMBASSY,

PARIS (FRANCE).

409.

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

Following is the reply sent by the Federal Reserve Bank of New York on October 15, 1936, to the National Bank of Belgium's telegram quoted in Department's 406, October 15, 1936:

QUOTE Reference your cable No. 6 of October 14. I transmitted it to the Treasury as you requested and am advised that it is the Treasury's view that recent developments have made it necessary to re-examine this problem in conversations among the Treasuries of the Governments concerned which is being given immediate attention.

UNQUOTE

HULL  
(FL)

EA:FL:DJW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: October 16, 4 p.m.

NO.: 1010

STRICTLY CONFIDENTIAL FROM COCHRAN.

Department's telegrams Nos. 405 and 406, dated October 15, noon, and October 15, 5 p.m., respectively.

Tonight I am going to Brussels where Governor Franck of the Belgian National Bank is to receive me tomorrow at ten o'clock in order to present me at the Ministry of Finance. I expect to return to Paris Saturday evening and on Sunday I shall cable report.

I shall go to Bern Sunday evening where President Bach of the principal of the National Bank of Switzerland will receive me Monday morning at 9:30 in order to present me to the Minister of Finance of Switzerland. I plan to return to Paris on Tuesday morning.

The above arrangements were made by telephone. I am calling upon Ambassador Morris and Minister <sup>Wilson</sup> Keent<sup>(?)</sup>, to whom Ambassador Bullit has telephoned, before seeing any foreign officials.

I called at the French Ministry of Finance yesterday evening to inform the Minister of the approaches made to us by the Swiss and the Belgians. This afternoon Auriol, who was absent on account of illness, sent word to me through Baumgartner that he will be glad to associate himself with

Secretary

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Secretary Morgenthau in announcing reciprocity in gold transactions vis-a-vis Switzerland and Belgium should such a decision be reached by the United States Treasury.

EA: DJW

## TELEGRAM SENT

LMS

SPECIAL GRAY

October 16, 1936

6 p. m.

EMBASSY,

PARIS (FRANCE).

410.

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

Following is the reply sent October 16, 1936, by Federal Reserve Bank of New York to Swiss National Bank's telegram quoted in Department's 406, October 15, 5 p. m.:

QUOTE As mentioned in our No. 14 we communicated your inquiry to the Treasury and are now advised that it would prefer to have us delay discussion of the details mentioned in your cable until general arrangements have been made between the Treasuries of the Swiss Government and the United States Government. We are also advised that the matter of discussing such general arrangements is being given immediate attention. UNQUOTE

HULL  
(FL)

EA:FL:DJW

October 17, 1936

The Secretary called Bell from his home this morning and told Bell that he wanted to get the facts ready so that an answer, charge by charge, could be made to Hoover's speech of last night criticising the Treasury's bookkeeping system. He told Bell he would be down at the office in a little while, but he wanted Bell to get his men started on an answer to the speech, paragraph by paragraph. He was not sure that he would publicly refute the charges of Mr. Hoover, but he thought it was pretty vicious stuff. Mr. Bell volunteered the information that Mr. Robey, who made the same criticisms of President Hoover's accounting methods in 1932, is with the Landon campaign now. HM, Jr. said he thought it would be "marvelous" to let that fact be known.

October 17, 1938

Mr. Mallet and Mr. Bewley called on the Secretary at his home this morning, at 9 o'clock. Also present were Mr. Taylor and Mr. Lochhead.

Before the British gentlemen arrived, the Secretary made this bet: "They are going to O.K. Switzerland and say they haven't had time to think about Belgium." Lochhead said, "I don't know. They may o.k. Belgium and hold off on Switzerland, because Switzerland has been going into the free gold market." Mr. Morgenthau then said, "I may be all wrong. If I am, destroy this bet! But all this business about Belgium giving up the Locarno Pact, that's where we have to be careful because we don't want to be drawn into European politics." Taylor's comment was, "I haven't any hunches on it at all."

Lochhead said to the Secretary, "I got a big laugh out of Paul Mallon's column about dressing up the stabilization agreement, because the average man, the exchange man, who looked into the pact wouldn't pay any attention to it, but you took the dry fact and dressed it up, something like putting the fan on Fanny Rand, so it was intriguing to the man on the street, but if I am sitting on the exchange, it's routine." HM, Jr's response was, "Everybody said it was an anti-climax. Of course, I dressed it up!" Taylor said, "He gives you feel credit for it."

Continuing, the Secretary said, "You all thought it was going to be a dud. The English came out with a little, dry statement and I dramatized it. As a matter of fact, Joe Kennedy said to me over the telephone, he said, 'Henry, if this wasn't three weeks before election and if you were not the kind of fellow you are, you would have every front page blazing on this and this is the biggest thing that has struck America.' That's what he said. 'You would have every front page blazing and this is the biggest thing that has struck America.' When you hear these fellows like the Standard Oil talk, good heavens! But that's all right. If I dressed it up, I haven't yet squeezed it dry." Lochhead added, "There is plenty more."

Resuming his remarks, the Secretary said, "There is plenty left and underneath the whole thing is this fight

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to keep Belgium as she is so eventually we can go back to the old gold standard. That's what Harrison says to me -- 'Keep Belgium as she is, so eventually we can go back to that old gold standard.' In other words, they want to keep a little piece of the sour dough (the old system) in order to preserve the old gold standard."

Mr. Mallet and Mr. Bewley came in at this point. The Secretary greeted them and said, "I thought I would get you here early so you would not spoil my week-end!"

"I have very little to say," Mr. Mallet said to the Secretary, "because unfortunately we have not got an answer to the main question about the Belgians and the Swiss. I don't think we shall get it until sometime today. But I rather thought I would get it last night, and we got an answer to your question about China and I thought you would like to have it."

"It simply is that press reports of the British loan to China are unfounded. What is happening, the existing export credits scheme (what we thought) has already been applicable to exports to China, but very little business is being done owing to difficulty of assessing in London the credit risks in China. A local representative in China of the Export Credit Guarantee Company is going to be appointed and announcement will be made in London on Monday. The press in London has magnified rumors about this and stated that a credit of several millions of pounds has been made to London and there is no foundation to this. No loan or credit relations with the Chinese Government have taken place and they say I can inform you of that, but they ask you to keep the fact of the export credit guarantee representative's appointment confidential until Monday; until it has been announced on Monday."

The Secretary's facetious comment was, "We can't keep secrets," and Mr. Mallet jestingly replied, "We have discovered that."

HM, Jr. then asked Mr. Mallet, "Do you tell that to the State Department?" His reply was, "I haven't so far, because I merely got that in answer to your question." "Do you wish us to or is that just for us?", Mr. Morgenthau asked. Mr. Mallet replied, "Just

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as you like, but I should think it would probably be better if you did." Mr. Bewley said, "I think the State Department should know." Mr. Mallet said, "You might explain to them how it got to you and that I would have explained it to them at first, but it arose from your asking the question and my finding out for you." HM, Jr. then said to Mr. Taylor, "Wayne, will you please tell them."

Mr. Mallet then said to the Secretary, "But I am sorry that I have not got the answer on the other." HM, Jr. answered, "That's all right." Mallet said, "If we get it later in the day..." HM, Jr. interrupting said, "I never know what these things are, so I simply like to keep the ball rolling."

Mr. Bewley remarked, "The papers say the Dutch are beginning to get interested. Are they going to try to come in?" Replying the Secretary said, "Don't believe what you see in our papers! There was yesterday's statement, which I read, and I think I know where they picked it up. They did not pick it up in the Treasury. I think I know where they did pick it up. The story was just picked up from a little bit of gossip here and a little bit of gossip there, but we have nothing from the Dutch. We have a "nibble" from the Swedes. That's come in."

Lochhead explained, "The Federal Reserve Bank sent out the proclamation to the Swedish Central Bank and they are getting an answer back, just wanting to know what it is all about." HM, Jr. asked him, "Wouldn't you say it is just a 'nibble'?" It isn't a 'strike'?" Lochhead answered, "Yes."

Bewley inquired, "Have the Swedes got a stabilization fund or not?" HM, Jr. answered, "No. They are really trying to find out just where they do stand. The Federal Reserve Bank sent this letter to the 12 or 14 central banks. Now they are beginning to answer, and as they answer, the Federal Reserve Bank tells them to take it up through diplomatic channels and through the Treasuries."

The Secretary then said to the British, "That's quite a supplement the London Economist got out." Bewley

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said, "I have seen of it, but Chalkley has seized it and kept it firm in his room." HM, Jr. explained, "They got out a special New Deal supplement." Bewley's comment was, "I hope it is favorable." The Secretary said, "What I have seen of it is very favorable." Mallet remarked, "It certainly would be. The Economist has always been very much on the free trade lines; anything that would free trade barriers would be favorably written by the Economist." Mr. Lochhead explained, "But this was before the currency stabilization. It's on the New Deal." Mr. Mallet then said, "The Economist would be for the New Deal, I am sure," and Bewley agreed, saying, "Oh, I think so. It is a liberal paper." Mallet added, "It has supported New Deals of all kinds."

The Secretary then said to Mr. Mallet and Mr. Bewley, "If anything comes, you will let us know? And I appreciate this very much. Thank you."

October 17, 1936

The attached message from Mr. Chamberlain was delivered to the Secretary at his home Saturday night, October 17, by Mr. Bewley.

Mr. Chamberlain thanks Mr. Hergenthan for his message & welcomes the proposal to give other countries the same facilities as are being extended to French & British Treasurers. Mr. Chamberlain has no special suggestions to make in this connection, but is himself ready to make similar arrangements with other countries also.

As regards Bulgaria he has no special information but conjectures Bulgaria may think it prudent, in view of the recent monetary changes, to turn foreign currency held on part of the Bulgarian reserve into gold. Chamberlain sees no objection to the sale of gold to Bulgaria.

October 17, 1936.  
10:00 A.M.

Present: Mr. Bell  
Mr. Upham

H.M., Jr.: Let's start in if you don't mind, going back to this thing about Robey, how the thing was handled. That is, give me a lecture on just how this thing is, this double bookkeeping, and when it was first put in, and this emergency question.

Bell: Well, the Treasury, of course, has always been attacked on its method of bookkeeping and the way it sets up its financial statements for publication. There is some merit in that criticism, but we can't help it because of the fact that we haven't got full control of the accounting system and we have to resort to makeshift schemes in order to get up our financial figures.

This criticism largely centers around the fact that we include in our regular operating expenditures capital expenditures also. Many people in this country would like to see us follow the policy of many European governments of paying current expenditures out of revenues and capitalizing capital expenditures. In other words, our borrowings are all for capital expenditures.

H.M., Jr.: They mean now.

Bell: How's that?

H.M., Jr.: Our borrowings now.

Bell: All the time, any time that you borrow money it is done for capital expenditure purposes. That probably is all right in theory, but it just doesn't work in democracy, because when you set out in a financial statement a part of your budget or a part of your expenditures which do not go into your regular budget, it is just a means whereby the legislature can vote more money, and that was proven in 1932 and '33 in the R.F.C.

At the time that we began to discuss the creation of the Reconstruction Finance Corporation, we thought

that that would be a good time to try out the theory of taking a capital investment out of the budget. We created, therefore, a provision in the law which says that the Secretary of the Treasury can buy the obligations of the Reconstruction Finance Corporation and he can sell them, but treat those transactions as public debt transactions.

That had two advantages, one from the standpoint of the Treasury and the other from the standpoint of the legislature. It did not show upon the books of the legislature that you were appropriating 2 billion 2 hundred million dollars. It only showed an appropriation of 5 hundred million.

H.M., Jr.: When was that, Bell?

Bell: That was February, 1932.

H.M., Jr.: You got the law passed in February, 1932?

Bell: That's right.

H.M., Jr.: Under Hoover.

Bell: Under Hoover. The other is that it did not show an investment of general fund moneys as an expenditure, ordinary expenditure of the Government.

So, the first year and a half of the operation of the R.F.C., we set it outside of the budget figures on the daily and showed it as a public debt transaction and an investment of the general fund moneys in the securities the R.F.C. secured by loans, or by collateral the R.F.C. had taken.

Now, in July, 1932, is when we issued the regular yearly financial statement over the Secretary's signature.

H.M., Jr.: That was over Secretary. . . .?

Bell: Mills!

H.M., Jr.: Mills.

Bell: Signature.

H.M., Jr.: July '32?

Bell: July '32. I've forgotten now just how we covered the R.F.C., but Robey didn't seem to think that we had covered it fully in our article and said that it should be as part of the budget. Now, of course, he probably has changed his tune now.

But anyway, the legislature the next year started in and they started in in the spring of '32 to put everything in the R.F.C. It didn't make any difference whether it was a good investment or bad, or whether it was just a general expenditure. They authorized the R.F.C. to give the money to the Secretary of the Treasury to subscribe to the Home Owners' Loan stock, to make Commissioners' loans through the Farm Credit Administration, and then the Federal Savings and Loan Associations, the Joint Stock Land Bank liquidation, and all of that; and, in addition, authorized the first year to make loans to the States for relief purposes, with the provision that the only way it could be repaid was by reducing the allocation subsequently made by the Federal Government upon the annual Federal highway appropriation. Next year, when Congress came along to map out a program of Federal aid for the highways, they repealed that section of the R.F.C. Act, so that today there is no method whereby the States can repay that 300 million dollar loan, and it is virtually a gift for relief purposes.

The subsequent year, Congress authorized a 500 million dollar allocation from the R.F.C. for direct relief purposes. Now, we certainly would have been attacked if we had left the R.F.C. out of the budget.

So, July 1, 1933, I, on my own motion, without anybody's approval or disapproval, put it in the budget and in the daily statement as a general expenditure of the United States Government.

