

DIARY

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October 20, 1936.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston



Luther J. Reid of Democratic headquarters, Biltmore Hotel, New York, called me up to tell me that your time for the Friday night speech is strictly limited to fifteen minutes. The program is to be as follows: Dr. Stanley High will introduce Joe Kennedy, who will then introduce the President, who will be heard by radio for eight minutes. Kennedy will then introduce you, for a fifteen minute speech, and after that there will be broadcasts from San Francisco, Chicago and New Orleans of three minutes each. The whole thing is governed by radio arrangements so that there will be no opportunity to run over.

I think your speech, in the form in which it was shown to me today, is a trifle too long.

Let us take inventory 12A  
of the Nations Business

1. Where were we at  $3\frac{1}{2}$  yrs ago - namely March 4, 1933
2. Where are we at now
3. Where may we hope to be 3 yrs hence.

March 4 1933 - various  
statistics

How true financial +  
fiscal legislation that  
has been placed on books  
show ~~how much~~  
what financial step  
we have taken to facing

about recovery.

How much has it  
And what parts of inflation  
legislation we have not  
used.

What has it cost the  
country to prime  
the pump. Has it  
been worth while.

Have the results  
justified the means.

How have we  
financed the cost?

How might we  
have financed  
through existing?

legislation (inflation) (3)?

We choose the orthodox  
conservative method.

When did we pass the  
crisis financial crisis  
in the country?

Last January when Pres  
decided to pay for A.A.F.  
and bonus thru taxes  
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 ability to pay rather

than the inflation method.  
No one here will  
disagree with that  
decision. You undoubtedly  
will disagree as to the  
kind of taxes. No one  
likes taxes.

On whom does increase  
fall.

1932 Tax bill

1934-5-6.

How badly does it  
hurt.

Tax advisory Board  
Alvin Wendell Holmes on Taxes

WASHINGTON, D. C.  
2201 R STREET

October 20, 1936

Mr. White, Mr. Lochhead, Mr. Haas and Mr. Taylor were in the Secretary's office today. He told them: "When we announce on Monday, at four o'clock, that we added Belgium and Switzerland to our list, I wish to simultaneously announce that all proclamations that have to do with handling of gold prior to October 13, 1936, are cancelled and from that day on the United States is on a managed currency basis. The beauty of this," he said, "is that we are on a 24-hour basis and we go along as we are just as long as the sterling bloc behaves itself, but if it misbehaves, then we take defensive measures. This is very, very secret. Gradually this thing will sink in. I think I am right, but I am going to spend tomorrow on it arguing and will let you all argue at me."

October 20, 1936

HM, Jr. asked the group at the meeting this morning what they thought of the idea that with countries that do not have a stabilization fund, for fear that some other country might "use them", we would limit them to taking \$10,000,000 gold out of the country in one day, inasmuch as we are on a 24-hour basis.

Viner thought very well of the idea and the Secretary presented it to Cochran when he spoke to him over the telephone. Copy of the conversation with Cochran follows:

*Dr. J. M. ...  
B. ...*

*8:55 am*

POSSIBILITY OF PRIVATE GOLD EXPORTS FROM THIS COUNTRY REMAINED IN DOUBT WHEN SECRETARY MORGENTHAU DECLINED TO SAY WHETHER TREASURY CONSIDERS BELGIUM ON GOLD STANDARD- UNLESS BELGIUM THE ONLY COUNTRY BESIDE THE UNITED STATES WHICH HAS A FIXED GOLD PRICE IS HELD BY THE TREASURY TO BE ON GOLD STANDARD PRIVATE GOLD EXPORTS FROM THIS COUNTRY TO ARBITRAGE THE DOLLAR ARE IMPOSSIBLE

OCT 20 1936

TREASURY GOLD STOCKS DROP 9 000 000

DLS

WASHN - THE TREASURY-S GOLD STOCKS SHOWED THE FIRST DECREASE IN MANY MONTHS ON OCT 17 WHEN IT DROPPED TO 11 001 565 614 DLS A DECLINE OF 9 138 579 DLS COMPARED WITH THE TOTAL FOR THE PREVIOUS DAY

*9:55*

-0- OCT 20 1936

WCNS24

THE U. S. TREASURY'S GOLD HOARD REGISTERED A DECLINE OF MORE THAN \$9,000,000 TODAY, MARKING THE FIRST REDUCTION OF THE HUGE GOLD SUPPLY SINCE THE "GENTLEMEN'S" AGREEMENT ON CURRENCY STABILIZATION NEGOTIATED WITH FRANCE AND ENGLAND.

10/20--TP1015A

WCNS25

## ADD GOLD

TREASURY OFFICIALS DECLINED TO DISCUSS THE SMALL DENT MADE IN THE HUGE GOLD SUPPLY BUT IT WAS GENERALLY BELIEVED THE \$9,138,579 REDUCTION SHOWN IN THE BALANCE SHEET FOR OCT. 17 REPRESENTED GOLD EARMARKED FOR TRANSFER TO ONE OF THE COUNTRIES WHICH HAVE BECOME PARTIES TO THE STABILIZATION AGREEMENT.

THE TREASURY STATEMENT FOR OCT. 16 SHOWED A GOLD SUPPLY OF \$11,010,704,192.65, WHILE THE OCT. 17 STATEMENT TOTALED THE GOLD SUPPLY AT \$11,001,565,613.75.

THE STABILIZATION AGREEMENT AND THE SUBSEQUENT REGULATIONS FOR CARRYING IT INTO EFFECT PROVIDED FOR A REGULATED FLOW OF GOLD BETWEEN OR AMONG THE COUNTRIES WHO ARE PARTIES TO THE AGREEMENT AND WHO HAVE ESTABLISHED STABILIZATION FUNDS OF THEIR OWN.

10/20--R1022A

2:45 BRITISH GOLD MOVEMENT

OCT 20 1936

LONDON - LONDON GAZETTE REPORTS THAT  
DURING FOUR DAYS ENDED OCT 19 UNITED KINGDOM  
IMPORTS OF GOLD TOTALED 870 743 PDS OF WHICH  
171 452 PDS CAME FROM BRITISH WEST AFRICA 342  
276 PDS FROM BRITISH INDIA AND 133 186 PDS FROM  
SWITZERLAND - EXPORTS TOTALED 671 014 PDS  
OF WHICH 386 025 PDS WENT TO SWITZERLAND AND  
283 426 PDS TO AMERICA

SILVER IMPORTS WERE VALUED AT 113 751 PDS  
OF WHICH 73 329 PDS CAME FROM JAPAN - EXPORTS  
WERE VALUED AT 169 809 PDS OF WHICH 150 950  
PDS WENT TO AMERICA

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October 20, 1936.  
11:30 A.M.

H.M. Cochran: Hello, Mr. Morgenthau.

HMjr: Hello, Cochran.

C: I got back this morning.

HMjr: Yes

C: I had a good trip. I was three hours late because of a wreck on the line.

HMjr: Is that what they're trying to do to you?

C: Yes, yes - (laughs) - they got the other train, not me.

HMjr: Oh, I see.

C: So I had rather good luck, and I've sent a cablegram on this through at eleven o'clock -

HMjr: Yes -

C: - setting forth the details.

HMjr: I see.

C: I followed the same practice there as in Brussels.

HMjr: Yes.

C: Went to our Minister first.

HMjr: Uhuh.

C: Then I went to the Central Bank, found the Governor and his few assistants -

HMjr: Yes

C: - and we talked over the, the - a plan of a declaration, -

HMjr: Yes

C: - they thought, along the lines of the Belgian budget.

HMjr: Yes

C: That is, explaining the Swiss devaluation, showing what

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resources they had -

HMjr: Yes

C: - as a stabilization fund, -

HMjr: Yes

C: - if they haven't anything called a stabilization fund.

HMjr: Yes

C: Then we talked over the responsibility for the management -

HMjr: Yes

C: - of resources -

HMjr: Yes

C: - and I wanted them to show the willingness of the Swiss to grant reciprocity to us.

HMjr: Yes

C: And the Bank raised those same technical points -

HMjr: Yes

C: - raised in the cablegram to George Harrison.

HMjr: Yes

C: I told them, I said, "I - I can't talk on those. We must first determine a general question of reciprocity, -

HMjr: Yes

C: " - those can be worked out later." So we went straight ahead then on the

Then we went over to see Beyer - is the head of the Ministry of Finance and Customs.

HMjr: Yes

C: He is at the same time the President of the Federal Council.

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HMjr: Yes

C: So they - they'll feel - they elect one of the members here to serve as President.

HMjr: Yes

C: And he was entirely sympathetic, and thankful that our, our and accept their cooperation, and so on, and said to go ahead and draw up the declaration, -

HMjr: Yes

C: - but that he could not sign it until he consulted his colleagues on the Federal Council.

HMjr: Yes

C: There are six colleagues and no one of them signed, for the Government was out

HMjr: That's all right.

C: So then we went back to the Bank and they dictated the statement and they typed it out while we were at lunch together.

HMjr: Yes

C: Then in the afternoon we revised it and I translated it into English.

HMjr: Who paid for the lunch?

C: - and I -

HMjr: Who paid for the lunch?

C:

HMjr: Who paid for the lunch?

C:

- devaluation of those funds and resources available as a fund, so that the Bank is the only one that controls this. And furthermore, they were willing to give me their sale and purchase price for gold.

HMjr: Uh huh.

HMjr: What I asked was who paid for the lunch?  
C: (Laughs) The Swiss.  
HMjr: Good.  
C: Very good luncheon.  
HMjr: Good. All right.  
C: And, so then, I - I didn't think they would quote me definite prices for gold.  
HMjr: Yes  
C: They could, until further notice.  
HMjr: Yes  
C: So we have something definite to go on.  
HMjr: But they did?  
C: Yes, they did.  
HMjr: Now, they have no stabilization fund, have they?  
C: They have nothing that's labelled as stabilization fund -  
HMjr: Yes  
C: - but they have the profit from devaluation -  
HMjr: Yes  
C: - still held in the bank -  
HMjr: Yes  
C: - in a special account.-  
HMjr: Yes  
C: It amounts to 538 billion francs.  
HMjr: Uh huh.  
C: And, while it's not called an equalization fund, it is a special account, and when the Bank operates in gold, it

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operates for this special account.

HMjr: Now, that's all been put in the cable?

C: It's all in the cable, yes.

HMjr: Now, I've had an idea that I'd like you to think about -

C: Yes

HMjr: And that is, in view of the fact that Belgium does not have a stabilization fund, and all of these declarations are on a 24-hour -

C: Yes

HMjr: Don't you think it would be perfectly fair to say that we'd limit the operation for one day to ten million dollars? - in order that no other country might use them or work through them, you see?

C: I see.

HMjr: You see, some other country like - take - using Belgium for example, might put a drive on Belgium, you see? -

C: Yes

HMjr: - knowing that they had no stabilization fund.

C: Yes

HMjr: And therefore, what I'm thinking of is, limit the operation to ten million dollars, and of course it would have to be both ways.

C: Yes, yes - let me think that over.

HMjr: For one day, I mean.

C: Yes

HMjr: See?

C: Yes

HMjr: Don't you think that sounds fair? But think it over.

C: The only thing - I mean to say, would you limit London? - wouldn't limit London or Paris to that, would you?

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HMjr: No, they have stabilization funds.

C: Where they have no stabilization fund?

HMjr: Yes, where they have no stabilization fund.

C: So then, that's the only country so far we've had dealings with.

HMjr: Who? Which country?

C: Belgium.

HMjr: Yes, they have no stabilization fund -

C: No

HMjr: - and therefore I suggest that we limit the operations for one day to ten million dollars.

C: I see. But they have the resources of the Bank which they -

HMjr: I know.

C: - so it's really just the same.

HMjr: I know. But towards our own public I think it would look sound.

(Operator): Six minutes.

C: I see.

HMjr: Hello. Must be a Scotchman on this phone.

C: (Laughs) Yes, yes, I see.

HMjr: Well, you think that over. When we get the cable, we'll take a look at it, see?

C: That's fine.

HMjr: And it's all right to keep our French friends advised. We - we'll keep the British advised here.

C: I - I haven't seen them since I came back. I didn't want to -

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HMjr: Well, I wouldn't try to see them today, because I can't get the British today, but I'll show the British your cable tomorrow, see?

C: All right.

HMjr: So you can show the French what you've got tomorrow.

C: All right, fine.

HMjr: But I - I wouldn't, in order not to give them too much head start, I wouldn't do it until tomorrow afternoon.

C: All right.

HMjr: See?

C: Yes

HMjr: Supposing you ask for an appointment to see the French Treasury tomorrow afternoon.

C: All right, fine.

HMjr: And we'll try to get hold of the British some time tomorrow.

C: All right.

HMjr: - when we have both of your cables, see?

C: The statement which the Belgians - which the Swiss made - they're very anxious that no publicity should be given to it.

HMjr: Yes

C: Because they've given us some information in regard to their fund and so on -

HMjr: All right.

C: - not up to date published.

HMjr: O.K.

C: And -

HMjr: Uh -

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C: - just one other thing. Have you heard anything from the Dutch?

HMjr: No, and I don't want to - I don't want to - I don't want to go out and solicit any business.

C: I see.

HMjr: No, I don't want to solicit any business.

C: No.

HMjr: Let's just sit tight.

C: Yes, yes

HMjr: See?

C: But there's my point the other day, is they might be happier if we let them know.

HMjr: Well, I'll talk that over here and I'll give you an answer on that, tomorrow.

C: I can't do anything unless I hear from you?

HMjr: No.

C: All right -

HMjr: But, but -

C: - then you'll have this this afternoon, and then I'll see the French.

HMjr: Well, what you've done sounds very good.

C: All right, fine.

HMjr: And I'm very much pleased.

C: And we ought to have the definite signature by - will be announced - they're going to telephone me as soon as the Federal Council approves.

HMjr: Yes, well -

C: So, buenos dias Thursday late.

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HMjr: But then they don't give that out there, do they?

C: No, no, they give out nothing.

HMjr: Yes

C: The only thing they want - they should like for us to tell them when we are going to -

HMjr: Oh yes - and I'll most likely make it a joint announcement anyway, all around -

C: Yes

HMjr: - with the French and English.

C: Yes, but I mean even though the Swiss may not make the announcement, they'd want to know -

HMjr: Oh yes

C: - when we were going to make ours.

HMjr: Oh, this is a gentlemen's agreement.

C: (Laughs) Yes

HMjr: All right.

C: Fine.

HMjr: Fine.

C: All right, sir.

HMjr: 'Bye.

C: Goodbye.

October 20, 1936.  
2:25 P.M.

17

Lochhead: Well, they're going very well and very quietly. We haven't had to do a thing. The market is about 489 to an eighth -

HMjr: Yes

L: - and decidedly smaller volume than yesterday.

HMjr: Yes.

L: There's very little going on in it.

HMjr: What's happening with the francs?

L: The francs are holding rather steady, about 465 to eleven sixteenths, but there's also nothing doing there. The papers said they hadn't sold any francs for account of the Bank of France today at all.

HMjr: What about the guilder?

L: The guilder has been jumping around a little bit. It built up today - it's a little stronger again today.

HMjr: Yes

L: I should say about ten points stronger. I mean that it's swinging in a wider range.

HMjr: Oh gosh.

L: And everything is quiet.

HMjr: Yes.

L: So - and the stock market is still off -

HMjr: Yes

L: - and they say there is a French sale of security bills in the market today.

HMjr: Good.

L: And the bond market, I'd say, would be off about one - maybe in one or two cases, two thirty-seconds.

HMjr: Yes

-2-

L: But no activity. Everything is extremely quiet.

HMjr: How much are bonds off?

L: The bonds, I'd say, may be one or two thirty-seconds off.

HMjr: Well, that's all right.

L: Oh yes, there's no real action in them at all.

HMjr: Uh huh.

L: But they say all around the Street today it looks much quieter.

HMjr: All right, Archie.

L: O.K., Henry.

HMjr: Goodbye.

October 20, 1936.  
2:30 P.M.

✓  
19

Gaston: Hello.

HMjr: Herbert?

G: Yes

HMjr: How are you getting along?

G: Oh, all right.

HMjr: Are you - ?

G: We're getting along all right. We're looking up a lot of little specific points for them over there.

HMjr: Yes. I mean are they taking the corrections you're giving them?

G: Well, yes, they are. Yes, so far as I've seen. I had a few minutes with Sam over there.

HMjr: You should be honored.

G: Huh?

HMjr: You should be honored.

G: Oh yes (laughs). Well, he seems to be directing the job, and Stanley High was there, as well as Tom Corcoran.

HMjr: You'd be interested, in confidence, that I told the President this morning when I was with the President, that I told him that I thought for them to give out and leave in the minds of people that the President is going to come there Friday night and talk, and sell tickets on that basis, and then not to do it - I thought it was terrible.

G: They're still leaving it that way, are they?

HMjr: I said, "Mr. President, it only reacts on you."

G: Yes.

HMjr: And I think it's just a - a cheap trick.

G: Well, Steve called me up about that on Monday night. I said that it's possible that letter went out before

-2-

the plans were changed, and that I thought by all means they ought to get out a new letter immediately explaining the situation; and -

HMjr: Don't you want to follow it up with Steve Early?

G: With Steve Early - yes.

HMjr: Yes

G: Yes. I mean it was Steve Gibbons that called me about it the other -

HMjr: Don't you want to bring it to Steve Early's attention?

G: Well, they haven't sent out any new announcement, have they?

HMjr: Well, not that I know of.

G: Did, did -

HMjr: Somebody told me that the announcement - that the publicity still seems to be floating right with the President and will proceed from there.

G: Uh huh.

HMjr: And the only person it's going to react on is the President.

G: Surely, surely.

HMjr: What?

G: Surely. You didn't see any of the letters of invitation yourself?

HMjr: Yes, the first one.

G: What?

HMjr: I only looked at the first -

G: You got - you got the first one?

HMjr: Yes, and I gave it to Steve Gibbons.

G: Uh huh, uh huh, yes. Yes, I'll take that up with Steve

this afternoon.

HMjr: I - I think so.

G: Uh huh.

HMjr: I think it's - it's one of those things, you know. If - let's say that they have a thousand or two thousand people there; they come there, they've paid five dollars with the idea that they're going to hear the President, and if they don't hear him it reacts on the President.

G: Of course, of course.

HMjr: Right. All right, Herbert.

G: Are you feeling any better?

HMjr: Little better, thank you.

G: That's fine.

HMjr: Goodbye.

October 20, 1936

~~23~~

The President telephoned me at 2 o'clock yesterday, while I was at home, and said that he had just learned that the queen of Spain, when she sails from the United States, is taking with her a lot of gold to help finance the revolution.

I was so busy yesterday that I did not get a chance to see McReynolds, but I told him that it was up to him, Dow and Johnson to handle this matter for me and that if necessary Dow should go up to New York.

October 20, 1936.

Mr. Taylor, Dr. Viner, Mr. Eccles, Governor Ransom and Mr. Upham met at luncheon in the Treasury, Mr. Morgenthau was unable to be present.

Mr. Eccles brought up the matter of the research staff of the Federal Reserve Board and expressed the opinion that they should have a much larger and much better staff of economists and statisticians than they have. His view is that beginning about two years hence they will have a good many economic problems to deal with and that they should have a staff giving intensive study to them between now and that time. He referred to their plan to integrate with the ~~research~~ division in Washington the research divisions of each of the 12 banks.

Dr. Viner agreed with Mr. Eccles and told him that he thought the Boards present staff is pretty good but mostly made up of Juniors. Opinions were expressed on the present members of the staff and there were some suggestions made for additions to it.

Mr. Eccles said that he was interested in securing the services of a first class tax man and a first class social security man. He expressed the view that the Federal Reserve Board cannot operate in a vacuum and that unless they can have a part in determining tax and general credit policy, their job is pretty futile.