H.M., Jr.: That was done in July. . .?

Bell: First, 1933.

H.W., Jr.: And you put that in; that is, under Roosevelt.

Bell: Yes, sir. And now we came along to the Roosevelt Administration, and he had authorized the appropriation in June, 1933, of 3 billion 3 hundred million for public works, about 9 hundred 50 million dollars for Civilian Conservation Corps.

The question arose as to whether we would include those emergency expenditures in the regular budget, because the question was raised as to whether or not we were going to get good assets and could treat them as an investment rather than as an expenditure. And Alvin Brown, who was then Douglas' right hand man, and Douglas, both recommended that we have two budgets. We in effect have got two budgets now, because the whole deficit, practically the whole deficit, is due to this emergency program. And I fought it and I had to set up something to take its place, and I set up the general expenditures of the Government and in a second category I set up recovery and relief, subdivided into the various classes. And Dean Acheson and Lew Douglas took that to the White House and the President approved Dean Acheson's proposal to set it up in the form in which we now have it: have but one budget, but have the two categories, the general expenditures and recovery and relief.

Now, is that a big point in here?

Upham: Yes.

Bell: In what way?

Upham: You don't include that with the other receipts and expenditures. Perfectly silly, of course.

Bell: The trust funds of the Government are not Government funds.

Upham: That's right.

Bell: Perfectly silly.

H.M., Jr.: But the other thing is the point he makes there about. . .

Bell: Using receipts, using repayments of Government loans, to meet the deficit. The answer to that, it seems to me, is that Congress authorizes a revolving fund. They have said to the R.F.C. that "your revolving fund is about 4 billion dollars" and it rolls over and over. Now, we certainly can't set up on our accounts repayments as revenues and set up on the expenditure account the total gross expenditures, because that doesn't show a revolving fund at all; it shows two separate funds, and would indicate that the repayments are coming into the Treasury as revenues, whereas they are not; they are going back to the credit of that fund and they are being used over and over again.

Now, supposing you did set them up as receipts and expenditures. You wouldn't get any different results, except to inflate your receipts and inflate your expenditures. But your deficit would be identically the same, wouldn't make any difference.

H.M., Jr.: Have you got that Robey thing?

Bell: He said: "Some further explanation is needed from the Secretary of the Treasury on Federal finances for the fiscal year just ended. . . . (refer to Mr. Bell's file from which read)"

H.M., Jr.: And then, of course, we corrected that in July '33, didn't we?

Bell: Now, this is the reply.

H.M., Jr.: This is Mills' answer?

Bell: He calls attention to this statement. He says: "There is no basis whatsoever for such a charge. . . . (refer to Mr. Bell's file from which read)"

They called the law on them.

H.M., Jr.: You wrote this, didn't you?

Bell: Yes.

H.M., Jr.: May I take this over the weekend? Let me just have that file over the weekend.

Bell: Sure.

H.M., Jr.: It seems to me that the way to build up this thing would be to start with Robey's article. Robey is traveling with Landon, isn't he?

Upham: Yes.

H.M., Jr.: Start with that, and take Mills' answer, and that that Bell said, how we corrected this thing, and just tell the story.

But there's some particular things in that article - I mean I think that Hoover made some mistakes.

Upham: On what?

H.M., Jr.: What?

Bell: Oh yes.

Upham: They're checking these.

Bell: Yes.

Upham: Your people are doing it now.

Bell: Now, let's see, number one is just an attack on the President's speech.

H.M., Jr.: (Oh phone) See if Mr. Haas is in. If Haas and Seltzer are, I want the two of them in here. Because they did that work on the President's speech, you see (to Bell and Upham).

Upham: Strike 1, strike 2, and strike 3, on the second column. . .

Bell: Well, all of these figures came from our shop.

H.M., Jr.: Do you think so? I just want to make sure.

Bell: Yes, you've got to get all these figures from us.

Now, Herbert Gaston, on the Veterans thing, wrote a little article the other day and gave it to the Democratic headquarters, but I have never seen any account of it being used.

H.M., Jr.: Have you got a copy from him?

Bell: No.

H.M., Jr.: Do you want that?

Bell: Well, you don't need that now, but it has been in the paper several times about his assertion that the obligations for the veterans are now out of the way.

Upham: Then he says no publication of the United States Government warrants Mr. Roosevelt's valuation of five billion dollars on recoverable assets.

Bell: I suppose that's true. There isn't any publication that warrants him. He didn't make any definite statement. He just said, "Let's throw off a billion dollars and make it conservative." That's the implication of the speech.

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

(Haas and Seltzer come in)

Upham: Then he goes on to this, about the statement that 8 billion was loaned abroad during the Republican regime, and tears that down.

H.M., Jr.: Well, did you hear it (to Haas)?

Haas: Yes. His delivery isn't good, but, for this type of speech, which is very clever, which somebody wrote for him, his delivery fitted very well. He acted the part of a comedian, you know.

Bell: Of course, he's improved tremendously in his speaking.

Haas: I think the way to handle that thing is not to take it too serious.

H.M., Jr.: What we are doing here is, Bell is going to put his people on it; he thinks he's got everything. Bell's

going to take it paragraph by paragraph and have his people do it over the weekend. So in case the President wants to handle it or wants me to handle it, we'll be ready, because we can't do the thing just like that.

- Bell: I think Haas ought to read that part about that 8 billion dollars foreign.
- Haas: You know, I begged Cochran to take that out. He said, "I'll take the responsibility for it." So there it is again.
- H.M., Jr.: Well, make notes of the part you're going to take.
- Bell: You want to look at the charge that he cancelled 41 percent of the foreign debts when he devalued the dollar (to Haas).
- Haas: Yes.
- Bell: Let's see, Formula One: The Roosevelt administration has made some beautiful economies by just omitting certain items from its regular expenditures before it comes to the totals announced to the people. Well, we can answer that; that's District of Columbia and trust funds.
- Formula Two: It has always been a rightful principle of government accounting under the old commandments to pay all receipts or all final recoveries from revolving accounts into the Treasury. Then Congress appropriates them out and thus holds control of the expenditures. That also can be effectively answered.
- We're going to have to go through that paragraph by paragraph.
- H.M., Jr.: What part will you take (to Haas)?
- Haas: I'll go through the whole speech, Mr. Secretary, and take everything that Dan's pointed out to me.
- H.M., Jr.: Who's working for you on this (to Bell)?
- Bell: Bartelt is working at home and I've got two people upstairs working on it.

October 17, 1936.  
11:08 A.M.

Corcoran: Corcoran, sir.

H.M.Jr: Yes, I know the name.

Corcoran: I'm up in Rochester, New York, waiting for the train, sir.

H.M.Jr: Yes.

Corcoran: I talked with Mr. Seltzer this morning.

H.M.Jr: Yes.

C: I was asked if there - while on the train, if there was - what the answer was to the Hoover speech.

H.M.Jr: Yes.

C: Mr. Seltzer asked me to talk with you, or I wouldn't be so impertinent as to bother you this morning, sir.

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

C: Now, I just wondered. There are two possible places to answer the speech...

H.M.Jr: Yes.

C: ..without asking the President to do it.

H.M.Jr: Yes.

C: One, of course, is your own speech before the business men's meeting in New York.

H.M.Jr: Yes.

C: Another is a possible preliminary on a broadcast that Kennedy is going to make on Wednesday night.

H.M.Jr: Yes.

C: Another is a possibility of some answers up here in Rochester today if they can be turned off in a quick way.

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H.M.Jr: It's impossible to do that.

C: That's impossible.

H.M.Jr: Now. .

C: I was told to ask somebody at the Treasury if they would get the figures, if there is an answer to the business about doubling the Treasury books.

H.M.Jr: Well now, listen, Corcoran, will you?

C: What's that, sir?

H.M.Jr: May I talk a minute?

C: Certainly.

H.M.Jr: I've come down here; we've spent an hour and a half on this. I talked to Michelson. .

C: Hello.

H.M.Jr: Hello.

C: Yes, sir.

H.M.Jr: Now, this isn't something... I've had a long talk with Charley Michelson about this.

C: Yes, sir.

H.M.Jr: Now, this isn't something that you can throw off with a snap of your finger.

C: Yes, sir.

H.M.Jr: It will take all of today, all tomorrow, before we can have this thing answered correctly.

C: All right, sir.

H.M.Jr: Now, I. . . We didn't have a chance on the Pittsburgh speech, and they keep using those figures back and back at us again. Now, I've got a call in to the President at one o'clock when he comes in at Rochester.

C: That's right, sir.

H.M.Jr: And I want to talk to him about this and how he'd like to handle it.

C: All right.

H.M.Jr: But I - if my advice is worth anything, this thing - no one should attempt to answer this before we can have the thing thoroughly analyzed.

C: All right. Now what you want me to say, then, is that you don't think any attempt should be made to answer it. . .

H.M.Jr: . . . before Monday.

C: All right, sir.

H.M.Jr: Now, my feeling is this, and I've checked this with Michelson. I don't know whether it should be answered at all. See?

C: Yes, sir.

H.M.Jr: But if it should be answered, in my opinion there are only two people that can answer it. One is the President and the other is myself.

C: That's right, sir.

H.M.Jr: And one or the other should answer it.

C: All right.

H.M.Jr: Now, Michelson feels that it shouldn't be answered at all. I don't know. See?

C: Yes.

H.M.Jr: And that's why I put in a call for the President.

C: All right, sir.

H.M.Jr: But, for whatever you think my advice is worth, I'm going to urge that nobody attempt to answer it before

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Monday.

- C: All right, sir, that's what I'll say.
- H.M.Jr: Now, don't - I mean I feel that a very good answer can be made. See?
- C: Yes.
- H.M.Jr: And we've got the material, but these things take time.
- C: All right, sir.
- H.M.Jr: And the boys are at work and - but they won't have anything before Monday.
- C: Then what you want me to say when I get on the train, sir, is that you want very much to be called at the Treasury.
- H.M.Jr: Well, that's been taken care of.
- C: Yes.
- H.M.Jr: I've got the phone arrangement; that's all been taken care of.
- C: All right, sir. And in the meanwhile you want nobody else to try to answer it before then.
- H.M.Jr: That's right; and Michelson agrees with me.
- C: All right, sir.
- H.M.Jr: Michelson thinks it would be a terrible mistake if anybody but the President or myself. . .
- C: All right, sir.
- H.M.Jr: And he isn't sure that the President or myself should answer it.
- C: I understand.
- H.M.Jr: See?
- C: All right, sir.

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H.M.Jr: Well, what do you think?

C: I think you're right.

H.M.Jr: O.K.

C: All right, sir.

H.M.Jr: Thank you very much.

C: Goodbye.

## DEPARTMENT OF COMMERCE

OFFICE OF THE ASSISTANT SECRETARY

WASHINGTON

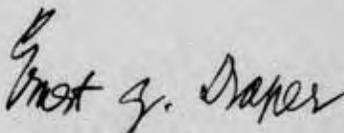
October 17, 1936.

The Honorable,  
The Secretary of the Treasury,  
Washington, D.C.

My dear Mr. Secretary:

There are enclosed two reports just received from the  
Commercial Attache at Mexico City, which, I believe, will  
be of interest to you.

Yours sincerely,



Ernest G. Draper,  
Assistant Secretary of Commerce.

Enclosures.

RECEIVED  
OCT 20 1936  
U.S. DEPARTMENT OF COMMERCE

SPECIAL REPORT NO.

24

257

SP.R. NO. 66 Mexico (City) D. F. Mexico (Country) October 8, 1936. (Date)

Subject: CHANGE IN RATE OF THE PESO

DEPARTMENT OF STATE

Submitted by: Thomas H. Lockett Commercial Attaché OFFICER

OCT 14 1936

AIR MAIL

FOR BUREAU, STATE AND TREASURY INFORMATION ONLY FORWARDED

52833

The report became very persistent that the rate of exchange between the peso and the dollar would be changed. In view of the fact that the reports were conflicting as to which way the rate would be moved indicated that they did not have much foundation. It was also reported that the Minister of Finance had already advised the United States Treasury of his intention to change the ratio between the peso and the dollar.

In view of the persistent reports we communicated with the Minister of Finance and he said that he had no intention of altering the exchange rate of 3.60 at the present time.

Thomas H. Lockett,  
Commercial Attaché.

thl-ja

TREASURY DEPARTMENT

ARR OCT 30 AM 9 02

OFFICE FOR CHIEF CLERK

DEPT. OF STATE  
OCT 15 1936  
FORWARDED MAIL

OCT 12 1936  
ORIGINAL RECEIVED  
OCT 12 1936  
AIR MAIL

SPECIAL REPORT NO.

24 258

SP.R. NO. 67 Mexico; (U.S. F. Mexico (entry) October 9, 1936.

Subject: PURCHASE OF GOLD IN LONDON BY THE BANK OF MEXICO

Submitted by: Thomas H. Beckett Commercial Attache.

STANDARD FORM NO. 64 11-0128

CONFIDENTIAL FOR FINANCE DIVISION AND TREASURY DEPARTMENT ONLY

52832

ORIGINAL RECEIVED OCT 12 1936 AIR MAIL

On September 26 officials of the Bank of Mexico had evidently received word from some source to the effect that the United States Treasury was on the verge of increasing the price of gold from \$35.00 dollars to \$37.00 dollars an ounce. On September 28, 1936, the Bank of Mexico bought 70,000 ounces of gold in London as pure speculation and as a result of the reported increase in the price of gold. The purchase was made by the Chase Bank and, as the anticipated advance in price did not materialize, the gold was turned over to the Bank of England and ear-marked for the Bank of Mexico. Officials of the Bank of Mexico believe that a rather heavy repatriation of gold from the United States to Europe will take place within a short time and, thus, permit them to dispose of the London gold holdings at a price in excess of \$35.00 dollars an ounce.

RECEIVED FINANCE DIVISION OCT 13 1936

2  
MAY 11 1936  
OFFICE OF CHIEF CLERK  
OCT 15 1936

Thomas E. Lockett, Commercial Attache.

OCT 15 1936

tbl-je

## DEPARTMENT OF COMMERCE

OFFICE OF THE ASSISTANT SECRETARY

WASHINGTON

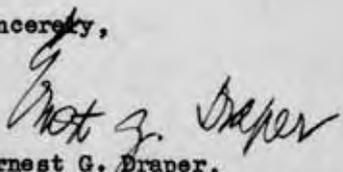
October 17, 1936.

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

My dear Mr. Secretary:

I am pleased to transmit a copy of Special Weekly Financial Report of October 1, 1936, from the Acting Commercial Attache at Berlin, on the subject "Schacht on German Monetary Policy," to which are attached a verbatim translation of the questions and answers at Dr. Schacht's conference with the press on September 30 and a copy of the official statement he made the same day before the Central Committee of the Reichsbank.

Yours sincerely,



Ernest G. Draper,  
Assistant Secretary of Commerce

enclosure 1

24  
260  
SPECIAL REPORT NO. 29

Berlin  
(City)

Germany  
(Country)

October 1, 1936  
(Date)

Subject: SPECIAL WEEKLY FINANCIAL REPORT NO. 5

Submitted by: Douglas Miller  
(Name)

Acting Commercial Attache  
(Title)

STANDARD FORM NO. 64 11-9128

SPECIAL WEEKLY FINANCIAL REPORT NO. 5

(Required Report)

NON - CONFIDENTIAL

SCHACHT ON GERMAN MONETARY POLICY

The definite and official attitude of the German Government toward the latest devaluation moves of European countries and the tripartite agreement between the United States, Great Britain and France was formulated in a statement delivered by Dr. Schacht on September 30 before the Central Committee of the Reichsbank.

As regards Germany's own position, Schacht emphatically confirmed the denials of Germany's intention to devalue which were made some days previously by Herr Reinhardt, Assistant Minister of Finance, and Dr. Ley, Leader of the Labor Front. "The Reich Government and the Reichsbank", said Dr. Schacht, "have examined what Germany under present conditions could do to contribute its part toward the stabilization of monetary conditions. They have without hesitation come to the conclusion that Germany does not wish to increase further the insecurity of international exchange created by devaluation measures of other countries by adding a new element of uncertainty. The countries which are trading with us should know that we regard the stability of currency as an indispensable

basis of international exchanges. We wish, however, that this should not only be acknowledged by foreign countries but that the German savers and workers should feel confident that the National-Socialist Government is anxious to safeguard the full value of their purchasing power and of the product of their work."

52919

Dr. Schacht did not enter into any discussion of the pros and cons of devaluation but merely adduced one argument against it which apparently in his opinion is decisive. He pointed out that the present system of foreign exchange regulations, whose inconveniences and drawbacks are universally recognized, would not be made superfluous by a mere devaluation. Its maintenance is made necessary by the foreign debt resulting from the Treaty of Versailles and the difficulties which Germany experiences in obtaining raw materials. Only relief in both of these directions would permit Germany to dispose of foreign exchange control. Not only is the economic well-being of Germany dependent on the solution of this problem but also that of all countries which are interested in the maintenance of the purchasing power of a market with a population of 70 million.

"We fully realize", Dr. Schacht proceeded, "that the present international monetary situation demands heavy sacrifices from us, but no pressure will induce the Reich Government to undertake anything which is not in the interests of its own people and country. The Reich Government is, however, prepared at any time to take part in international negotiations with a view to restore international freedom of movement of goods and capital. If such a possibility should be offered in connection with the action of the three powers, Germany

would welcome it and would be prepared to reconsider the matter." This latter statement is generally interpreted in the sense that Dr. Schacht would be prepared to abandon the present nominal gold parity of the mark if he could make a satisfactory bargain on the basis of the cancellation (or substantial reduction) of Germany's foreign debts and the solution of her raw material difficulties (which implies a demand for the return of colonies). As long as there is no prospect of such international negotiations, Germany will, Dr. Schacht stated, watch further developments with complete calm and take the decisions which she considers necessary of her own will. The regulations of foreign exchange provide a stable basis for the German currency which the Government is resolved to maintain. The tremendous advantage of this stability both to consumers and producers by far outweighs the inconveniences resulting from foreign exchange control.

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An important feature of Schacht's statement was his exceedingly critical attitude toward the three powers' currency agreement. The aims proclaimed in the joint communiqué, Schacht stated, namely the promotion of prosperity in the world and improvement in the standard of living, coincide exactly with statements of policy made on various occasions by Hitler (especially in the note of the German Government of March 31, 1936). However, the devaluation of the franc is not apt to remove the disequilibrium of international monetary conditions. On the contrary, it has even destroyed relative stability which heretofore existed in the gold block countries. The agreement between the United States, Great Britain and France does not even

Berlin - S.R. # 29 Special Weekly Financial Report No. 5 page 4

provide for a fixed ratio of the currencies of these three countries. Nor have Switzerland and Holland made any such provisions so that the currency instability has been increased compared with conditions which existed previously. This does not mean, however, Schacht pointed out, that Germany wants to criticize or disturb in any way the measures taken by the French Government. On the contrary, she would welcome them if, in spite of all, the French Government would achieve the success which it hopes for and if the security and freedom of international payments would be restored.

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Enclosure: Text of Dr. Schacht's statement.

CONFIDENTIALSCHACHT'S PRESS CONFERENCE ON DEVALUATION

Dr. Schacht followed up the official statement made on September 30 before the Central Committee of the Reichsbank by a press conference in the course of which he was considerably more frank and outspoken than in his address to the Reichsbank directors. The conference was confidential and correspondents were not permitted to quote Dr. Schacht. A full translation of the questions Dr. Schacht was asked by the press representatives and of his answers (as taken down by an American correspondent who was present) is given below. Dr. Schacht's statement that deserves the greatest attention is probably the one in which he said that Germany would not unconditionally adhere to the gold parity of the reichsmark. If the debt and raw material problems could be settled and if there could be a revival of world trade, then the question of gold parity would be of secondary importance. "I am prepared", Schacht said, "to sacrifice the present parity, but I am not willing to do so for such a phantom as the three powers' declaration, which does not mean a thing." Attention should also be called to the interpretation put by Dr. Schacht on Hitler's second four-year-plan recently proclaimed at the Nuernberg party convention. Schacht presented the four-year-plan as a temporary measure which Germany would be prepared to abandon when the international exchange of goods would be restored on a normal basis. It is exceedingly doubtful that such an interpretation is in agreement with Hitler's own ideas and plans.

The following is a verbatim translation of the various questions and answers:

365

Q. The balance of German trade with the three countries that have devalued - France, Switzerland and Holland - is very active. What will the trade situation be with these countries after devaluation?

A. Germany is heavily indebted to these three countries. They are therefore interested in maintaining an export surplus in favor of Germany since there is no other possibility of Germany continuing the servicing of her debts.

You may gather from this how world economic relations are interlocked and how guilt and expiation always compensate each other. We shall endeavor to adapt our clearing agreements with these countries to the new parity. The system itself will not be altered. These countries must either import more goods or we shall export less and shall not pay interest on our debts.

Q. How will the Reich Government raise the export premiums?

A. We hope to be able some time to lower substantially the export premiums. I don't believe that any important changes will be made.

Q. Are the pound sterling and the dollar not to be considered as stable currencies? Will the franc be stabilized in relation to these currencies?

A. Provision is made for a margin of 13 percent for the fluctuations of the franc. I don't call that stability.

When today I have to invoice goods in dollars, I must always expect that Mr. Roosevelt may get the idea to devalue further by 10 percent. I was in America when the dollar went off gold and an official of the State Department said to me "What does it concern the world when we devalue?". Yet it certainly does concern us when we have to collect a bill of \$100,000 and it proves to be worth only \$75,000. I don't know whether Mr. Roosevelt may not devalue further, be it for election tactics or for ideal or moral motives. How can I calculate when I must consider such risks?

Q. Would it not be advantageous for Germany to use the present export levy for keeping raw material prices down in the case of devaluation?

A. This would only be possible if we could pay in reichsmarks. Yet foreign countries do not accept my marks. I must export goods. I have no guaranty that they will take more goods from me than now.

Q. What are the conditions under which Germany could revert to a free foreign exchange regime?

A. By what has Germany been forced to accept the present system of compulsion? By foreign debts which she could not pay. The Versailles Treaty brought obligations which created an undue tension in our balance of payments. We had no possibility to transfer. There are only two possibilities. Either you

32911

cancel all our debts. I don't expect that you will do it, or at best I can imagine that you will cancel part of them or reduce interest rates. When in America you only get  $\frac{1}{2}$  percent for your money and insist upon getting 7 percent on the Dawes bonds, this is what they call usury in Wall Street. It would also be possible to add interest to principal in order at least to create a breathing spell.

The other problem is that of raw materials. There is only one way open to us to obtain raw materials, namely if we are given the possibility to produce these materials in our own currency. This raises the question of colonies. We must have raw material colonies in order to be able to cover from them at least part of our requirements. If we obtain colonies, the question of debts will only be of secondary importance. Its solution will prove easier to the extent as we obtain facilities in regard to colonies. In the case of a conference I would certainly put the question of colonies first. The debt problem is easier to solve than that of raw materials.

Q. How is Germany to safeguard imports of raw materials in the future?

A. Do you believe that at some later date the four-year-plan will make us independent from raw material imports? Or do you believe that we can produce these raw materials within Germany just as cheaply as we get them from abroad? The four-year-plan and all autarchy measures have been forced upon us by the situation. They are certainly not desirable and we would drop them when the normal international exchange of commodities could be restored.

In the meantime we are going to try to export goods and to import raw materials. Should this not be possible any more, we will have to let it go. With our export premiums which make out about 20 percent of the value of exports, we only compensate one-half of what we are losing through the devaluation of foreign countries. The other half must be compensated by the quality of German finished goods for which consumers are prepared to pay a higher price.

Q. Don't you believe that the time has come for a new world economic conference?

A. Leave me alone with your world conference. I had an experience in Geneva where the representative of Afghanistan almost prevented the passing of a resolution. A conference has only sense when it does not depend on whether Afghanistan agrees or not.

When three big countries agree upon a reasonable program which will be accepted by other countries, this would be advantageous to everybody. The smaller a conference, the greater the results which it can achieve. I am therefore in favor of conferences, but not when they are attended by 66 nations.

Q. What is the German idea about international monetary stability?

957  
52919

- A. We are prepared to discuss any basis of stabilization, provided that this would permit Germany to reenter the world market.
- Q. Do you believe that Germany will obtain colonies?
- A. I am firmly convinced that she will.
- Q. And in what time?
- A. Oh, in about 14 days!
- Q. Is an international monetary stability possible without gold reserve?
- A. I am convinced that it is. A gold reserve can be substituted by international credit agreements. The experience of the last few years has proved that gold can be dispensed with as currency metal. I believe that a stabilization of currencies on a gold basis would be the best solution in consideration of the position which gold occupies in international exchange, but I can readily imagine that another solution would be possible.

I would like to tell you the following story:

Two drunken farmers were walking home at night along the highway. They see a toad crossing the road in front of them. "If you eat that toad, I will give you 10 marks", said the one to the other. So he ate it and got his 10 marks. After a while they saw another toad crossing the road. "Now, if you eat that toad, I will also give you 10 marks." The second farmer did likewise and got his 10 marks. After a short time, when they were sober again, the one farmer asked the other "Now just why did we eat those toads?". - This is the story about devaluation. We are walking drunkenly on the road and are all eating toads.

- Q. Will Germany under any circumstances stick to the gold parity?
- A. The maintenance of the gold parity is not an absolute condition for Germany. If I am given a chance to revive world trade, to abolish foreign exchange control, to solve the raw material and debt problems, then this question is altogether secondary. It is all the same to me what we shall do then. I am prepared to sacrifice the present parity, but I am not willing to sacrifice it for a phantom such as the three powers' declaration which does not mean a thing.
- Q. Has an attempt been made to inform Germany in the course of the negotiations which preceded the action of the three powers?
- A. No such attempt was ever made.

DM/es

*Douglas Miller*  
Douglas Miller  
Acting Commercial Attache

30. September 1936

52919

Die französische Regierung hat am 27. d. M. der Reichsregierung die von den drei Regierungen in Paris, London und Washington veröffentlichte Erklärung über die Abwertung des französischen Franken zugehen lassen und hat dabei besonders die Aufmerksamkeit gelenkt auf den Absatz 5, in dem die Mitwirkung der übrigen Nationen bei der Durchführung der in der Erklärung formulierten Politik gewünscht und angefordert wird. Dieser Umstand und die Tatsache, daß die Abwertung des französischen Franken erhebliche Rückwirkungen auf die Gestaltung der internationalen Wirtschafts- und Währungsbeziehungen haben muß, legt es nahe, die deutsche Auffassung in dieser Angelegenheit gleichfalls der Öffentlichkeit zur Kenntnis zu bringen.