Dr. Viner said that good tax men were scarce and that he had been trying for a couple of years to find a man good enough to recommend to the Treasury.

The matter of government reorganization was mentioned and

Mr. Eccles indicated that the Federal Reserve Board staff had been studying for 6 months a possible consolidation of Federal banking agencies. They have a plan all worked out, he said, for combining the FDIC and the Comptroller's office with the Federal Reserve system. ~~33~~

Mr. Taylor asked Mr. Upham to briefly describe the developments of the last few days in connection with the banking situation in Perth Amboy, New Jersey as an illustration of how the Federal banking agencies might and can work together.

Mr. Eccles said that he had a written report from the Federal Reserve officials in San Francisco on the national banking examination situation out there. He related that the former Chief National Bank Examiner of the 12th District had found working for the present Comptroller so difficult that he finally had to get out. In his place, Mr. Eccles said, was a man who in 1932 failed to pass the regular examination for national bank examiner -- a thoroughly incompetent person. I more or less facetiously asked Mr. Eccles if he had not learned anything from the Secret Service incident of last summer and if he did <sup>not think</sup> that it was dangerous for him to investigate another branch of the government.

Mr. Taylor brought Mr. Eccles and Governor Ransom up to date on developments in the international monetary situation with respect to pending negotiations with Belgium, Switzerland, Sweden, Argentina and Bulgaria.

Mr. Eccles was very hopeful that the arrangement for staff members of the Treasury and the Federal Reserve to get together and exchange information be consummated promptly. He indicated

that there was not so much interest in weekly or monthly reports on actual developments but much more interest in a discussion ~~254~~ of the factors involved and the forces under way so that there might be intelligent current consideration of developments.

Dr. Viner expressed agreement with Mr. Eccles' views for the necessity of the Federal Reserve Board being kept informed.

Mr. Eccles read a memorandum which he had prepared for presentation to the Secretary reviewing the financial week as it appears to them. He thought it might be valuable for the weekly meetings to include an exchange of such memoranda.

There was some discussion of how the operations of the Stabilization Fund might be conducted to reduce excess reserves and Mr. Eccles expressed the opinion that he would like to see any gold outflow be the outflow of Federal Reserve gold rather than stabilization fund gold with a consequent reduction in excess reserves.

Mr. Taylor indicated that some attention was being given to that problem but that no conclusions had been reached.

The lunch meeting ended with a discussion of the problems of the Federal Reserve in the field of margin requirements for stock market transactions.

LMS

GRAY

Paris

Dated October 20, 1936

Rec'd 5:15 p. m.

Secretary of State,  
Washington.

1024, October 20, 5 p. m.

FROM COCHRAN.

Feature on Paris market today is decline in French rentes ranging from 1.25 to 1.90 francs; no particular reason is given for this evidence of pessimism. Forward francs are offered. While London was an important buyer of dollars yesterday, Stockholm is said to be selling dollars and buying sterling today. National Bank of Belgium reported to be holding rate of belga against dollar. Market circles believe Bank of France did no trading in sterling or dollars today but that American control intervened yesterday evening to offer dollars against sterling. Florin has declined following reduction of Dutch Central Bank rate from three to two and a half per cent.

BULLITT

SMS:NPL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 20, 1936, 11 a.m.

NO.: 1021

FROM COCHRAN.

I refer to my telegram No. 1010 of October 16.

When I arrived in Bern on Monday morning I called upon Minister Wilson to acquaint him with the purpose of my visit there.

Monday morning at 9:30 I was received at the Swiss National Bank by Bachmann, Schnyder and Weber. Bachmann is President of the Board of General Managers of the Swiss National Bank, and Schnyder is Vice-President and Weber the Third Member.

I made reference to the telegrams which the Swiss National Bank and the Federal Reserve Bank of New York exchanged recently. I made suggestions as to the lines of a declaration with a view to explanation of devaluation by Switzerland, <sup>of</sup> the willingness of the Swiss authorities to grant reciprocity to the United States in gold dealings, of the availability of resources which could be utilized as an exchange equalization fund, and of the responsibility for the management of such resources.

END SECTION ONE.

BULLITT.

EA:LWW

Among the questions raised by Bachmann were the technical points which he had set forth in his telegram to the Federal Reserve Bank of New York of October 14. I said that first the general question of reciprocity should be determined, and that ~~xxxxxxxx~~ the details could be worked out with the Federal Reserve Bank later on.

At noon Bachmann and I went to the Swiss Ministry of Finance where we were received by Meyer, who is chief of the Federal Department of Finances and Customs, and is also the Swiss Federal Council's President. The idea of gold reciprocity was explained to Dr. Meyer, and he indicated his entire sympathy with and approval of the plan for cooperation between Switzerland and the United States. However, he said that it would be necessary, under Swiss practice, to get his/colleagues' approval to the proposed declaration before he could affix his signature.

After our visit with Dr. Meyer, Bachmann and I returned to the Bank where a draft declaration was drawn up; while I lunched with the three Bank officers, the draft was typed out in French and German. The draft was revised after lunch and I made an English translation thereof, which was checked by Schnider. I quote below the translation of the draft declaration:

END SECTION TWO.

BULLITT.

EA:LWW

LMS

SPECIAL GRAY

Paris

Dated October 20, 1936

Rec'd 4:27 p. m.

Secretary of State,  
Washington.

1021, October 20, 11 a. m. (SECTION THREE)

"DECLARATION.

"The Government of the Swiss Confederation, represented by the Chief of the Federal Department of Finance and of Customs, the Swiss National Bank, represented by its General Manager declare and confirm for the information of the Government of the United States:

One. By virtue of the law governing the Swiss National Bank of April 7, 1921 and of December 20, 1929, the Swiss National Bank was obliged to maintain its metallic coverage at a minimum of forty per cent of its notes in circulation. The bank was obliged to redeem its notes in gold or in gold exchange with those countries having a free gold market. The rate of exchange for these currencies was calculated upon the basis of the rate of exchange at the moment of the operation.

Furthermore, the bank was obliged in consultation with its conditions to purchase gold from banks of issue  
upon

LMS 2-No. 1021, October 20, 11 a. m., Sec. 3, from Paris.

upon the basis of 3,429.44 francs per kilogram of fine gold and to sell it at the price of 3,444.44 francs per kilogram of fine gold.

Two. By the terms of the decree of the Federal Council of September 27, 1936, the bank is relieved from redeeming its notes in gold or in gold exchange but it is obliged to maintain the legal coverage. It is furthermore obliged to maintain the gold parity of the Swiss franc between 190 and 215 milligrams of fine gold. A special instruction obliges the bank to maintain the franc at a level which (END SECTION THREE)

BULLITT

SMS:CSB

LMS

SPECIAL GRAY

Paris

Dated October 20, 1936

Rec'd 4:53 p. m.

Secretary of State,  
Washington.

1021, October 20, 11 a. m. (SECTION FOUR)

corresponds to a devaluation of approximately thirty per cent in relation to the parage fixed by the federal monetary law of June 3, 1931.

Three. In its relations with the United States of America the bank undertakes, until further notice, by virtue of the decree of September 27, 1936, to cede gold at the price of 4,973.92 francs per kilogram of fine accepted at Bern and to buy gold at the price of 4,869.80 francs per kilogram fine delivered Bern.

The bank makes this declaration on the basis of the declaration of reciprocity contained in the statement of the Secretary of the Treasury Mr. Morgenthau on the date of the twelve October 1936 by which the United States undertakes to sell and to buy gold on the basis of \$35 per fine ounce.

Four. The bank conducts its gold operations for the account of a special "equalization fund" in the amount  
of

LMS 2-No. 1021, October 20, 11 a. m., Sec. 4, from Paris.

of approximately 538 million francs. This sum results from the revaluation to the extent of 35.033 per cent (one franc equals 215 milligram instead of 290.32 milligram of fine gold) of the gold held by the bank as of September 26, 1936.

The equalization fund is charged with maintaining the rate of exchange within the new limits through buying or selling gold or exchange.

Only the bank has the right to dispose of this fund.

(END OF SECTION FOUR)

BULLITT

CSB

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

SECTION FIVE, of No. 1021 of  
October 20, 1936, from Paris

To testify which, the present declaration has been signed in order to be communicated to the Secretary of the Treasury in Washington. "

The Federal Council it is hoped will approve this document during the week, most probably at a session on the 21st or 22nd. As soon as it is approved I will be informed over the telephone by Bachmann. He will mail to me the original signed by Meyer, Bachmann and one of the other bank officers. It was the opinion of the Swiss officials that no difficulty whatever would be encountered in completing the agreement. They promised to let me know promptly if any question should come up.

The Swiss ask that, if the United States decides after receiving word of the Swiss declaration being signed that Switzerland is eligible to enjoy our gold facilities, I inform them as to the hour that the United States Government will make its announcement. The Swiss request that the contents of their declaration be kept strictly confidential and be not published since it contains reference to internal instructions to fixing of and sale prices for gold, and to exact nature of the exchange equalization resources, which the public does not know.

The Swiss hope, furthermore, that once the reciprocity announcement is made, the information requested

in

Regraded Unclassified

- 2 -

in telegram of October 14 from the Swiss National Bank to the Federal Reserve Bank of New York may be furnished.

Last evening I showed the draft document to Minister Wilson, and this morning I returned to Paris.

END OF MESSAGE.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

From: American Embassy, Berlin.  
To: Secretary of State, Washington.  
Dated: October 20, 1936, 8 p.m.  
No.: 308.

In a decree published this morning Hitler charged Goering with the execution of the four year plan of economic self-sufficiency announced at the Nuremberg Congress. Goering is authorized to issue decrees and instructions to all officials for the purpose of putting this program into effect.

Contrary to the press reaction last April the press this time immediately burst forth in approval of this action which the VOLKISCHER BEOBACHTER without once mentioning Schacht's name interprets as placing all economic power in Goering's hands and emphasizes particularly that he will be supreme in all questions of economic policy. Many rumors concerning the position of Schacht have arisen from this decree but it is not believed, after canvassing various sources, that his retirement is imminent or that any alterations of a radical nature are at present envisaged in Schacht's system. A parallel may be drawn in this respect between this situation and that of last April.