Die in der Erklärung der drei Mächte bekundete Absicht, „den Frieden zu wahren, die Schaffung von Bedingungen zu begünstigen, die am besten zur Wiederherstellung der Ordnung in den internationalen Wirtschaftsbeziehungen beitragen können, und eine Politik zu betreiben, die auf die Entwicklung des Wohlstandes in der Welt und auf die Vesserung des Lebensstandards der Völker abzielt,“ entspricht vollinhaltlich dem Wunsche und Willen, den der Führer und Reichskanzler in seinen wiederholten feierlichen Erklärungen namens der Reichsregierung vor der Weltöffentlichkeit zum Ausdruck gebracht hat. Ich verweise zum Belege dessen nur auf die Reichstagsrede vom 21. Mai 1935 mit ihrem Bekenntnis zur wirtschaftlichen Zusammenarbeit und auf die diplomatische Note der Reichsregierung vom 31. März 1936, die einen umfassenden Friedensplan enthielt. Wenn die Dreimächte-Erklärung es als eines der ständigen Ziele ihrer Politik bezeichnet, „das größtmögliche Gleichgewicht auf dem internationalen Währungsmarkt zu erhalten“, so wird diese Erklärung von uns gern begrüßt, kann aber leider den Hinweis darauf nicht verhindern, daß durch die englische sowohl wie die amerikanische Abwertung das wirtschaftliche Gleichgewicht der Welt auf das empfindlichste gestört worden ist. Das wird indessen die deutsche Regierung nicht abhalten, ihrerseits alle Bestrebungen zu unterstützen, die nach der Dreimächte-Erklärung bezwecken, „nach und nach, mit dem Ziel

der völligen Beseitigung, das gegenwärtige Kontingentierungs- und Währungskontrollsystem zu mildern".

Wenn an solchen Absichten die Abwertung des französischen Franken und ihre Modalitäten gemessen werden, so muß leider festgestellt werden, daß an der Unsicherheit der internationalen Währungslage durch diesen Schritt wenig geändert worden ist. Ja, während der Block der Goldländer bisher wenigstens für seinen Bereich Stabilität gewährleistete, so ist nunmehr auch diese verschwunden, nachdem die Abwertung des französischen Franken die Abwertung der Schweiz und der Niederlande nach sich gezogen hat. Das Währungsabkommen zwischen den drei Mächten sieht nicht einmal innerhalb dieser drei Währungen ein gegenseitiges festes Verhältnis vor. Ebenjowenig haben die Schweiz und Holland ein solches hergestellt, so daß die Instabilität gegenüber dem bisherigen Zustande noch vermehrt worden ist. Es gibt im Augenblick, nachdem die frühere allgemeine Verknüpfung mit dem Golde aufgehoben ist, außer in Deutschland und drei oder vier anderen Ländern keine Währung in der Welt mehr, die prinzipiell eine feststehende Grundlage hätte, vielmehr sind sämtliche übrigen Währungen teils innerhalb gewisser Grenzen, teils unbeschränkt willkürlicher Manipulierung ihrer Regierungen unterworfen und haben ganz überwiegend auch untereinander kein festes Verhältnis.

Wenn wir deshalb auch nicht an den Erfolg solcher nicht aufeinander abgestimmter Maßnahmen glauben, so ist Deutschland doch weit davon entfernt, die Maßnahmen, die die französische Regierung geglaubt hat treffen zu müssen, zu kritisieren oder in irgend einer Weise zu stören. Im Gegenteil kann es uns nur sehr willkommen sein, wenn der von der französischen Regierung laut ihrer Erklärung gewünschte Erfolg eintreten und insbesondere die internationale Zahlungssicherheit und Zahlungsfreiheit wieder erreicht würde. Auch fühlen wir durchaus die Pflicht, zu prüfen, durch welche etwaigen Maßnahmen unsererseits wir zu der Erreichung dieses Zieles beitragen können. Reichsregierung und Reichsbank sind bei dieser Prüfung ohne Schwanken zu der Entschliebung gekommen, daß wir die durch die Abwertungsmaßnahmen des Auslandes erhöhte Unsicherheit des internationalen Verkehrs nicht noch dadurch vermehren wollen, daß auch wir ein unsicheres Element in die Währungslage hineintragen. Die Länder, die mit uns Handel treiben, sollen wissen, daß wir gerade

in der Beständigkeit eine unerläßliche Grundlage des internationalen Verkehrs sehen. Wir wünschen aber, daß nicht nur das Ausland dies erkenne, sondern es soll auch der deutsche Sparter und Arbeiter sich darauf verlassen können, daß die nationalsozialistische Regierung seine Kaufkraft und seine Arbeitsleistung in ihrem vollen Werte zu erhalten wünscht.

Wenn gelegentlich auch von deutschen Interessenten der Wunsch nach einer Abwertung der Reichsmark laut wird, so möchte ich das Gewicht der Gründe hierfür nicht dadurch übertreiben, daß ich gegen sie im einzelnen polemisiere. Ich möchte für Deutschland vielmehr nur eines sagen, daß das Devisenbewirtschaftungssystem, dessen Unbequemlichkeiten und Mängel wir jederzeit anerkannt haben, durch keine bloße Abwertung überflüssig gemacht werden könnte. Die schwere, aus dem Versailler Unrecht entstandene Schuldenlast und die Schwierigkeiten unserer Rohstoffbeschaffung zwingen zu ihm. Erst deren Milderung wird die deutsche Devisenkontrolle entbehrlich machen. An der Lösung dieser Frage aber hängt nicht nur das wirtschaftliche Wohlergehen Deutschlands, sondern auch aller der Länder, die an einem aufnahmefähigen Markt von 70 Millionen Menschen interessiert sind.

Wir sind uns völlig bewußt, daß die gegenwärtige internationale Währungsfrage uns schwere Opfer auferlegt, aber kein Druck wird die Reichsregierung veranlassen, etwas zu tun, was gegen die Interessen ihres eigenen Volkes und Landes ist. Dagegen wird die Reichsregierung jederzeit bereit sein, an zweckdienlichen internationalen Verhandlungen teilzunehmen, die unter selbstverständlicher, auch in der Währungserklärung der drei Mächte betonter, Wahrung der nationalen Interessen einem freien internationalen Wirtschafts- und Zahlungsverkehr zustreben. Sollte sich im Anschluß an das Vorgehen der drei Mächte eine solche Möglichkeit ergeben, so werden wir das begrüßen und zu erneuter Prüfung bereit sein. Inzwischen können und werden wir die Entwicklung in aller Ruhe ansehen und unsere Entscheidungen jeweils nach freiem Willen treffen. Dank unserer Devisenbewirtschaftung haben wir unter der nationalsozialistischen Regierung die ganze Zeit hindurch eine stabile Wirtschaftsgrundlage in unserer Währung gehabt und werden sie behalten. Dieser ungeheure, für Erzeuger und Verbraucher gleich wichtige Vorteil wiegt alle mit der Devisenbewirtschaftung verbundenen Unbequemlichkeiten auf.



DEPARTMENT OF STATE  
WASHINGTON

TELEGRAM FROM THE AMERICAN EMBASSY AT PARIS,  
NO. 1018, OCTOBER 18, 10A.M.  
(PARTLY PARAPHRASED)

This telegram is from Mr. Cochran and refers to his telegram No. 1010, October 16, 4 p.m.

I returned from Brussels last night.

Saturday morning at 9:30 I called on Ambassador Morris. I explained my visit to Brussels and he suggested that before I left I should call on Mr. Van Zeeland, the Prime Minister.

I was received at 10 a.m. by the Governor of the National Bank of Belgium, Mr. Louis Franck, with whom were Mr. Bandewynsi, of the Bank, and Mr. Warland, who is the general manager of the Belgian Treasury and of the public debt. I spoke of the telegrams which the National Bank of Belgium had exchanged with the Federal Reserve Bank of New York. After I had explained the American position and had suggested the lines along which they might set forth and clarify the Belgian position relating to gold, they drafted, in my presence, the following declaration:

"DECLARATION. The Belgian Government by the

-2-

Minister of Finance, and the National Bank of Belgium represented by its governor

Declare and certify for the information of the Government of the United States

One. That an exchange equalization fund was established in Belgium by virtue of the law of March 30, 1935, and by Royal decree of April 3, 1930 and that the management of this fund was entrusted to the National Bank by virtue of this decree; that on the basis of these provisions the National Bank in this capacity delivered and received gold on a fixed basis of 0.150632 grain of fine gold per belga fixed by the Royal decree of March 31, 1935, to those countries constituting the gold bloc and to the United States.

Two. That the experience having worked out in a completely satisfactory manner the equalization fund was suppressed on March 31, 1936, the National Bank again assuming from that date the obligation of redeeming its notes in gold or in gold exchange in conformity with its legal statute upon the above parity this having become definitive again.

Three. That since this date as previously the National Bank of Belgium gives gold on this basis to the United States and that it undertakes to continue to do this on the basis of reciprocity in conformity with

-3-

with the declaration of Secretary Morgenthau of October 12, 1936, of which it has been informed by cablegram from the Federal Reserve Bank of New York of October 13, 1936.

Four. That, thanks to the facility which it has under the law of giving exchange to other destinations, the National Bank is fully in position to control the outflow of gold to destinations other than the United States.

(?) which the present declaration proposes in order to be communicated to the Secretary of the Treasury in Washington.

Brussels, October 17, 1936."

The purpose in mind in drafting this declaration was to indicate that although there is no longer a Belgian stabilization fund, the National Bank of Belgium is able to reciprocate with us the gold facilities which the United States offers, and that such reciprocity is approved of by the Belgian Minister of Finance. The usual handling charges are added to the basic gold price stated in the second paragraph of Article one.

At 11 o'clock I accompanied Franck and Warland to the Belgian Minister of Finance, Mr. Henry de Man, who read the declaration, approved it as drafted, and

signed

-4-

signed it. It was signed also by Governor Franck in my presence, and the Minister of Finance delivered it to me.

The Prime Minister received Governor Franck and me at noon. We explained my errand and the document. Mr. Van Zeeland read the declaration. He found it satisfactory but pointed out in connection with the second paragraph of Article One that there had been no provision of Belgian law which restricted gold dealings to the gold bloc countries and the United States.

Returning to the National Bank at 12:15, I translated the declaration from French into English, Bandewyns checking the translation as given above.

I had lunch with the American Ambassador and showed him the Belgian declaration.

All the Belgian officials are pleased over the international monetary progress accomplished through the French-British-American monetary and gold agreements, and they desire to fit Belgium into the progressive arrangements. They will keep this matter confidential and will await word through me of the Secretary of the Treasury's decision.

I am leaving for Bern this evening.

BULLITT

BANK OF NETHERLANDS CUTS DISCOUNT RATE

10.10

TO 2 1-2 PC

AMSTERDAM - BANK OF NETHERLANDS HAS REDUCED  
THE DISCOUNT RATE TO 2 1-2 PC FROM 3 PC

OCT 19 1936

-0-

OCT 19 1936

10.40

DUTCH INDIES REDUCE DUTIES

AMSTERDAM - THE NETHERLANDS EAST INDIES  
HAVE REDUCED IMPORT DUTIES ON SEVERAL ARTICLES

-0-

OCT 19 1936

10.59

DUTCH BONDS UP

AMSTERDAM- SINCE DEVALUATION OF THE  
GUILDER THE BOND INDEX PREPARED BY DE  
TELEGRAAF HAS RISEN TO 99 32 FROM 94 94- EASY  
MONEY RATES ARE EXPECTED AND A LARGE GOVERNMENT  
CONVERSION OPERATION TO A 3 PC OR 3 1-2 PC  
BASIS IS ANTICIPATED.

274

OCT 19 1936

ADD DUTCH BANK RATE

11.45

AMSTERDAM- ALTHOUGH THE REDUCTION IN THE DISCOUNT RATE OF THE BANK OF NETHERLANDS WAS FULLY JUSTIFIED BY THE POSITION OF THE MONEY MARKET WITH PRIVATE DISCOUNT RATE AT 2 5-16 PC NEVERTHELESS THE ACTION CAUSED SOME SURPRISE OWING TO THE COMPARATIVE SCARCITY OF SHORT TERM FUNDS IN THE AMSTERDAM MONEY MARKET CREATED BY THE LARGE TURNOVER IN STOCK AND COMMODITY MARKETS

THEREFORE IT IS BELIEVED THE REDUCTION WAS PART OF AN OFFICIAL POLICY AIMING AT CHEAPER MONEY AND PREPARATION FOR LARGE GOVERNMENT CONVERSION ISSUE

THE LONG TERM MARKET ALREADY IS ANTICIPATING CHEAPER MONETARY CONDITIONS THE 3 1-2 PC DUTCH AND DUTCH INDIANS LOANS HAVING RALLIED TO ABOVE PAR

-0-

275

D. J. ~~Washington~~  
-- 8,577

OCT 19 1936

REUTERS DISPATCH FROM BELGRADE STATES  
THAT JUGOSLAV EXPORTS HAVE MADE NUMEROUS  
PETITIONS BEGGING PREMIER STOJADINOVITCH FOR  
AT LEAST A PARTIAL DEVALUATION OF THE DINAR  
AND FREEDOM IN FOREIGN EXCHANGE DEALINGS-  
EXPORTS HAVE BEEN BADLY HIT BY DEVALUATION  
BY SOME OF THEIR BEST CUSTOMERS SUCH AS ITALY  
CZECHOSLOVAKIA AND FRANCE AND BY THE SPANISH  
CIVIL WAR AND THE AFTER EFFECTS OF SANCTIONS

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3:45 GOLD MOVEMENT  
GOLD ENGAGED ABROAD TODAY FOR SHIPMENT  
TO NEW YORK COM

P  
RISED 2 140 000 DLS FROM  
ENGLAND

GOLD RECEIVED AT PORT OF N Y UP TO 3  
PM TODAY CONSISTED OF 1 454 100 DLS FROM  
INDIA AND 467 700 DLS FROM ENGLAND - THERE  
WERE NO EXPORTS

MONETARY STOCKS DECLINED 9 975 000 DLS  
AS A RESULT OF NET INCREASE IN GOLD HELD UN-  
DER EARMARK FOR FOREIGN ACCOUNT -ADDITIONAL  
FOR SATURDAY-

SAN FRANCISCO REPORTS THE RECEIPT OF  
934 000 DLS OF GOLD FROM AUSTRALIA

-0-

WCNS25

*Comment on US Monetary Policy*

NEW YORK.--F. R. VON WINDEGGER, PRESIDENT OF THE PLAZA BANK OF ST. LOUIS, ADVOCATED IN A LETTER TO THE PROGRESSIVE REPUBLICAN COMMITTEE FOR FRANKLIN D. ROOSEVELT THE RE-ELECTION OF THE PRESIDENT.

"IN MY OPINION," THE ST. LOUIS MAN WROTE, "PRESIDENT ROOSEVELT'S MONETARY POLICY ALONE SAVED THE BANKS, BUSINESS AND EVEN OUR FORM OF GOVERNMENT FROM DESTRUCTION...."

"NOT TO VOTE FOR HIS RE-ELECTION WOULD BE FOR ME TO CONVICT MYSELF OF INGRATITUDE."

10/19--R1052A

SWISS OFFERING OVERSUBSCRIBED

11:25

PARIS - NEWS DISPATCH FROM GENEVA STATES THAT ALTHOUGH DEVALUATION CAUGHT SWITZERLAND IN THE MIDST OF AN APPEAL FOR A NATIONAL DEFENSE LOAN TAKING THE FORM OF 3 PC BONDS AT PAR REDEEMABLE WITHIN 10 YEARS BY TENTHS THE GOVERNMENT WAS ABLE TO ANNOUNCE A TOTAL OF 330 000 000 SWISS FRANCS SUBSCRIBED FOR AGAINST 235 000 000 SWISS FRANCS OFFERED - THE FIRST TRANCHE OF 80 000 000 SWISS FRANCS WAS OFFERED SEPT 21 AND WAS OVERSUBSCRIBED THE FIRST WEEK WHEREUPON THE GOVERNMENT EXTENDED THE ISSUE TO COVER THE FULL AMOUNT

-0-

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DOUBT AS TO WHETHER NEW GOLD AGREEMENT  
BETWEEN STABILIZATION FUNDS OF UNITED STATES  
ENGLAND AND FRANCE MEANT END OF PRIVATE GOLD  
SHIPMENTS REMOVED SATURDAY BY ANNOUNCEMENT  
THAT 800 000 DLS GOLD HAD BEEN ENGAGED IN  
BELGIUM FOR SHIPMENT TO NEW YORK IN NORMAL  
RESPONSE TO WEAKNESS IN BELGA EXCHANGE

8.30

OCT 19 1936

*W*  
EUROPEAN SITUATION VIEWED

OCT 19 1936

ADDRESSING A LUNCHEON MEETING OF THE BOND  
CLUB OF NEW YORK MARQUESS OF LOTHIAN ONE OF  
GREAT BRITAIN-S LEADING LIBERAL PEERS DECLARED

THAT WHILE NO GOVERNMENT AND NO PEOPLE IN  
EUROPE WANT WAR NO ONE CAN POSSIBLY SAY THAT  
WAR IS NOT GOING TO DEVELOP - THE MARQUESS OF  
LOTHIAN STRESSED THAT ECONOMIC NATIONALISM  
WITHIN SO SMALL AN AREA AS EUROPE EMBRACES  
AND THE RISING CONFLICT BETWEEN FASCISM AND  
COMMUNISM WERE IMPORTANT FACTORS IN THE  
EQUATION- HE SAID THAT ALL EUROPE WAS GIVING  
ATTENTION TO REARMAMENT IN THE EVENT THAT IF WAR  
DOES COME EACH NATION HOPES TO BE IN A

280

PSUTION TO STRIKE THE DECISIVE BLOW QUICKLY  
AND END THE CONFLICT IN SHORT ORDER INSTEAD  
OF REPEATING WHAT HAPPENED IN 1914-18-

GREAT BRITAIN HE SAID IS SEARCHING  
FOR AIRPLANE MECHANICS AND MATERIALS- LABOR  
PARTY THERE WHICH FORMERLY OPPOSED ANY REARMA-  
MENT NOW IS SUPPORTING THE GOVERNMENT-S  
PROGRAM

THE MARQUESS OF LOTHIAN SAID WHILE  
DEMOCRACY IS THE BEST SYSTEM FROM THE POINT  
OF VIEW OF THE INDIVIDUAL THERE WAS NO CER-  
TAINTY THAT IT WOULD SURVIVE AND THAT FASCISM  
OR COMMUNISM MIGHT DEVELOP FURTHER- HE ADDED  
THAT WHILE DEVALUATION HAD REMOVED SOME OF  
THE WORST FORMS OF ECONOMIC RESTRICTIONS IT  
HAD NOT CHANGED THE PROBLEMS OF ECONOMIC NATION-  
ALISM

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 19, 1936

TO Secretary Morgenthau

FROM Mr. Lochhead

Re: Shipment of \$800,000 in gold  
from Belgium to the U. S.

This shipment was arranged by Lazard Freres, Paris, and consigned to Lazard Freres, New York, on the SS Westernland, due in New York on October 26. The parity for Belgian currency is approximately 16.95¢. Whenever the rate falls below 16.84¢ it is estimated that it would be profitable for a commercial bank to purchase gold in Belgium for shipment and sale to the United States. The Belgium rate during the past week has been around 16.83¢. Lazard Freres, New York, advise that they did not handle this exchange transaction in New York, but that undoubtedly their Paris office took advantage of the low rate for belgas to arrange a gold shipment on an exchange basis.

October 19, 1936.  
12:14 p.m.

Charles  
Michelson: Fine.

H.M.Jr: Now here's the dope.

M: Yes.

H.M.Jr: I had a long session with the President.

M: Yes.

H.M.Jr: And he's crazy about what we've written about Hoover.

M: Yes.

H.M.Jr: And I'm giving it out in a press statement at 5 o'clock at my regular Press Conference this afternoon.

M: Yes.

H.M.Jr: And we just can't move our pie.

M: Can't tell what kind of pie you're going to make.

H.M.Jr: Yes and - well what's his name - Early has a Press Conference at 10:30 and announced as follows - this is what came over the Dow Jones ticker. "Roosevelt conferred with Morgenthau. Secretary Morgenthau visited Roosevelt to-day and showed the Pres....."

M: Not so fast and a little louder.

H.M.Jr: Hello.

M: I just have "President conferred with Morgenthau."

H.M.Jr: All right. "Secretary Morgenthau visited President Roosevelt to-day."

M: Yep.

H.M.Jr: "And showed the President a copy of an address the Secretary is to make in substance at a dinner of business men in New York Friday night."

M: Yes.

- 2 -

H.M.Jr: "The address which will deal with the budget matters under the Hoover administration will be released in part by Secretary Morgenthau at his conference this afternoon." Well that isn't the way I wanted to handle it but that's what they've said. Hello -

M: Yes. Now we - will you send that over to my office so they can put it on the teletype for me?

H.M.Jr: Well it isn't finished but the minute it's finished I will.

M: Yep. Well that's all.

H.M.Jr: You mean - you mean one of my press statements?

M: Your press statement which you are going to make this afternoon and I'll give it out up here at the same time.

H.M.Jr: No - no.

M: No - all right.

H.M.Jr: I don't think I would.

M: All right.

H.M.Jr: I'll tell you - the fact that Steve Early has announced this - we'll have every press association in the world here.

M: Hell that's - that's all right except that - you see we'll have a Press Conference on about the same time and I thought we could tell them that you were giving this out down there - something to talk about but it isn't necessary. You give it out down there.

H.M.Jr: Well I'll tell you - I've been over it so carefully now and the President instructed Early and then he instructed me that I hate to deviate.

M: I see. That's all right. Now how long are you going to talk at the dinner.

H.M.Jr: Well there's a man by the name of Kennedy.

M: Yes. I guess he's waiting for me inside now.

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H.M.Jr: And Kennedy said that I could have twenty minutes.

M: Do you want that much?

H.M.Jr: I - I'll need that much - why?

M: Well because they - they just tell me they're going to have little three minute speakers from all over the country breaking in and I just wanted to gauge the time that would be left for those folks after Kennedy and the President and yourself.

H.M.Jr: Well I don't think that Kennedy - you'll have to talk to him I mean I never will fight for myself.

M: Oh no that's all right I just want to know the time.

H.M.Jr: Well Kennedy - I told him first I needed a half an hour.

M: Ah ha.

H.M.Jr: And Kennedy said, "we've got thirty minutes." He says, "I take three, the President takes seven; we'll give you twenty."

M: That's all right. I just wanted to....

H.M.Jr: Now then he said, "The rest of these boys are going to talk can listen to you" and he says, "the hell with them." You know Kennedy.

M: Yes.

H.M.Jr: Now that's his idea - it's not mine.

M: That's all right. I just wanted to know the facts so that I could gauge the rest of it - that was all.

H.M.Jr: Well that's - that's what Kennedy - I mean those are his words and that's what Stanley High said that this - but ....

M: Well it may be right even if Stanley High did say it.

H.M.Jr: But I'm doing this to help elect Roosevelt and whatever those fellows up there want, why that's all right with me, see?

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M: I see. Henry, you go ahead with your twenty minutes.

H.M.Jr: Well I'm doing it to help elect Roosevelt and that's what I'm doing it for.

M: All right sir.

H.M.Jr: Now what I'm going to do - I'm going to send you something tonight.

M: Yes.

H.M.Jr: Now how do I address it so that it will actually get to you?

M: Just address it to me personally at Room 440.

H.M.Jr: Room 440.

M: Yes.

H.M.Jr: The Biltmore.

M: The Biltmore.

H.M.Jr: Now that will be on your desk Special Delivery tomorrow morning.

M: Fine.

H.M.Jr: Now when - when may I expect it back?

M: I'll - I'll try to clear it all up tomorrow so that you will get it the following morning on your desk.

H.M.Jr: Could you do that?

M: I'll sit up all night, as I say but I'll do it.

H.M.Jr: Yes, because the time is getting awful short.

M: Yep. I'll get it out of the way for you tomorrow.

H.M.Jr: And then you'll - you'll send it with a Special Delivery stamp, will you?

M: I'll send it with a Special Delivery stamp.

H.M.Jr: And ....

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M: And if there's any hitch about it I'll put a boy on the train and send him down with ~~it~~ but I'll get it to you on your desk Monday morning.

H.M.Jr: You mean Wednesday morning.

M: Wednesday morning.

H.M.Jr: Righto.

M: If the boy falls dead then I'll put it on the teletype to you. But I'll get it to you Wednesday morning.

H.M.Jr: Fine.

M: All right.

H.M.Jr: And you're perfectly happy about the way we're handling this Hoover thing.

M: Oh yes, I think that's quite all right.

H.M.Jr: I only call him a liar three times.

M: Well there's luck in odd numbers.

H.M.Jr: (Laughter) All right.

M: All right. Goodbye.

H.M.Jr: Goodbye.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE  
Monday, October 19, 1936.

Press Service  
No. 8-70

STATEMENT BY SECRETARY MORGENTHAU

The receipts and expenditures of the Government are frequently made an important issue in Presidential campaigns. In the heat of these campaigns, it is not uncommon for political speakers to criticize the expenditure programs of the party in office and in many instances the facts are presented for political purposes in a manner which confuses the public mind as to the real situation.

The Treasury does not ordinarily attempt to check the accuracy of such statements nor to take official notice of partisan criticism directed at its methods of bookkeeping and financial reporting. When, however, a former President of the United States in a public address charges the Treasury of the United States with "intellectual dishonesty" and "pernicious deceit" the public interest demands that those charges be not ignored.

The citizens naturally impute to a former President intimate knowledge of the financial operations of the Government, and when Mr. Hoover attacks the integrity of the public accounts, his statements, if permitted to go unchallenged, might tend to impair the confidence of the public in its financial officials, with consequent detrimental effect on the Federal credit.

What are the facts?

The facts are that the Treasury accounts are kept strictly in accordance with law, and are not based upon any partisan political considerations. The Treasury submits to the Congress in accordance with the law an annual report on the state of the finances, and a detailed report of receipts and expenditures of the Government for each fiscal year. Furthermore, it publishes for every

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business day a statement showing the condition of the public Treasury. These reports are from time to time supplemented by special reports. The Treasury is constantly studying the form of its reports, with a view to making them more informative to the public, and I believe it can truthfully be said that this Administration has furnished the public more detailed information on the financial operations of the Government than any preceding Administration.

Mr. Hoover set out in his address three "formulas" which he claims the present Administration has adopted for the purpose of making a distorted presentation of the expenditures of the Government.

"FORMULA NO. 1: The Roosevelt Administration has made some beautiful economies by just omitting certain items from its regular expenditures before it comes to the totals announced to the people. They appear only in an appendix."

In illustrating the application of this formula he cites "the expenditures for Government trust accounts and for the District of Columbia paid by the residents", and says these items "have been deleted from totals under President Roosevelt".

The public record shows that up to July 1, 1930, the Federal Government did "put down all of the money spent on one side of the ledger and every cent taken in on the other side of the ledger", including trust funds. But on May 1, 1930, President Hoover's Director of the Budget wrote the Secretary of the Treasury, stating:

"The President has asked me to see if appropriate arrangements can be made for exhibiting the receipts and expenditures of the Government in the Budget and in the daily Treasury statements, separately under the captions GENERAL FUND, SPECIAL FUNDS, and TRUST FUNDS."