From surface indications, on the other hand, the increasing insistence of Left Party members on a more radical program with greater industrial control and  
greater

greater emphasis on the necessity for Germany's economic self-sufficiency may result in diminishing the essentially dictatorial economic powers of Schacht. It is generally thought that he would remain as the technician, if this proves to be the case.

It is also believed, in certain quarters, that the military aspects of the four year plan are assuming greater significance and that the army, particularly as a step toward industrial mobilization, may possibly be taking added interest in the execution of the program.

Much of the comment at this time, however, is obviously speculation and when the actual details of the plan are known and when the conditions upon which it will be put into operation are clarified, the real significance of this decree will only appear.

DODD.



DEPARTMENT OF STATE  
WASHINGTON

October 21, 1936.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information five copies of partial paraphrase of telegram No. 308 of October 20, 1936, from the American Embassy, Berlin, with regard to a decree published by Hitler concerning a four-year plan of economic self-sufficiency for Germany.

In the paraphrase of telegram No. 1010 of October 16, 1936, from the American Embassy, Paris, page one, the second line of the third paragraph, the phrase "Bach of the principal" should be changed to the word "Bachmann". ✓

Enclosure:  
No. 308 of October 20  
from Berlin.

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DEPARTMENT OF STATE  
WASHINGTON

October 21, 1936.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information five copies of partial paraphrase of telegram No. 308 of October 20, 1936, from the American Embassy, Berlin, with regard to a decree published by Hitler concerning a four-year plan of economic self-sufficiency for Germany.

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Enclosure:  
No. 308 of October 20  
from Berlin.

72

Paris, October 21, 1936.

37

41

No.

Subject: French monetary law promulgated in the  
JOURNAL OFFICIEL of October 2, 1936.--  
Official statements and decrees published.

The Honorable

The Secretary of State,  
Washington, D. C.

Sir:

Reference is made to the Embassy's despatch  
No. 5090 of September 29, 1936, transmitting, notably,  
the text of the declaration on monetary policy simul-  
taneously published by the Governments of the United  
States, Great Britain and France on September 25, 1936.

I now have the honor to forward herewith, for  
the information and records of the Department, the text  
of the supplementary announcement by Mr. Morgenthau  
setting forth the conditions under which the American

TREASURY

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Treasury was prepared to buy and sell gold, as rendered public by the French Government and published in *LE TEMPS* of October 14, 1936. There is also enclosed the text of the comment of the Minister of Finance, M. Auriol, as embodied in a semi-official communiqué published at the same time, and the text of a special article on the subject by the financial editor of *LE TEMPS*.

The following is a translation of the communiqué issued by the Minister of Finance:

"It is indicated in the communication from the Secretary of the Treasury of the United States that arrangements relating to the technical co-operation with the monetary authorities of the United States are completely settled. A new regulation of the conditions of delivery of gold is laid down by the Secretary of the Treasury,-- a regulation which will enable all countries which accord reciprocal facilities to obtain gold in the United States of America against the currency of that country. The French Government has arranged that such facilities shall be extended at Paris to the monetary authorities of the United States. This arrangement, which will be a day to day arrangement, should greatly facilitate the technical operations of the Exchange Stabilization Funds. A similar arrangement has been concluded between the monetary authorities of Great Britain, so as to assure effective co-operation between Paris, London and New York."

The following additional particulars were given:

The principal problem to be settled to allow effective co-operation between the monetary authorities of the three powers parties to the common declaration of September 25 last, concerned the question as to how each one of the competent organizations of the United States, and of Great Britain and of France might procure on the two other markets gold in exchange for currencies held by it. This problem, which is a delicate one on account of the monetary régimes which exist respectively in the three countries, has fortunately been settled. Henceforth in the relations between the three great centers, the currencies will be

exchangeable

exchangeable against gold.

In his expression of views on the announcement of Mr. Morgenthau, the financial editor of LE TEMPS, M. Jenny, observes that prior to the decision of the Secretary of the Treasury only Belgium could procure gold from the United States, as the latter only authorized gold shipments to countries whose currencies were convertible and where the export of gold was free. Under such circumstances, co-operation between the British, French and American Exchange Equalization Funds would have been almost impossible, he points out.

After emphasizing the importance and significance of the decision of the Secretary of the Treasury, M. Jenny expresses his lack of complete understanding of the indication in the American announcement that gold will be delivered to foreign countries whose Exchange Equalization Funds likewise offer to sell gold to the United States. As he understands it, the British and French authorities, and those of the other countries which desire to buy gold, must fix the price--in their respective countries--at which they will sell gold to the American control. This price, he adds, will naturally depend upon the rate of the exchange.

Turning to the day to day understanding, M. Jenny contends that the exchange equilibrium will still remain very uncertain, as a result. However, he points to the fact that in the United States the price of gold of \$35 per ounce has remained fixed for two and one half years, and that this long period of provisional stability

carries

carries with it, as concerns the United States, a guaranty of importance.

Taking all in all, the financial editor of LE TEMPS seems to be satisfied and encouraged by the arrangement, and concludes by stressing the opinion that "to the extent that the stability of currencies depends upon international technic and good will, it seems that the undertaking obtained from the United States is of a nature to facilitate the return to this stability."

The comment of this authority reflects, in a large measure, the views of most French financial writers on the announcement of the Secretary of the Treasury of October 13.

Respectfully yours,

For the Ambassador:

(Signed) EDWIN C. WILSON.  
Edwin C. Wilson,  
Counselor of Embassy.

Enclosure:

Text of announcement made by the Secretary of the Treasury on October 13, 1936; communiqué of the French Minister of Finance, and special article by W. Jenny, published in LE TEMPS dated October 14, 1936.

In quintuplicate.

851.6

HMC/AG/MF

of October 11, 1936,  
from the Embassy at Paris

LE TEMPS.

October 14, 1936.

## LA COLLABORATION MONÉTAIRE franco-anglo-américaine

### La déclaration américaine

Voici le texte de la déclaration de M. Morgenthau :

« Comme suite aux avis donnés par lui les 31 janvier et 1<sup>er</sup> février 1934, prévoyant les achats d'or par la Trésorerie, et le 31 janvier 1934, concernant la vente de l'or pour l'exportation, le secrétaire du Trésor déclare que dorénavant — et tant que, après préavis de 24 heures, cette déclaration d'intention ne sera pas annulée ou modifiée — les Etats-Unis vendront aussi de l'or, aux fins d'exportation immédiate (ou de consignation d'or earmarked) aux fonds d'égalisation ou de stabilisation des changes qui sont de la même manière disposés à vendre de l'or aux Etats-Unis, pourvu que de telles offres d'or soient faites à des taux et dans des conditions tels que le secrétaire du Trésor puisse les estimer les plus avantageuses du point de vue de l'intérêt public. Le secrétaire du Trésor fait connaître en outre, d'ores et déjà, la liste des pays étrangers qui remplissent les conditions ci-dessus indiquées, et cette liste sera complétée chaque jour. Toutes les ventes d'or de la réserve seront faites par l'intermédiaire de la Banque de réserve fédérale de New-York, agissant comme agent financier des Etats-Unis, aux conditions suivantes que le secrétaire du Trésor estime les plus avantageuses du point de vue de l'intérêt public :

« L'or sera vendu au prix de 35 dollars par once de fin, plus 1/4 0/0 pour les frais, et les ventes et consignations seront soumises aux règles édictées en application du Gold Reserve Act de 1934. »

Commentant hier soir la décision américaine, M. Morgenthau a déclaré que celle-ci inaugurerait « une nouvelle application de l'étalon or et une nouvelle méthode de transactions commerciales internationales ». Le secrétaire du Trésor a ajouté :

« C'est un pas vers la stabilité des changes, diminuant les spéculations internationales et plaçant les mouvements d'or entre les mains des gouvernements. Les gouvernements responsables coopéreront pour limiter au minimum les fluctuations des changes. »

Les négociants qui vendent ou importent des produits étrangers pourront opérer par l'intermédiaire de leurs banques respectives. Le spéculateur international, qui n'est responsable devant personne et ne reconnaît aucune patrie, ne pourra plus transférer rapidement ses fonds d'un marché à l'autre pour récolter des bénéfices individuels et sans se préoccuper des perturbations qu'il apporte dans les changes internationaux.

### Commentaire officiel français

En même temps qu'il rendait publique la déclaration américaine, le ministre des finances en a communiqué le commentaire officiel que voici :

« Le ressort du communiqué ci-dessus du secrétaire du Trésor des Etats-Unis d'Amérique que les arrangements relatifs à la coopération technique avec les autorités monétaires des Etats-Unis d'Amérique sont complètement mis au point. Une nouvelle réglementation des conditions de délivrance de l'or est édictée par le secrétaire du Trésor, réglementation qui permet à tous les pays qui accordent des facilités réciproques d'obtenir de l'or aux Etats-Unis d'Amérique contre les devises de ce pays. Le gouvernement français a pris

les dispositions nécessaires pour que de telles facilités soient données à Paris aux autorités monétaires des Etats-Unis. Cet arrangement, qui sera mis en œuvre au jour le jour, doit faciliter grandement les opérations techniques du fonds de stabilisation des changes. Un arrangement analogue a été conclu avec les autorités monétaires de Grande-Bretagne, de manière à assurer une coopération effective entre Paris, Londres et New-York. »

Les précisions officielles suivantes sont, au surplus, données :

Le principal problème à résoudre pour permettre la coopération effective entre les autorités monétaires des trois puissances parties à la déclaration commune du 25 septembre dernier, résidait dans le point de savoir comment chacun des organismes qualifiés des Etats-Unis, de la Grande-Bretagne et de la France pourrait se procurer sur les deux autres places de l'or en échange des devises qu'il détient. Ce problème, délicat en raison même des régimes monétaires qui existent respectivement dans les trois pays, a pu être heureusement résolu. Dorénavant, dans les relations entre les trois grands centres, les devises seront échangeables contre de l'or.

**L**E secrétaire du Trésor des Etats-Unis, M. Morgenthau, vient de faire au sujet des conditions dans lesquelles les autorités américaines permettront désormais l'exportation de l'or, une importante déclaration dont le lecteur trouvera le texte ci-dessous.

Aux termes de cette déclaration, les Etats-Unis s'engagent — sous réserve d'annulation ou de modification de cette promesse après un préavis de 24 heures — à vendre de l'or au prix en vigueur depuis la stabilisation provisoire du dollar, c'est-à-dire à 35 dollars l'once, aux fonds étrangers de régularisation des changes disposés à vendre du métal jaune aux Etats-Unis dans les mêmes conditions.

Avant la dévaluation du franc, les Etats-Unis n'autorisaient en fait la sortie du précieux métal qu'à destination des pays dont les monnaies étaient convertibles et où l'exportation de l'or était, par conséquent, libre. Ils refusaient, notamment, d'en délivrer au fonds d'égalisation britannique.

Si le gouvernement américain avait persisté dans cette attitude après la dévaluation des monnaies du bloc or — lesquelles, on le sait, ne sont plus rattachées à une base or fixe, — il aurait pratiquement limité l'exportation d'or à une seule destination, celle de la Belgique, qui est désormais l'unique pays européen pratiquant le système de l'étalon or. Il est bien évident qu'une telle restriction aurait rendu la coopération des fonds d'égalisation anglais, français et américains à peu près impossible.

Grâce à l'engagement pris par M. Morgenthau, cet obstacle se trouve supprimé. En même temps — et ceci présente une importance qui mérite d'être soulignée, — la nouvelle politique américaine de l'or implique un accord entre les organismes de contrôle américains et anglais, dont l'antagonisme avait été souvent une cause de trouble sur le marché des changes.

On peut se demander ce que le secrétaire américain du Trésor veut exactement dire lorsqu'il précise que de l'or sera délivré aux fonds d'égalisation étrangers qui consentiront à le vendre

à l'Amérique de la même manière.

*Cela paraît signifier que les autorités anglaises et françaises, ainsi que celles des autres pays qui voudront acheter, le cas échéant, du métal monétaire aux Etats-Unis, devront, à leur tour, fixer un prix — en leurs monnaies respectives — auquel elles vendront de l'or au fonds de contrôle américain, prix qui sera bien entendu fonction des cours du change. De même que le gouvernement de Washington, elles pourront apparemment modifier ce prix après un préavis de 24 heures. C'est dire que l'équilibre des changes qui pourra résulter de cet arrangement sera encore très précaire. Il convient de tenir compte, toutefois, qu'en Amérique le prix de l'or de 35 dollars par once est demeuré immuable depuis deux ans et demi; il semble que la durée même de cette stabilité provisoire comporte déjà, du côté américain, une garantie non négligeable.*

*Quoi qu'il en soit, la modification du régime américain de l'exportation de l'or était le complément nécessaire de l'accord monétaire tripartite du 25 septembre, complément grâce auquel la coopération des divers fonds d'égalisation devient une possibilité pratique. Et, dans la mesure où la stabilité des devises dépend de la technique et de la bonne volonté internationale, il semble que l'engagement obtenu de l'Amérique soit de nature à favoriser le retour à cette stabilité.*

**F. J.**

### Commentaire officiel britannique

La Trésorerie britannique a publié de son côté le communiqué suivant :

« Des arrangements en vue de la coopération technique avec les autorités monétaires aux Etats-Unis sont maintenant complétés et une nouvelle réglementation sera publiée par le secrétaire de la Trésorerie des Etats-Unis qui permettra à tous pays accordant des facilités réciproques d'obtenir de l'or aux Etats-Unis en échange de dollars.

» Le gouvernement de Sa Majesté a pris des dispositions pour que de telles facilités soient accordées à Londres aux autorités américaines.

» L'application de cet accord s'effectuera au jour le jour et devrait grandement faciliter les opérations techniques du contrôle des changes.

» Des arrangements similaires ont été faits avec la Banque de France afin d'assurer une coopération effective entre les trois centres financiers. »

Dans les milieux financiers anglais, on déclare qu'il s'agit essentiellement d'un accord tendant à faciliter les opérations du contrôle des changes, et que cet accord n'implique aucun changement dans la politique monétaire de la Grande-Bretagne et n'affecte en rien la liberté de mouvement de la devise britannique.

Paris, October 21, 1936.

41

Subject: French monetary law promulgated in the  
JOURNAL OFFICIEL of October 2, 1936.--  
Official statements and decrees published.

The Honorable  
The Secretary of State,  
Washington, D. C.

Sir:

Reference is made to the Embassy's despatch  
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taneously published by the Governments of the United  
States, Great Britain and France on September 28, 1936.

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TREASURY

Treasury was prepared to buy and sell gold, as rendered public by the French Government and published in LE TEMPS of October 14, 1936. There is also enclosed the text of the comment of the minister of Finance, H. Auriol, as embodied in a semi-official communiqué published at the same time, and the text of a special article on the subject by the financial editor of LE TEMPS.

The following is a translation of the communiqué issued by the Minister of Finance:

"It is indicated in the communication from the Secretary of the Treasury of the United States that arrangements relating to the technical co-operation with the monetary authorities of the United States are completely settled. A new regulation of the conditions of delivery of gold is laid down by the Secretary of the Treasury,-- a regulation which will enable all countries which accord reciprocal facilities to obtain gold in the United States of America against the currency of that country. The French Government has arranged that such facilities shall be extended at Paris to the monetary authorities of the United States. This arrangement, which will be a day to day arrangement, should greatly facilitate the technical operations of the Exchange Stabilization Funds. A similar arrangement has been concluded between the monetary authorities of Great Britain, so as to assure effective co-operation between Paris, London and New York."

The following additional particulars were given:

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exchangeable against gold.

In his expression of views on the announcement of Mr. Morgenthau, the financial editor of LE TAMP, M. Jenny, observes that prior to the decision of the Secretary of the Treasury only Belgium could procure gold from the United States, as the latter only authorized gold shipments to countries whose currencies were convertible and where the export of gold was free. Under such circumstances, co-operation between the British, French and American Exchange Equalization Funds would have been almost impossible, he points out.

After emphasizing the importance and significance of the decision of the Secretary of the Treasury, M. Jenny expresses his lack of complete understanding of the indication in the American announcement that gold will be delivered to foreign countries whose Exchange Equalization Funds likewise offer to sell gold to the United States. As he understands it, the British and French authorities, and those of the other countries which desire to buy gold, must fix the price--in their respective countries--at which they will sell gold to the American control. This price, he adds, will naturally depend upon the rate of the exchange.

Turning to the day to day understanding, M. Jenny contends that the exchange equilibrium will still remain very uncertain, as a result. However, he points to the fact that in the United States the price of gold of \$35 per ounce has remained fixed for two and one half years, and that this long period of provisional stability

- 4 -

carries with it, on concerns the United States, a guaranty of importance.

Taking all in all, the financial editor of *LE TEMPS* seems to be satisfied and encouraged by the arrangement, and concludes by stressing the opinion that "to the extent that the stability of currencies depends upon international technique and good will, it seems that the undertaking obtained from the United States is of a nature to facilitate the return to this stability."

The comment of this authority reflects, in a large measure, the views of most French financial writers on the announcement of the Secretary of the Treasury of October 13.

Respectfully yours,

For the Ambassador:

(Signed) EDWIN C. WILSON.  
Edwin C. Wilson,  
Counselor of Embassy.

Enclosure:

Text of announcement made by the Secretary of the Treasury on October 13, 1936; communiqué of the French Minister of Finance, and special article by M. Jenny, published in *LE TEMPS* dated October 14, 1936.

In quintuplicate.

801.2

ENC/AS/AF

LE TEMPS,

October 14, 1936.

## LA COLLABORATION MONÉTAIRE franco-anglo-américaine

### La déclaration américaine

Voici le texte de la déclaration de M. Morgenthau :

« Comme suite aux avis donnés par lui les 31 janvier et 1<sup>er</sup> février 1934, prévoyant les achats d'or par la Trésorerie, et le 31 janvier 1934, concernant la vente de l'or pour l'exportation, le secrétaire du Trésor déclara que dorénavant — et tant que, après préavis de 24 heures, cette déclaration d'intention ne sera pas annulée ou modifiée — les Etats-Unis vendront aussi de l'or, aux fins d'exportation immédiate (ou de consignation d'or enmarked) aux fonds d'égalisation ou de stabilisation des changes qui sont de la même manière disposés à vendre de l'or aux Etats-Unis, pourvu que de telles offres d'or soient faites à des taux et dans des conditions tels que le secrétaire du Trésor puisse les estimer les plus avantageuses du point de vue de l'intérêt public. Le secrétaire du Trésor fait connaître en outre, d'ores et déjà, la liste des pays étrangers qui remplissent les conditions ci-dessus indiquées, et cette liste sera complétée chaque jour. Toutes les ventes d'or de l'espèce seront faites par l'intermédiaire de la Banque de réserve fédérale de New-York, agissant comme agent financier des Etats-Unis, aux conditions suivantes que le secrétaire du Trésor estime les plus avantageuses du point de vue de l'intérêt public :

« L'or sera vendu au prix de 35 dollars par once de fin, plus 1/4 0/0 pour les frais, et les ventes et consignations seront soumises aux règles édictées en application du Gold Reserve Act de 1934. »

Commentant hier soir la décision américaine, M. Morgenthau a déclaré que celle-ci inaugurerait « une nouvelle application de l'étalon or et une nouvelle méthode de transactions commerciales internationales ». Le secrétaire du Trésor a ajouté :

C'est un pas vers la stabilité des changes, éliminant les spéculations internationales et plaçant les mouvements d'or entre les mains des gouvernements. Les gouvernements responsables coopéreront pour limiter au minimum les fluctuations des changes.