Beginning July 1, 1930, the Daily Treasury Statement was changed in this respect to meet the wishes of President Hoover.

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Here are President Hoover's own words on this subject as contained in his 1932 Budget Message to the Congress:

"In preparing the detailed statements of receipts and expenditures contained in this Budget, I have segregated trust funds from general funds and special funds. This has been done for the reason that trust funds do not belong to the Federal Government, but to the beneficiaries of the trust; and, in summarizing the financial condition of the Government, trust funds should therefore be excluded."

He went on to say that only general and special funds represent true Government transactions.

I am not in disagreement with the changes thus effected by direction of President Hoover. On the contrary the segregation of trust fund transactions from the financial transactions of the Government is in my opinion a distinct improvement in budgetary procedure and the reporting of financial data.

But when Mr. Hoover ascribes responsibility for this change to the present Administration he misstates facts.

"FORMULA NO. II: It has always been a rightful principle of Government accounting under the old commandments to pay all receipts or all final recoveries from revolving accounts into the Treasury. Then Congress appropriates them out and thus holds control of the expenditures."

It becomes pertinent to inquire what were the "old commandments." Neither the use of revolving funds nor the Treasury's accounting procedure in connection with them is new in Government finance. In Secretary Glass' annual report for 1919, he called the attention of the Congress to the Treasury's objection to this method of appropriating funds. He said in part:

"By such appropriations the revenues of the Government affected never become unconditionally available to meet general expenditures, but are appropriated automatically for special purposes without further control by the Congress and without any new consideration of the merits of the additional expenditure. These appropriations by their very nature tend to produce expenditures, which, if considered anew, might not be authorized by the Congress and I believe that their discontinuance, to the utmost limit possible, is an essential condition of any program for rigid economy in Government expenditure."

Secretary Houston in his annual report for the fiscal year 1920, repeated the same objection.

There has been no change in the method of handling revolving funds in the Treasury Daily Statement and in the Budget since 1920. The procedure today is the same procedure that was followed throughout President Hoover's own administration. For instance, under authority of the Agricultural Marketing Act of June 15, 1929, Congress, on the recommendation of President Hoover, appropriated \$500,000,000 as a revolving fund for use of the Federal Farm Board. The repayments received up to February 28, 1933, of more than \$650,000,000 on account of loans made from this revolving fund were credited back to the fund and thereby operated to offset expenditures in the fiscal years 1930-33. It will be seen that "under the old commandments" repayments to revolving funds were not, as alleged, covered into the Treasury and subsequently appropriated by the Congress.

The operations of all revolving funds have been handled in a similar manner. For instance, the operations of the Reconstruction Finance Corporation during Mr. Hoover's administration reflected a net expenditure of \$1,572,000,000; yet in arriving at this figure a credit of \$368,000,000 was taken for repayments on loans previously made, as an offset to gross expenditures.

Had Mr. Hoover followed the principle underlying his so-called "old commandments", he would not have taken credit for the repayments of

\$368,000,000 and would have reported the gross expenditures of \$1,940,000,000 instead of a net of \$1,572,000,000.

Thus, in criticizing the method of accounting for revolving funds used by the present administration Mr. Hoover is condemning his own practice.

One important change, but in the direction of a more complete reporting of these funds has been made by this administration. The Daily Statement of the Treasury has since December 1, 1934 shown separately the gross expenditures of those corporations and credit agencies of the Government which operate on revolving funds, as well as the repayments received on account of loans made from such funds.

FORMULA NO. 3: "And this is a much more potent formula for juggling scoreboards. In the days of the old-time arithmetic the President and the Director of the Budget yearly fought each of the Federal bureaus over every item of expenditures. Congress fought at the items and finally made a detailed appropriation for each of them, down to the salary of every clerk."

In discussing formula No. 3, distinction must be made between the manner in which the Congress had made available for expenditure lump-sum appropriations for recovery and relief, on the one hand, and, on the other hand, the accounting and reporting procedure of the Treasury Department in connection with such expenditures.

As to the former, the Congress authorized President Roosevelt to utilize the established departments and agencies of the Government in meeting the unemployment problem. The primary object was to put people to work and projects were not rejected simply because they were of a type that had been carried on by established Federal agencies.

In accounting and reporting with respect to recovery expenditures the Treasury followed the same detailed system of accounting and reporting as has been followed in connection with the handling of

- 6 -

the annual appropriations of the various departments and establishments.

The Treasury considers it fundamental that expenditures from the lump-sum appropriations made available to the President for recovery and relief be accounted for separately from the funds granted by the Congress to the departments in the annual appropriation acts. It is to be noted, however, in this connection, that the Treasury Department in its annual reports and once each month in the Daily Treasury Statement (published as of the 15th of the month) reports the same information with respect to expenditures from recovery and relief funds as it does with respect to the expenditures from annual appropriations, ordinarily referred to as general expenditures,

From the statement made by Mr. Hoover, one would be led to believe that expenditures from the recovery funds are concealed through the use of small print in the Budget statements. This is not true. The fact is that the detailed expenditures from recovery funds are printed in the Budget statements in italics of the same size type, immediately following the related item payable from regular funds. For example, on page A-47 of the 1937 Budget in the estimated expenditures for the year 1937, there appears an item of \$1,000,000 in Roman type under the caption "Gila Project Arizona" and immediately following this item is another item in the same size type, but in italics for the purpose of fund identification, under the caption "Gila Project Arizona-Emergency Expenditures (Emergency Relief Act of 1935) \$1,400,000." This method of presentation conveys to the public the information that the estimated expenditure on account of the Gila Reclamation Project in 1937 is \$2,400,000, of which \$1,000,000 is

payable from an annual appropriation and \$1,400,000 from the appropriation provided in the Emergency Relief Appropriation Act of 1935. I know of no clearer, simpler or more straight-forward way of presenting figures.

Not only has President Roosevelt made available in the most convenient form detailed information concerning the expenditure of funds under the recovery and relief appropriations in the annual budget, but the Treasury has made such information also available in various administrative accounting reports, which give far greater detail than was customary in earlier practice. In the annual statement of receipts and expenditures submitted to the Congress pursuant to Sec. 15 of the Act of July 31, 1894, the Treasury has reported detailed information concerning expenditures under both annual and recovery appropriations in the same manner as has been employed over a long period of years. In addition, the Treasury has made available as of June 30, 1936, a 500 page report showing the allotments and expenditures made under the Emergency Relief Appropriation Act of 1935. This statement shows not only the organizations to which the allotments were made, but the type of work for which the allotments were made and the States in which the work was done.

Mr. Hoover charges that the Treasury has resorted to "double bookkeeping" and, in speaking of his Formula No. 1, states that one of the easiest methods of reducing Government expenditures is "just don't put them in before you announce the total."

There has been much loose talk about the use of a double budget and double bookkeeping. There is no such thing in the United States Government as a double budget, nor is there any system of double

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bookkeeping. Probably no government in the world and no business enterprise, no matter what its size, is more meticulous than the United States Treasury Department in keeping and making public accounts of the money it receives and pays out.

In order that the public may be informed as to the uses made of the funds appropriated, the Treasury classifies its expenditures into two divisions, namely, "general" and "recovery and relief." These classifications do not indicate double bookkeeping or in any sense a double budget. They were adopted by the Treasury on July 1, 1933, so as to show the public the purpose for which the appropriations were used.

Probably the nearest approach that this Government has ever made to the system of double budget was under President Hoover in 1932 with the application of the policy of showing the net expenditures of the Reconstruction Finance Corporation over and above the amount of capital stock as "public debt" transactions. Such expenditures were not included in the analysis of receipts and expenditures of general and special accounts either in the daily Treasury statement or in the Annual Budget, and the deficit of the Hoover administration was thereby understated by this amount. This method of treating the net expenditures of the Reconstruction Finance Corporation was changed by the present administration on July 1, 1933, so as to include them along with other expenditures in the Budget statement.

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No effort has been made here to reply to all of Mr. Hoover's charges. But the facts do not support any of his criticisms of Government accounting and reporting methods. On the contrary they reveal that every change made by the present administration has been in the direction of greater clarity and completeness in reporting the receipts and expenditures of public funds.

ccOoo

DEMOCRATIC NATIONAL CAMPAIGN COMMITTEE

HOTEL BILTMORE

NEW YORK CITY

CHARLES MICHELSON  
DIRECTOR OF PUBLICITY

MURRAY HILL 2-7400

Oct. 20, 1936.

Hon. Henry Morgenthau,  
Secretary of the Treasury.

Dear Mr. Secretary:

Enclosed you will note the liberty I have taken with your delightful speech. I don't know how fast or how slowly you talk so I think it would be just as well if you timed yourself on the delivery of this, because I think that my revise is a little bit longer than your arrangement.

With best wishes,

Yours sincerely,

*Charles M.*

Oct. 19, 1936

To Secretary Morgenthau  
From Mr. Fussell

Subject: Friday night dinner

Mr. Michelson says that the Friday night dinner and the Secretary's participation in it have already been announced.

He says, however, that he is sending out today a new release, for morning newspapers which states that the dinner is one of a series of business men's dinners to be held simultaneously in various cities; that the demands for attendance at the New York dinner at the Waldorf-Astoria have been so heavy that the limit on attendance has been taken off; that the meeting is under the auspices of the Good Neighbor League; that Joseph P. Kennedy is to preside.

Mr. Michelson says the understanding is that the Secretary is to have about 20 minutes. The President is to send about a 7 word greeting by telephone.

/s/ F

(The fact that the President will not be present in person apparently is being concealed in the releases)

October 7, 1936.

Let us refresh our memories as to the state of the Nation when President Roosevelt took it over on March 4, 1933. England went off gold in September, 1931. From then on the depression in this country became worse and worse. In 1932 Mr. Hoover passed a tax bill which increased everybody's personal income tax during the depth of the depression. This fell on everybody whose income was less than \$800,000.

It is interesting to note that from 1924 through to 1932 there was a succession of income tax laws. At no time did any of these laws increase the personal income tax of a man who had an income of over \$800,000. No wonder they call Mr. Mellon the greatest Secretary of the Treasury since Alexander Hamilton.

It has been stated before that the President took over a bankrupt nation in March, 1933. Let us again refresh our memories as to what has happened during the past three years. During this period, when everybody connected with Mr. Roosevelt's administration has been working day and night to put this country back on its feet, there has been at all times two methods to finance recovery. One method which Mr. Roosevelt could have used at any time was the printing press method. He had at his finger tips three billion dollars of Thomas currency. He had \$2,800,000,000 of gold profit and another \$500,000,000 of seigniorage on silver - if he should have used the maximum of the seigniorage available - or a total of over six

billion dollars. This six billion dollars has been staring him in the face day after day for the past three years. But he did not choose to use this method, because he has seen this method used time and again both abroad and here after the Civil War. So he has chosen and followed the sound, conservative method of financing recovery and that has been to borrow at a constantly decreasing interest rate and to raise the necessary funds through taxes.

The fundamental difference of Mr. Roosevelt's method to gain recovery and Mr. Hoover's has been that Mr. Roosevelt has been willing to make an investment in America when no business man had the confidence or courage to make a similar investment in either America or his own business. He has had the courage to raise taxes on the principle of ability to pay. He has had the courage to raise taxes from the more well to do rather than from the man with moderate income. And we finally reached the cross-roads of recovery from a financial standpoint when on January 5, 1936, the President sent his Budget Message to Congress, in which he said: "If the Congress enacts legislation at the coming session which will impose additional charges upon the Treasury for which provision is not already made in this Budget, I strongly urge that additional taxes be provided to cover such charges." "It is pertinent to repeat here a statement appearing in the Summation of the 1936 Budget: 'Estimates of receipts contemplate continued

- 3 -

collection of processing taxes. If the attack which has been made upon this act is sustained we will have to face the problem of financing existing contracts for benefit payments out of some form of new taxes.'" "The state of national recovery is such that receipts from prevailing tax sources on the basis of present rates appear adequate for financing the ordinary operations of the Government in 1937, including service on the public debt; and no new or additional taxes are proposed."

Hardly had the ink been dried on the President's Budget Message when the Supreme Court declared the Agricultural Adjustment Act unconstitutional and we lost roughly \$500,000,000 worth of revenue. And this was immediately followed by Congress voting to pay in advance the soldiers' bonus of \$1,700,000,000 (?).

At this particular time the President had two courses which he could follow: He could have followed the inflationary course and made up his loss of revenue through either borrowing or through spending Thomas currency, or the Stabilization Fund, or his profit of seigniorage. But he did not do this. He had the courage, the character and nerve on the eve of election to do what every politician advised him not to do, namely, to recommend to Congress that they raise additional revenues to make up the loss of revenue due to the act of the Supreme Court and the act of Congress in voting the soldiers' bonus. When the President made that momentous decision he decided once and for all that recovery should be paid for by those who have the ability to pay rather than using the printing

- 4 -

press inflationary method of paying for recovery. And since his tax message to Congress, which was on March 3, 1936, no clear thinking, reasonable person need worry or fear inflation in this country just so long as Roosevelt is at the head of this Government.

Having decided that we will pay for recovery from taxes, let us again look into the future and see when will we begin to balance our budget, reduce our taxes and begin to retire the public debt. If recovery continues at the same pace that it has for the last three years, with the present tax structure, which is the strongest we have ever had in the history of this country, the national income will continue to increase so fast that within the next two or three years we will begin to pay off our debt in such large amounts that this generation will not only enjoy the benefits of recovery, but also will have the satisfaction of contributing towards the cost of the same.

And in closing let me quote from Justice Oliver Wendell Holmes, who said: "The privilege of paying one's taxes is the price that one pays for civilization."

The big point that I want to make is that we crossed the road in January and March of 1936 as to whether we would have uncontrolled inflation or whether we would pay for recovery through taxing the man who can afford to pay.

1st draft  
of Hoover reply

Oct. 17 1946

In political campaigns for the Presidency of the United States, the receipts and expenditures of the Government are frequently made an <sup>important</sup> issue. In the heat of these campaigns, it is not uncommon for political speakers to criticize the expenditure programs of the party in office and in many instances the facts are presented for political purposes in a manner which confuses the public mind as to the real situation. ¶ Ordinarily the Treasury does not attempt to check the accuracy of such statements nor to take official notice of criticism directed at its methods of bookkeeping and financial reporting. However, when a former President of the United States in a public address charges the Treasury of the United States with "intellectual dishonesty" and "pernicious deceit" <sup>the Public Interest demands that</sup> these charges <sup>not</sup> be ignored.

¶ The citizens naturally impute to a former President intimate knowledge of the financial operations of the Government, and when Mr. Hoover attacks <sup>the integrity of</sup> the public accounts, his statements, if permitted

304  
~~304~~

2.

to go unchallenged, would unquestionably impair the confidence of the public in its financial officials, with consequent detrimental effect on the Federal credit.

3.

~~191~~

What are the facts?

*The facts are*  
~~Let me say right here~~ that the Treasury accounts are  
 strictly *partisan*  
 kept in accordance with law, and are not based upon any political  
 considerations. ~~Furthermore~~ <sup>T</sup>he Treasury submits to the Congress  
 in accordance with the law an annual report on the state of the  
 finances, *and* a detailed report of receipts and expenditures of the  
 government for each fiscal year, ~~and~~ <sup>Furthermore it</sup> publishes every business day  
 a statement showing the condition of the public Treasury. These  
 reports are from time to time supplemented by special reports.

*with a view to making them more informative to the Public*  
 The Treasury is constantly studying the form of its reports, and

I believe it can truthfully be said that this Administration has  
 furnished the public more detailed information on the financial op-  
 erations of the Government than any preceding Administration.

*Mr*  
 President Hoover set out in his address three formulas

which he claims the present Administration has adopted for the  
 purpose of *making a distorted presentation of*  
~~distanting~~ the expenditures of the Government.

*No.*  
 "FORMULA I: The Roosevelt Administration has made some beautiful economies by just omitting certain items from its regular expenditures before it comes to the totals announced to the people. They appear only in an appendix."

In illustrating the application of this formula he cites the expenditures for Government trust accounts and for the District of Columbia paid by the residents, and says these items have been deleted from ~~the~~ totals under ~~this~~ <sup>President Roosevelt</sup> administration.

The public record shows that up to July 1, 1930, the Federal Government did "put down all of the money spent on one side of the ledger" and every cent taken in on the other side of the ledger, including trust funds. But on May 1, 1930, <sup>President</sup> Hoover's Director of the Budget wrote the Secretary of the Treasury, stating:

"The President has asked me to see if appropriate arrangements can be made for exhibiting the receipts and expenditures of the Government in the Budget and in the daily Treasury statements, separately under the captions GENERAL FUND, SPECIAL FUNDS, and TRUST FUNDS."

Beginning July 1, 1930, the daily Treasury statement was changed to meet the wishes of <sup>Hoover</sup> ~~the~~ President of the United States. <sup>in this respect</sup>

~~193~~

Here are President Hoover's own words on this subject  
as contained in his 1932 Budget Message to the Congress:

" In preparing the detailed statements of receipts and expenditures contained in this Budget, I have segregated trust funds from general funds and special funds. This has been done for the reason that trust funds do not belong to the Federal Government, but to the beneficiaries of the trust; and, in summarizing the financial condition of the Government, trust funds should therefore be excluded."

Furthermore, ~~he~~ went on to say that only general and special funds represent true Government transactions.

*financial transactions*

This elimination of trust fund transactions from the budget-

~~ary statements~~ of the Government <sup>is</sup> represent in my opinion a distinct improvement in ~~publishing~~ <sup>budgetary procedure and the reporting of</sup> financial data.

I am not in disagreement with the changes thus effected by direction of President Hoover. On the contrary the segregation

It But when Mr Hoover ascribes responsibility to ~~the~~ <sup>for this change to the present Administration,</sup> ~~the~~ <sup>Administration,</sup> ~~for changing~~ <sup>he is</sup> ~~or wilful intent~~ <sup>either through ignorance,</sup> he misrepresents the record

It becomes pertinent to inquire what means the Old Commandments, neither the use of revolving funds nor the Treasury's accounting procedure in connection with them is <sup>6</sup>new in Government finance.

FORMULA 2: "It has always been a rightful principle of Government accounting under the old commandments to pay all receipts or all final recoveries from revolving accounts into the Treasury. Then Congress appropriates them out and thus holds control of the expenditures." 194

<sup>not</sup> The Treasury's ~~attitude~~ <sup>general objections to</sup> on the use of revolving funds was <sup>declared</sup> ~~announced~~ as early as 1919. In Secretary Glass's annual report

for 1919, he called the attention of the Congress to the Treasury's

objection to this method of appropriating funds. He said in part:

"By such appropriations the revenues of the Government affected never become unconditionally available to meet general expenditures, but are appropriated automatically for special purposes without ~~any~~ further control by the Congress and without any ~~other~~ new consideration of the merits of the additional expenditure. These appropriations by their very nature tend to produce expenditures, which, if considered anew, might not be authorized by the Congress and I believe that their discontinuance, to the utmost limit possible, is an essential condition of any program for rigid economy in Government expenditure."

The Treasury's <sup>to revolving funds</sup> objections were restated in Secretary Houston's report covering the fiscal year 1920.

The method of handling revolving funds in the Treasury

Daily Statement and in the Budget has not changed since 1920. ~~It~~

~~might be added that the present~~ <sup>The</sup> ~~procedure~~ <sup>today is the same procedure that</sup> was followed through

President Hoover's own administration. For instance, under authority

~~195~~

B 7.

of the Agricultural Marketing Act of June 15, 1929, Congress appropriated \$500,000,000 as a revolving fund <sup>for</sup> ~~to be used~~ by the Federal Farm Board. The repayments received up to February 28, 1933, of more than <sup>2</sup> \$650,000,000 on account of loans made from this revolving fund were credited back to the fund and thereby operated to <sup>affect</sup> ~~reduce~~ expenditures in the fiscal years 1930-33. It will be seen that "under the old commandments" repayments <sup>to revolving funds</sup> were not, as alleged, covered into the Treasury and subsequently appropriated by the Congress.

The operations of all revolving funds have been handled in a similar manner. For instance, the operations of the Reconstruction Finance Corporation during Mr. Hoover's administration ~~(and which, incidentally, were not included in the Budget)~~ reflected a net expenditure of \$1,572,000,000; <sup>in arriving at this figure</sup> ~~yet there is involved in this expenditure a credit~~ of \$368,000,000 <sup>was taken</sup> for repayments on loans previously made, <sup>as an offset to gross expenditures</sup> ~~in other words,~~ if the principle enunciated by Mr. Hoover in his address had been followed during his administration, he would have reported for the Reconstruction

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*Handwritten notes and signatures:*  
 All info from [unclear]  
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 [unclear] [unclear]  
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For instance, in reporting the operations of the Reconstruction Finance Corporation during Mr. Hoover's administration, the net expenditures were shown as \$1,572,000,000. Had Mr. Hoover followed the principle underlying his so-called "old commandments", he would not have taken credit for the repayments of \$368,000,000 and would have reported the gross expenditures of \$1,940,000,000 instead of a net of \$1,572,000,000.

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Phers, in criticizing the method  
of accounting <sup>for revolving</sup> funds used by the present  
administration Mr. Hoover is condemning  
a practice which ~~was~~ <sup>was</sup> in ~~the~~ effect  
under "the old commandments" prior  
to his administration and was  
continued by him.

One important change in the direction  
of a more complete reporting of these funds  
has been made by this administration.

~~Mr. Hoover~~  
~~Hoover~~

8.

~~198~~

~~Finance Corporation gross expenditures of \$1,940,000,000 instead of net expenditures of \$1,572,000,000.~~

~~Furthermore~~ The Daily Statement of the Treasury has for some time separately reflected the gross expenditures of credit agencies of the Government operating on revolving funds, as well as the repayments received on account of loans made from such funds.

Formula 3 (not ready)

FORMULA 3: "And this is a much more potent formula for juggling scoreboards. In the days of the old-time arithmetic the President and the Director of the Budget yearly fought each of the Federal bureaus over every item of expenditures. Congress fought at the items and finally made a detailed appropriation for each of them, down to the salary of every clerk."

In discussing formula 3, distinction must be made between the broad policy approved by the Congress with respect to the manner in which the recovery funds would be made available for expenditure, and the method of accounting and reporting adopted *by the Treasury Department* in connection with such expenditures.

As to the former, the Congress authorized ~~the~~ President *Roosevelt* to utilize the established departments and agencies of the Government in meeting the unemployment problem, *and at the same time derive for put people to work and projects were not reflected simply the benefit of the Government and the people the benefits resulting because they were of a type that had been carried on by from the prosecution of types of projects ordinarily carried on by established Federal agencies.* ~~The acceleration of projects~~ *financed in part by annual appropriations and in part from recovery appropriations should ultimately be reflected in reduced appro-*

10.

*In accounting and reporting with respect to recovery expenditures*

~~priations for future years. For example, the completion of the Boulder Canyon Project has been advanced ~~years~~ through the allotment of recovery funds for that purpose.~~

In fairness to the Administration it should be stated that no claims have been made that the general expenditures of the Government have been reduced. ~~On the other hand,~~ the Treasury has followed the same detailed system of accounting and reporting ~~with respect to the recovery funds~~ as has been followed in connection with the handling of the annual appropriations of the various departments and establishments.

The Treasury considers ~~that it is~~ fundamental that expenditures ~~made~~ from the lump-sum appropriations made <sup>available</sup> to the President for recovery and relief be accounted for separately from the funds granted by the Congress to the departments in the annual appropriation acts. It is to be noted, however, in this connection, that the Treasury Department in its annual reports and once each month in the daily Treasury state-

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ments (published as of the 15th of the month) reports the same information with respect to expenditures from recovery and relief funds as it does with respect to the expenditures from annual appropriations, ordinarily referred to as general expenditures. For ~~example~~, <sup>a</sup> the addition of the expenditures for a given department or ~~other~~ <sup>purpose</sup> major classification from general appropriations and those from recovery appropriations is merely a <sup>simple</sup> matter of arithmetic. In this connection, as a matter of ~~fact~~ intellectual honesty, <sup>it has been</sup> ~~it must be stated~~ that the Treasury has ~~frequently~~ called attention in these reports to the fact that the expenditures classified as general for this Administration are not strictly comparable with expenditures classified as general in the previous Administration, for the reason that the expenditures made by the previous Administration for recovery and relief were made from disbursing accounts used in connection with expenditures under the regular annual appropriations of the departments and establishments.

From the statement made by Mr. Hoover, one would be led to

believe that expenditures from the recovery funds are concealed through the use of small print. This is not true. The fact is that the detailed expenditures from recovery funds are printed in the Budget statements in italics immediately following the related item payable from regular (?) recovery funds. For example, on page A-47 of the 1937 Budget in the

estimated expenditures for the year 1937, there appears an item of \$1,000,000 in Roman type under the caption "Gila Project Arizona" and immediately following this item is another item in italics under the caption "Gila Project Arizona-Emergency Expenditures (Emergency Relief Act of 1935) \$1,400,000." This method of presentation conveys to the public the information that the estimated expenditures on account of the Gila Reclamation Project in 1937 is \$2,400,000, of which \$1,000,000 was payable from an annual appropriation and \$1,400,000

*The same size type looks in for the purpose of final identification*

from the appropriation provided in the Emergency Relief Appropriation Act of 1935. It seems to me that if there has been any intellectual dishonesty it certainly cannot be attributed to this Administration.

*ask Mr. Hoover - he keeps any closer, simply, or more straight forward way of presenting figures*

~~I am attaching an actual photostatic copy of page A-47 of the 1937~~

13.

*Roosevelt*

~~Budget containing this item.~~ Not only has ~~the~~ President made available in the most convenient form detailed information concerning the expenditure of funds under the recovery and relief appropriations in the annual budget, but the Treasury has made such information also available in *Administrative Accounting* various reports. In the annual statement of receipts and expenditures submitted to the Congress pursuant to Sec. 15 of the Act of July 31, 1894, the Treasury has reported detailed information concerning expenditures under both annual and recovery appropriations in the same manner as has been employed over a long period of years. Furthermore, the Treasury has made available as of June 30, 1936, a *509*-page report showing the allotments and expenditures made under the Emergency Relief Appropriation Act of 1935. This statement shows not only the organizations to which the allotments were made, but the type of work for which the allotments ~~were made~~ and the States in which the expenditures were made.

So much with respect to the accounting and reporting ~~agencies~~ for the expenditures from recovery and relief appropriations. Now, with

Mr. Hoover, in speaking of his Formula No. 1, states that one of the easiest methods of reducing Government expenditures is "Just don't put them in before you announce the total."