Les négociants qui vendent ou importent des produits étrangers pourront opérer par l'intermédiaire de leurs banques respectives. Le spéculateur international, qui n'est responsable devant personne et ne reconnaît aucune patrie, ne pourra plus transférer rapidement ses fonds d'un marché à l'autre pour recueillir des bénéfices individuels et sans se préoccuper des perturbations qu'il apporte dans les changes internationaux.

### Commentaire officiel français

En même temps qu'il rendait publique la déclaration américaine, le ministre des Finances en a communiqué le commentaire officiel que voici :

« Il ressort du communiqué ci-dessus du secrétaire du Trésor des Etats-Unis d'Amérique que les arrangements relatifs à la coopération technique avec les autorités monétaires des Etats-Unis d'Amérique sont complètement mis au point. Une nouvelle réglementation des conditions de délivrance de l'or est édictée par le secrétaire du Trésor, réglementation qui permet à tous les pays qui accordent des facilités réciproques d'obtenir de l'or aux Etats-Unis d'Amérique contre les devises de ce pays. Le gouvernement français a pris

les dispositions nécessaires pour que de telles facilités soient données à Paris aux autorités monétaires des Etats-Unis. Cet arrangement, qui sera mis en œuvre au jour le jour, doit faciliter grandement les opérations techniques du fonds de stabilisation des changes. Un arrangement analogue a été conclu avec les autorités monétaires de Grande-Bretagne, de manière à assurer une coopération effective entre Paris, Londres et New-York. »

Les précisions officielles suivantes sont au surplus, données :

Le principal problème à résoudre pour permettre la coopération effective entre les autorités monétaires des trois puissances parties à la déclaration commune du 23 septembre dernier, résidait dans le point de savoir comment chacun des organismes qualifiés des Etats-Unis, de la Grande-Bretagne et de la France pourrait se procurer sur les deux autres places de l'or en échange des devises qu'il détendrait. Ce problème, dûment en raison même des régimes monétaires qui existent respectivement dans les trois pays, a pu être heureusement résolu. Dorénavant, dans les relations entre les trois grands centres, les devises seront échangeables contre de l'or.

**L**e secrétaire du Trésor des Etats-Unis, M. Morgenthau, vient de faire au sujet des conditions dans lesquelles les autorités américaines permettront désormais l'exportation de l'or, une importante déclaration dont le lecteur trouvera le texte ci-dessous.

Aux termes de cette déclaration, les Etats-Unis s'engagent — sous réserve d'annulation ou de modification de cette promesse après un préavis de 24 heures — à vendre de l'or au prix en vigueur depuis la stabilisation provisoire du dollar, c'est-à-dire à 35 dollars l'once, aux fonds étrangers de régularisation des changes disposés à vendre du métal jaune aux Etats-Unis dans les mêmes conditions.

Avant la dévaluation du franc, les Etats-Unis n'autorisaient en fait la sortie du précieux métal qu'à destination des pays dont les monnaies étaient convertibles et où l'exportation de l'or était, par conséquent, libre. Ils refusaient, notamment, d'en délivrer au fonds d'égalisation britannique.

Si le gouvernement américain avait persisté dans cette attitude après la dévaluation des monnaies du bloc or — lesquelles, on le sait, ne sont plus rattachées à une base or fixe, — il aurait pratiquement limité l'exportation d'or à une seule destination, celle de la Belgique, qui est désormais l'unique pays européen pratiquant le système de l'étalon or. Il est bien évident qu'une telle restriction aurait rendu la coopération des fonds d'égalisation anglais, français et américains à peu près impossible.

Grâce à l'engagement pris par M. Morgenthau, cet obstacle se trouve supprimé. En même temps — et ceci présente une importance qui mérite d'être soulignée, — la nouvelle politique américaine de l'or implique un accord entre les organismes de contrôle américains et anglais, dont l'antagonisme avait été souvent une cause de trouble sur le marché des changes.

On peut se demander ce que le secrétaire américain du Trésor veut exactement dire lorsqu'il précise que de l'or sera délivré aux fonds d'égalisation étrangers qui consentiront à en vendre

à l'Amérique de la même manière.

*Cela paraît signifier que les autorités anglaises et françaises, ainsi que celles des autres pays qui voudront acheter, le cas échéant, du métal monétaire aux Etats-Unis, devront, à leur tour, fixer un prix — en leurs monnaies respectives — auquel elles vendront de l'or au fonds de contrôle américain, prix qui sera bien entendu fonction des cours du change. De même que le gouvernement de Washington, elles pourront apparemment modifier ce prix après un préavis de 24 heures. C'est dire que l'équilibre des changes qui pourra résulter de cet arrangement sera encore très précaire. Il convient de tenir compte, toutefois, qu'en Amérique le prix de l'or de 35 dollars par once est demeuré immuable depuis deux ans et demi; il semble que la durée même de cette stabilité provisoire comporte déjà, du côté américain, une garantie non négligeable.*

*Quoi qu'il en soit, la modification du régime américain de l'exportation de l'or était le complément nécessaire de l'accord monétaire tripartite du 25 septembre, complément grâce auquel la coopération des divers fonds d'égalisation devient une possibilité pratique. Et, dans la mesure où la stabilité des devises dépend de la technique et de la bonne volonté internationale, il semble que l'engagement obtenu de l'Amérique soit de nature à favoriser le retour à cette stabilité.*

F. J.

### Commentaire officiel britannique

La Trésorerie britannique a publié de son côté le communiqué suivant :

« Des arrangements en vue de la coopération technique avec les autorités monétaires aux Etats-Unis sont maintenant complétés et une nouvelle réglementation sera publiée par le secrétaire de la Trésorerie des Etats-Unis qui permettra à tous pays accordant des facilités réciproques d'obtenir de l'or aux Etats-Unis en échange de dollars.

» Le gouvernement de Sa Majesté a pris des dispositions pour que de telles facilités soient accordées à Londres aux autorités américaines.

» L'application de cet accord s'effectuera au jour le jour et devrait grandement faciliter les opérations techniques du contrôle des changes.

» Des arrangements similaires ont été faits avec la Banque de France afin d'assurer une coopération effective entre les trois centres financiers. »

Dans les milieux financiers anglais, on déclare qu'il s'agit essentiellement d'un accord tendant à faciliter les opérations du contrôle des changes, et que cet accord n'implique aucun changement dans la politique monétaire de la Grande-Bretagne et n'affecte en rien la liberté de mouvement de la devise britannique.

FEDERAL RESERVE BANK  
OF NEW YORK

October 21, 1936.

Dear Mr. Secretary:

Last Friday you asked me over the telephone to inquire in the market whether there was evidence that American importers, as a result of recent devaluations in Europe, had transferred their buying to these countries with devalued currencies.

I have had inquiries made on this subject through our information department and am advised as follows:

"(1) An officer of a New York City bank discussed with one of that bank's 'most important customers' the question whether or not they were changing the sources of their imports as a result of changed currency values. The customer replied that there was no reason to change anything yet. French prices had risen promptly and were not 'tempting.' They already did a large import business with Czechoslovakia, towards which country they had moved their trade following certain difficulties in dealing with Germany.

"(2) A member of the Produce Exchange made inquiries which yielded the following: in general, it is still too early to say anything decisive. In some cases devaluation had been anticipated and heavier orders than usual had been placed by importers with their normal suppliers. Specifically as to Czechoslovakia, prices there had been raised,

The Honorable,  
The Secretary of the Treasury.

10/21/36.

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e. g., Bata, the shoe manufacturer, has raised his Czech-crown prices 11 per cent all round. In Holland prices of tobacco products have been raised far enough to permit the continued shipment of Connecticut leaf tobacco to that country despite the depreciation of the guilder.

"(3) An American exporter of mining products with whom I talked generally about the subject informed me, incidentally, that whereas he formerly did a nice barter business with Woolworth, Kresge, and other such firms, they taking the mark proceeds of his exports and using them to pay for imports of German goods, for about three months past he had been doing no business with them, the reason being that the Berlin-Washington arrangement had made such business impossible."

We shall continue our efforts to gather further material on this subject and advise you as to our success.

Respectfully,



L. W. Knoke,  
Assistant Vice President.

The Honorable,  
The Secretary of the Treasury,  
Washington, D. C.

TREASURY GOLD STOCKS UP 4 000 000 DLS

WASHN -

OCT 21 1936 9.55

ADD TREASURY GOLD STOCKS

WASHN - THE TREASURY GOLD STOCKS AFTER  
DECLINING BY APPROXIMATELY 9 000 000 DLS ON  
OCT 17 SHOWED A GAIN OF MORE THAN 4 000 000  
DLS ON OCT 19 THE TREASURY DAILY STATEMENT  
SHOWS

REUTER DISPATCH FROM RIGA SAYS THAT *9:30*  
FOLLOWING DEVALUATION LATVIA HAS TAKEN  
RAPID ACTION TO PREVENT RISE IN PRICES OF IM-  
PORTED GOODS BY CUTTING TARIFFS BY FROM 12 1-2  
PC TO 80 PC ON RICE SPICES COFFEE TEA TOBACC  
-O AND GASOLINE- THE GOVERNMENT ALSO  
HAS MADE A BEGINNING TOWARDS ABOLITION OF QUOTAS  
AND CURRENCY RESTRICTIONS WHICH THE FINANCE  
MINISTER SAYS ARE MADE POSSIBLE BY IMPROVEMENT  
IN LATVIA-S FOREIGN TRADE

OCT 21 1936

October 21, 1936.  
12:32 p.m.

H.M.Jr: I understood from Mr. Oliphant that Mr. - Senator Pittman would be here at twelve.

Pittman's Secretary: Well now I tell you - I don't know just - just what has happened. Mr. White, here in the office, was with the Senator this morning and he left him about 11:30 or a little later and he said that he was on his way to your office and that he would go there immediately. Mr. White came here to this office.

H.M.Jr: Oh.

And I just called him (White) and he assured me that the Senator remembered his appointment with you and intended to be there at 12 o'clock.

H.M.Jr: Well now I've got another appointment at 12:30 outside of the office.

I see.

H.M.Jr: And I'm terribly sorry I missed him but I've sat here for thirty minutes twiddling my fingers.

(Laughter) I just can't understand that. I don't know what could possibly have detained him because he.....

H.M.Jr: .....Well would you explain to him?

I certainly will, sir.

H.M.Jr: I'm sorry and I understand he's going out west and when he comes back.....

Yes, he leaves this afternoon at 3:25.

H.M.Jr: Well when he comes back the next time I hope that I can see him...

All right.

H.M.Jr: ....and that he won't forget me.

(Laughter) All right. You - you don't plan to be in your office a little later do you?

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H.M.Jr: No I'm going out now and as a matter of fact I'm not feeling very well and I'm going home.

Oh I see.

H.M.Jr: And I told him that I'd leave here and I haven't felt very well and I'm going home.

I see. All right I'll be very glad to tell him ....

H.M.Jr: I mean I don't advertise that but the strain has been so great that I just have to go home.

Well that's - that's too bad I'm - I'm very sorry that you've waited for him and that he didn't - he didn't show up but ...

H.M.Jr: Well I'm sorry too.

....I feel whatever it is, when we find out what has happened, it will be unavoidable.

H.M.Jr: Right.

All right, sir, thank you very much for calling.  
Goodbye.

U

GRAY

Paris

Dated October 21, 1936

Rec'd 2:15 p.m.

Secretary of State

Washington

1027, October 21, 5 p.m.

FROM COCHRAN.

Paris exchange market quiet with no evidence of Bank of France operating.

At a businessmen's lunch in Paris yesterday Paul Reynaud is reported by the press to have said in part "Why is it that our country alone seems to misunderstand the importance of the tripartite agreement with the Anglo-Saxon democracies? Whatever may be one's opinion over what the percentage of devaluation should have been, let us also refrain from lightly speaking as is too often the case of a further devaluation. I affirm that if the Government and the nation do their duty it will be avoided".

Recent gossip in market circles as to the likelihood of France's having to devalue the franc further has undoubtedly checked to some extent the reflux of French capital and the improvement in rentes. Responsibility for this gossip is attributed partly to a speech made last

week

U -2- #1027, Oct. 21, 5 p.m. from Paris

week by the Swiss Minister of Finance wherein President Meyer is reported by the press to have said that France would have preferred to have gone beyond 30% in depreciating the franc but that she was checked from devaluing further by threat of reprisals from England and the United States.

When talking with my Swiss friends on Monday I let them know that to the best of my knowledge the French rate was chosen with entire freedom and without any coercion on the part of any other country. Incidentally the Swiss were very happy over the success of their defense loan for which 235,000,000 francs were sought but which was oversubscribed the total reaching 330,000,000. Swiss National Bank officials told me the whole amount would probably be retained partly to facilitate early conversion of other loans and partly because of the difficulty in cutting down allotments to the more than 100,000 subscribers.

French financial press carries American conjectures as to whether increase of approximately \$10,000,000 in gold earmarked with Federal Reserve Bank of New York results from operations under tripartite agreement or from Chinese silver transaction. Press comment is also made upon National Bank of Belgium forwarding gold to New York.

BULLITT

KLP:CSB

October 21, 1936.  
4:07 p.m.

H.M.Jr: Yes Knoke.

K: Last Friday you ask me to look into the question of shift in trade following gold bloc devaluation.

H.M.Jr: That's right.

K: Well I just want to say I mailed a letter to you this morning giving the first results of our investigation.

H.M.Jr: Well thank you very much. How are things going this afternoon?

K: Very quiet. We've done 91,000 pounds. There's no life to the market at all.

H.M.Jr: What's the price?

K: 4.89 we are paying; 4.89-1/16th others are offering.

H.M.Jr: All right.

K: All right sir.

H.M.Jr: Thank you.

K: Goodbye.

October 21, 1936

At 4:45 today Mr. Bewley and Mr. Mallet came in to see the Secretary.

He said to them, "I have two cables from Cochran, one describing his trip to Belgium and the other one describing his trip to Switzerland. I might suggest that you go into Taylor's room and copy the cables. I am trying to write a speech and that is why I am asking you to go into Mr. Taylor's room."

Continuing he said, "Cochran has reported that the Belgians and the Swiss are willing. I have not yet made up my own mind what I am going to do. The Swiss note does not bother me; the Belgian does. What we decide on Belgium, the way I look at it, may be cutting the bridges behind us as to the old gold standard -- I want to point that out to you -- as far as the United States is concerned. I am going to give you the information we have. I would like you to give it to the Chancellor and I would like his reaction. Your problem is not the same as ours. If we decide to go through with this, then we would cancel all previous decrees. We would be doing business with Belgium on the decree issued October 13, 1936. I am being very frank. This does not affect you. Do you get the significance?"

Mr. Bewley answered, "No, not entirely." The Secretary explained to him, "The way we used to do it under the January 31, 1934 proclamation, we operated between gold points under the old gold standard."

The Secretary then said, "The Belgian Government, as I understand it, is making available to us and to England and France the entire gold reserve of the Government. I will try to make up my mind tomorrow. For us it is a very important step. I would much rather have you ask me any questions you want if it is not clear."

Mr. Bewley inquired, "If Belgium wants to buy gold in England now, they can?" The Secretary answered, "Yes. Our attitude is this: here are three countries who have entered into an agreement. We are not going to make any move without consulting

-2-

you. Here is some very important information. As a matter of fact, your Government must consider what I am telling you about the Swiss as extra, extra confidential. They are giving us a price at which they will sell gold to us. They are giving us their whole financial position. By Friday morning I hope to have an answer as to what I will do. In order to save time, I want to show you what Switzerland and Belgium have signed and agreed to do."

Mr. Bewley inquired, "If Switzerland has not got a fund, how would they do it?" HM, Jr's answer was: "They do have a fund. I am giving you this information in advance of coming to a decision myself. The decision I have to make is not one you have to make, but in the long run it will be a very important decision for everyone. We have explained to Belgium that we do not want to do business on the January 1934 agreement. I hope to spend most of tomorrow on this thing. My objective is again to try to clean it up by four o'clock Monday."

"You cable this over -- just for their information. Can they see any repercussions to any of the three countries? One thought I have, and I have not decided to say this as yet, and that is where a country has not got a stabilization fund, that I say to that country in one day we limit you or ourselves to \$10,000,000. What I am worrying about a little bit is that someone might use Belgium and Switzerland to attack us. We will not approach Holland, but will let her make up her own mind. Frankly, I do not like the way Holland is acting. I think she is trying to make a little money out of this. We do not want to bring any pressure on anyone to join us."

"I do not consider when Belgium and Switzerland do come in that they are members of this tri-partite agreement. I want to call them junior partners, but Loochhead does not like this." Mallet suggested, "Sattelites." HM, Jr. agreed, saying, "Yes, sattelites; they revolve around us."

To Mr. Bewley, the Secretary said, "I think, Bewley, you get the distinction. We no longer go between the gold points." Bewley answered, "Yes,

-3-

I understand, but I do not understand the machinery." The Secretary's response was, "You will when you read the cables. I would like to have a reply Friday morning, because I am leaving here Friday at twelve, noon. I hope to see the President about 9 or 10 that morning and I would like to have some kind of an answer to show him."

Mr. Bewley then said, "What you really want are the Chancellor's observations?" HM, Jr. replied, "I am saving time by giving you the information in advance. This afternoon we are giving the same information to the French."

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 21, 1936

235

TO The Secretary  
FROM Miss Lonigan <sup>of</sup>

Expenditure of Federal funds by FERA-WPA, in September 1936, was higher in 46 States than in September a year ago.

The average increase for the country was 56 percent. In 27 States, the increase was more than 56 percent.

The largest increases were 733 percent in New Hampshire, 358 percent in South Dakota, and 239 percent in North Dakota.

These increases are exclusive of Federal funds spent for relief or welfare by the Resettlement Administration or the Social Security Board.

\* \* \* \* \*

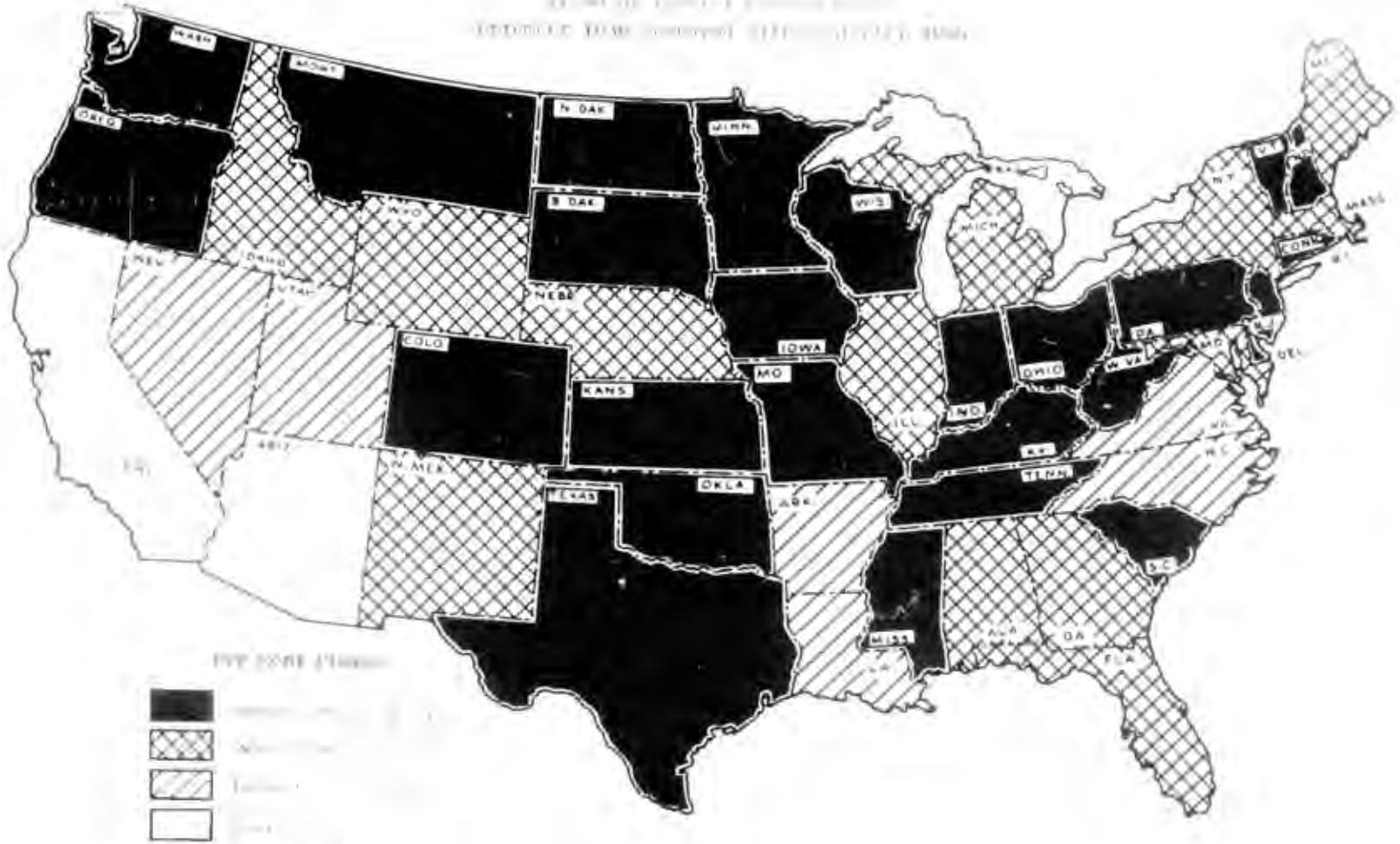
Work relief expenditures increased 268 percent in the United States compared with September a year ago.