There has been much loose talk <sup>and ~~has been~~ ~~for~~ ~~the~~ ~~purpose~~ ~~of~~ ~~reducing~~ ~~expenditures~~</sup> about the use of a double budget and double bookkeeping. There is no such thing in the United States Government as a double budget, nor is there any <sup>system of</sup> double bookkeeping. The Treasury classifies its expenditures into two divisions, namely, "general" and "recovery and relief." Expenditures under the first-named division represent those from appropriations made specifically in the annual appropriation acts for normal functionings of the Government. Generally, expenditures under the second division are those from appropriations made for emergency purposes. These classifications do not indicate double bookkeeping or in any sense a double budget. They were adopted by the Treasury <sup>on July 1<sup>st</sup> 1933</sup> so as to show the public the purpose for which the appropriations were used. <sup>Probable</sup> I suppose the nearest approach that this Government has ever made to the system of double budget was in 1932 <sup>under President Hoover</sup>

with the adoption of the policy of showing the net expenditures of the Reconstruction Finance Corporation over and above the amount of capital stock as "public debt" transactions. Such expenditures were not included in the deficit and were consequently left out of the budget. This method of treating the net expenditures of the Reconstruction Finance Corporation was changed on July 1, 1933, by including them along with other expenditures in the Budget statement.

Probably no government in the world and no business enterprise, not matter what its size, is more meticulous than the United States Treasury Department in keeping accounts of the money it receives and pays out, and making public

3.20

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one of the easiest methods of reducing Government expenditures is "Just don't put them in before you announce the total."

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*on July 1, 1933*

*Probably*

*Mr. Hoover*

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~~analysis of receipts and expenditures of general and special accounts~~  
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~~either in the Daily Treasury Statement or in the Annual~~  
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expenditures in the Budget statement. <sup>As to include</sup>

of the Hoover administration  
 and the deficit was  
 thereby reduced by this amount,  
 understated

The facts do not support any of Mr Hoover's  
 criticisms of government accounting methods. On  
 the contrary they reveal that every change made  
 by the present administration has been in the  
 direction of greater clarity and candor in  
 stating the receipts and expenditures of public  
 funds.

*2nd draft* *Not corrected* *reply to 322 Hoover's ~~222~~ speech* *Oct 17, 1930*  
In political campaigns for the Presidency of the United States,

the receipts and expenditures of the Government are frequently made an important issue. In the heat of these campaigns, it is not uncommon for political speakers to criticize the expenditure programs of the party in office and in many instances the facts are presented for political purposes in a manner which confuses the public mind as to the real situation.

Ordinarily the Treasury <sup>ordinarily</sup> does not attempt to check the accuracy of such statements nor to take official notice of <sup>partisan</sup> criticism directed at its methods of bookkeeping and financial reporting. However, when

a former President of the United States in a public address charges the Treasury of the United States with "intellectual dishonesty" and "pernicious deceit" the public interest demands that those charges be not ignored.

The citizens naturally impute to a former President intimate knowledge of the financial operations of the Government, and when Mr. Hoover attacks the integrity of the public accounts, his statements,

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if permitted to go unchallenged, would unquestionably impair the confidence of the public in its financial officials, with consequent detrimental effect on the Federal credit.

What are the facts?

The facts are that the Treasury accounts are kept strictly in accordance with law, and are not based upon any partisan political considerations. The Treasury submits to the Congress in accordance with the law an annual report on the state of the finances, and a detailed report of receipts and expenditures of the Government for each fiscal year. Furthermore, it publishes for every business day a statement showing the condition of the public Treasury. These reports are from time to time supplemented by special reports. The Treasury is constantly studying the form of its reports, with a view to making them more informative to the public, and I believe it can truthfully be said that the Administration has furnished the public more detailed information on the financial operations of the Government than any preceding Administration.

275

Mr. Ecover set out in his address three formulas which he claims the present Administration has adopted for the purpose of making a distorted presentation of the expenditures of the Government.

**"FORMULA NO. I:** The Roosevelt Administration had made some beautiful economies by just omitting certain items from its regular expenditures before it comes to the totals announced to the people. They appear only in an appendix."

In illustrating the application of this formula he cites "the expenditures for Government trust accounts and for the District of Columbia paid by the residents", and says these items "have been deleted from totals under President Roosevelt".

The public record shows that up to July 1, 1930, the Federal Government did "put down all of the money spent on one side of the ledger and every cent taken in on the other side of the ledger", including trust funds. But on May 1, 1930, President Hoover's Director of the Budget wrote the Secretary of the Treasury, stating:

"The President has asked me to see if appropriate arrangements can be made for exhibiting the receipts and expenditures of the Government in the Budget and in the daily Treasury statements, separately under the captions GENERAL FUND, SPECIAL FUNDS, and TRUST FUNDS."

Beginning July 1, 1930, the daily Treasury statement was changed in this respect to meet the wishes of President Hoover.

Here are President Hoover's own words on this subject as contained in his 1932 Budget Message to the Congress:

"In preparing the detailed statements of receipts and expenditures contained in this Budget, I have segregated trust funds from general funds and special funds. This has been done for the reason that trust funds do not belong to the Federal Government, but to the beneficiaries of the trust; and, in summarizing the financial condition of the Government, trust funds should therefore be excluded."

He went on to say that only general and special funds represent true Government transactions.

I am not in disagreement with the changes thus effected by direction of President Hoover. On the contrary the segregation of trust fund transactions from the financial transactions of the Government is in my opinion a distinct improvement in budgetary procedure and the reporting of financial data.

But when Mr. Hoover ascribes responsibility for this change to the present Administration, ~~either through ignorance, or wilful intent, he misrepresents the record.~~ *misstates the facts.*

"FORMULA NO. II: It has always been a rightful principle of Government accounting under the old commandments to pay all receipts or all final recoveries from revolving accounts into the Treasury. Then Congress appropriates them out and thus holds control of the expenditures."

It becomes pertinent to inquire what were the Old Commandments.

Neither the use of revolving funds nor the Treasury's accounting procedure in connection with them is new in Government finance. ~~The Treasury's general objections to the use of revolving funds were declared as early as 1919.~~ In Secretary Glass' annual report for 1919, he called the attention of the Congress to the Treasury's objection to this method of appropriating funds. He said in part:

"By such appropriations the revenues of the Government affected never become unconditionally available to meet general expenditures, but are appropriated automatically for special purposes without further control by the Congress and without any new consideration of the merits of the additional expenditure. These appropriations by their very nature tend to produce expenditures, which, if considered anew, might not be authorized by the Congress and I believe that their discontinuance, to the utmost limit possible, is an essential condition of any program for rigid economy in Government expenditure."

The Treasury's objections to revolving funds were restated in Secretary Houston's report covering the fiscal year 1920.

The method of handling revolving funds in the Treasury Daily Statement and in the Budget has not changed since 1920. The procedure today is the same procedure that was followed through President Hoover's own administration. <sup>There is</sup> For instance, under authority

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of the Agricultural Marketing Act of June 15, 1929, Congress appropriated \$500,000,000 as a revolving fund for use of the Federal Farm Board. The repayments received up to February 28, 1933, of more than \$650,000,000 on account of loans made from this revolving fund were credited back to the fund and thereby operated to offset expenditures in the fiscal years 1930-33. It will be seen that "under the old commandments" repayments to revolving funds were not, as alleged, covered into the Treasury and subsequently appropriated by the Congress.

The operations of all revolving funds have been handled in a similar manner. For instance, the operations of the Reconstruction Finance Corporation during Mr. Hoover's administration reflected a net expenditure of \$1,572,000,000; yet in arriving at this figure a credit of \$368,000,000 was taken for repayments on loans previously made, as an offset to gross expenditures.

Had Mr. Hoover followed the principle underlying his so-called "old commandments", he would not have taken credit for the repayments of \$368,000,000 and would have reported the gross expenditures of \$1,940,000,000 instead of a net of \$1,572,000,000.

Thus, in criticizing the method of accounting for revolving funds used by the present administration Mr. Hoover is condemning a practice which was in effect under "the old commandments" prior to his administration and was continued by him.

One important change in the direction of a more complete reporting of these funds has been made by this administration.

The Daily Statement of the Treasury has for some time separately reflected the gross expenditures of credit agencies of the Government operating on revolving funds, as well as the repayments received on account of loans made from such funds.

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FORMULA NO. 3: "And this is a much more potent formula for juggling scoreboards. In the days of the old-time arithmetic the President and the Director of the Budget yearly fought each of the Federal bureaus over every item of expenditures. Congress fought at the items and finally made a detailed appropriation for each of them, down to the salary of every clerk."

In discussing formula No. 3, distinction must be made between the broad policy approved by the Congress with respect to the manner in which the recovery funds would be made available for expenditure, and the method of accounting and reporting adopted by the Treasury Department in connection with such expenditures.

As to the former, the Congress authorized President Roosevelt to utilize the established departments and agencies of the Government in meeting the unemployment problem. The primary object was to put people to work and projects were not rejected simply because they were of a type that had been carried on by established Federal agencies.

In accounting and reporting with respect to recovery expenditures the Treasury has followed the same detailed system of accounting and reporting as has been followed in connection with the handling of

~~911~~

the annual appropriations of the various departments and establishments.

The Treasury considers it fundamental that expenditures from the lump-sum appropriations made available to the President for recovery and relief be accounted for separately from the funds granted by the Congress to the departments in the annual appropriation acts. It is to be noted, however, in this connection, that the Treasury Department in its annual reports and once each month in the daily Treasury statement (published as of the 15th of the month) reports the same information with respect to expenditures from recovery and relief funds as it does with respect to the expenditures from annual appropriations, ordinarily referred to as general expenditures.

From the statement made by Mr. Hoover, one would be led to believe that expenditures from the recovery funds are concealed through the use of small print. This is not true. The fact is that the detailed expenditures from recovery funds are printed in the Budget statements in italics immediately following the related item payable from regular funds. For example, on page A-47 of the 1937

Budget in the estimated expenditures for the year 1937, there appears an item of \$1,000,000 in Roman type ~~xxx~~ under the caption "Gila Project Arizona" and immediately following this item is another item in the same size type but in italics ~~xxx~~ for the purpose of fund identification under the caption "Gila Project Arizona-  
Emergency Expenditures (Emergency Relief Act of 1935) \$1,400,000."  
This method of presentation conveys to the public the information that the estimated expenditures on account of the Gila Reclamation Project in 1937 is \$2,400,000, of which \$1,000,000 was payable from an annual appropriation and \$1,400,000 from the appropriation provided in the Emergency Relief Appropriation Act of 1935. I ask Mr. Hoover if he knows any clearer, simpler or more stright forward way of presenting figures? It seems to me that if there has been any intellectual dishonesty it certainly cannot be attributed to this Administration. Not only ~~the~~ <sup>has</sup> President Roosevelt made available in the most convenient form detailed information concerning the expenditure of funds under the recovery and relief appropriations in the annual budget, but the Treasury has made such information also

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available in various administrative accounting reports. In the <sup>278</sup> annual statement of receipts and expenditures submitted to the Congress pursuant to Sec. 15 of the Act of July 31, 1894, the Treasury has reported detailed information concerning expenditures under both annual and recovery appropriations in the same manner as has been employed over a long period of years. Furthermore, the Treasury has made available as of June 30, 1936, a 509 page report showing the allotments and expenditures made under the Emergency Relief Appropriation Act of 1935. This statement shows not only the organizations to which the allotments were made, but the type of work for which the allotments and the States in which the expenditures were made.

Mr. Hoover, in speaking of his Formula No. 1, states that one of the easiest methods of reducing Government expenditures is "Just don't put them in before you announce the total."

There has been much loose talk about the use of a double budget and double bookkeeping. There is no such thing in the United States Government as a double budget, nor is there any system of double bookkeeping. Probably no government in the world and no business enterprise no matter what its size, is more meticulous than the United States Treasury Department in keeping and making public accounts of the money it receives and pays out.

In order that the public may be informed as to the uses made of the funds appropriated the Treasury classifies its expenditures into two divisions, namely, "general" and "recovery and relief." Expenditures under the first-named division represent those from appropriations made specifically in the annual appropriation acts for normal functionings of the Government. Generally, expenditures under the second division are those from appropriations made for emergency purposes. These classifications do not indicate double bookkeeping or in any sense a double budget. They were adopted by the Treasury on July 1, 1933 so as to show the public the purpose for which the appropriations were used.

Probably the nearest approach that this Government has ever made to the system of double budget was under President Hoover in 1932 with the application of the policy of showing the net expenditures of the Reconstruction Finance Corporation over and above the amount of capital stock as "public debt" transactions. Such expenditures were not included in the analysis of receipts and expenditures of general and special accounts either in the daily Treasury statement or in the Annual Budget, and the deficit of the Hoover administration was thereby understated by this amount. This method of treating the net expenditures of the Reconstruction Finance Corporation was changed by the present administration on July 1, 1933, so as to include them along with other expenditures in the Budget statement.

The facts do not support any of Mr. Hoover's criticisms of Government accounting methods. On the contrary they reveal that every change made by the present administration has been in the direction of greater clarity and candor in reporting the receipts and expenditures of public funds.

October 19, 1936

HM, Jr. dictated the following at about 10:30, just after he returned from the White House where he went to discuss with the President the material he had compiled in answer to Hoover's charge of "double bookkeeping":

"The President's first reaction was to give this thing out and say that this is a preliminary answer to Hoover and that I would give the rest of it Friday night. I told him, 'You just could not do that'. Then McIntyre got the bright idea that Steve Early at his 10:30 press conference should tell the boys that I could not give my answer to Hoover over the radio because the speech that I had prepared to give that night was just too good and that I was going to give it to the newspaper men at four o'clock today. So I said, 'Wait a minute, Steve. I don't want it to appear that the White House has told me that I cannot go on the air. Please say that you prefer that I give it to the press this afternoon rather than as a radio speech Friday night.' Then they said 'All right, but let's say that the President said that you should give it to the newspaper men at your press conference at four o'clock'."