In 24 States, the increase in September was more than 300 percent.

The largest increases were Pennsylvania with 3,663 percent increase, and Missouri with 3,383 percent increase.

11/10

UNITED STATES DEPARTMENT OF AGRICULTURE  
 BUREAU OF PLANT INDUSTRY  
 DIVISION OF ENTOMOLOGY  
 UNITED STATES GOVERNMENT PRINTING OFFICE: 1923



VERY COMMON  
 COMMON  
 UNCOMMON  
 RARE

U.S. DEPARTMENT OF AGRICULTURE  
 BUREAU OF PLANT INDUSTRY  
 DIVISION OF ENTOMOLOGY



October 22, 1936.

63

A group met in the Treasury at 10 A.M. for a discussion of the inclusion of Switzerland and Belgium in the three-power gentlemen's agreement on currency.

Those present were: Mr. Taylor, Mr. Oliphant, Mr. Lochhead, Mr. Haas, Mr. White, Dr. Goldenweiser, Dr. John H. Williams of the Federal Reserve Bank of New York and Mr. Upham.

Secretary Morgenthau came in for a few moments at the beginning and indicated what was desired was a discussion of the proposals made by Switzerland and Belgium as outlined in cables from Mr. Cochran in Paris. One of the things that he thought might be given attention was the possibility of one of the smaller countries being used as an operating point or channel through which speculation in foreign exchange and gold might take place. He suggested the possibility of limiting the daily gold transactions of the smaller countries to say, 10 million a day.

Mr. Oliphant raised the point of ownership of the Belgian Bank and suggested as a test of whether the arrangement was between the government of the United States and the government of Belgium or between the government of the United States and the central bank of Belgium, a determination of the agency upon which any loss would fall.

Mr. Williams inquired whether there is in contemplation a mixture of the old and the new gold standards and asked if there was anything in the agreement with France to prevent the Bank of France from selling gold to private banks. This being answered in the negative, Dr. Goldenweiser stated that he thought it would be a violation of the spirit of the agreement.

Mr. Williams raised the point whether, under the new agreement,

private banks would be permitted to operate in gold and if so at whose risk. He thought it might be possible for us to refuse to accept gold except from other governments. If the private banks are eliminated, he said, then gold transactions can be only by governments or by governments and central banks.

Mr. Taylor observed that so long as there is an open gold market in London the details of the arrangement with Belgium are not too important.

Mr. Oliphant agreed that the United States government should not tell any other country how to operate their own machinery but suggested that we might make reference to our own pattern as the desirable one, and perhaps let the Belgians know that discussions in the Treasury here are being prolonged because of uncertainty as to whether their government is a principal in daily transactions.

It was agreed that there was not much danger from Belgium or Switzerland as a channel for speculative activities in foreign exchange or gold and that it was neither necessary nor desirable to set any limit such as 10 million on daily dealings.

If speculative abuse is developed it was thought that they could be curbed better without any daily limit than with one. If daily dealings of 10 million are permitted, there could scarcely be any objection to transactions each day of that amount, even if more than normal.

Mr. Oliphant wondered if the 10 million a day idea is a suggestion in a search for a pattern. He asked what limitation would be acceptable in making up a pattern to meet the absence of a stabilization fund.

Mr. Haas was of the opinion that the stabilization fund per se is not so important and that as a substitute we could accept some form of Treasury guarantee of operations.

Mr. Taylor thought that might be interpreted as a suggestion that they keep their books a certain way in the form of a Treasury account rather than a central bank account. He feels government participation in the over-all agreement is enough.

Mr. Oliphant was of the opinion that something more fundamental was involved -- that it is a question of ideology -- involving a question of whether the risk is to be that of the government and the people, or of a privately owned central bank.

Mr. Williams agreed and said that we are doing that very thing and that he is for it but thinks the mechanism for doing it relatively unimportant. Why should it not be through the central bank and for its risk, he asked. It may be important later, he said, in connection with impounding of gold and regulation of internal price levels, but the negotiations are still in an experimental stage and it does not make much difference in the small countries how it is set up. It is far more important to extend the area of the agreement than it is to quibble about technicalities and how the currency is managed. Stability is the main thing.

Mr. Williams and Dr. Goldenweiser were of the opinion that insistence upon governmental participation in the covering agreement is enough.

Mr. Lochhead raised the point that stabilization funds differ among themselves, ours not being like the British. A country with a stabilization fund might be as unlike us in its operations as one

which had no stabilization fund.

Mr. White asked whether dealing with the Treasury means through central banks only or through private banks also.

Mr. Williams thought the determination of that mechanism might be left until later. He thought the questions resolved themselves into (1) whether we are willing to reciprocate if the other countries set up a stabilization fund, or (2) whether we are willing to reciprocate on some other basis.

Dr. Goldenweiser added that he thought a third question might be whether we are willing to reciprocate if the other governments agree to abide by the October 13th agreement.

Mr. Oliphant thought the pattern should be that we agree to do business with another government through any fiscal agent that they might designate.

Mr. Williams wondered if it was not enough to have an agreement with the government and leave the day-to-day dealings to the central bank.

Dr. Goldenweiser agreed.

Mr. Oliphant raised the point whether the statement of January 31, 1934 is really being superseded or whether we are only adhering to the old fashioned gold standard through a new channel.

It was replied that the new arrangement is quite different from the 1934 arrangement because under the new arrangement our private banks can't get gold, it being available for sale to other governments only.

There was a good deal of discussion as to whether the cable from Belgium indicated that the Belgian Treasury would act as principal and

the central bank as its agent, or whether the central bank itself is acting as principal.

It was pointed out that the gold is owned by the central bank -- not by the Treasury and accordingly for the Belgian Treasury to act as principal the gold would have to be transferred to it.

Mr. Williams pointed out that it is only the government which can change the price of gold or put an embargo on gold and that since both Belgium and the United States have a fixed price for gold there does not arise any question of stabilization fund or other account operations -- that it is really the automatic operation of the old gold standard but on a new 24-hour basis and transactions between the United States government and the Belgium central bank. He asked if the fact that a country was on the old gold standard made any difference and if what we wanted was for Belgium to go on a flexible basis which would require a stabilization fund. He asked if we wanted to operate with the Treasury as a jurisdictional matter per se or whether we think it to be the proper mechanics.

Mr. Oliphant suggested it might be unfortunate that the United States is on a fixed basis.

Mr. Williams thought that in the case of a small country like Belgium it did not make any difference if they had a fixed price for gold but he stated that in the case of England or France it would make quite a difference.

Mr. Oliphant raised the point that an agreement with Belgium, which involved dealings with the central bank as principal, might serve as a precedent for similar agreements with Germany and Italy.

The principal point of difficulty in the Swiss agreement had to

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do with the spread in their gold price which Mr. Lochhead indicated was in the neighborhood of 2% whereas the French is 1/10th of 1%, ours is 1/2 of 1% and the British have practically no spread at all.

9.58

TREASURY GOLD FUND CONTINUES TO INCREASE  
WASHN - THE TREASURY-S GOLD FUND RE

JOURNAL  
OCT 22 1936

AC  
HED

11 006 331 402 DLS ON OCT 20 COMPARED WITH  
11 005 708 971 DLS THE DAY BEFORE THE TREAS-  
URY ANNOUNCED

-0-

BULLS ON AMERICAN & FOREIGN POWER ARE  
HOPING THE STABILIZATION AGREEMENT WILL AID  
THAT COMPANY-S OPERATIONS BY TAKING MUCH OF  
THE CURRENCY RISK OUT OF ITS FOREIGN TRANSAC-  
TIONS- THE RECENT EARNINGS TREND HAS NOT  
BEEN CALCULATED TO INSPIRE ANY GREAT BULLISH-  
NESS AND INTERESTS WHO HAVE BEEN CLOSE TO THAT  
COMPANY-S AFFAIRS ARE TAKING A NEUTRAL  
POSITION FOR THE PRESENT

10:00

[ 22 1936

FRENCH FRANCS WEAK

10:23

WITH RADICAL SOCIALIST PARTY MEETING  
TODAY TO DECIDE ITS COURSE OF ACTION AT  
FORTHCOMING SESSION OF FRENCH PARLIAMENT HEAVY  
PRESSURE HAS DEVELOPED AGAINST THE FRENCH  
FRANC - A COMBINATION OF BEAR SPECULATION AND  
OUTRIGHT FLIGHT OF CAPITAL HAS PRODUCED SHARP  
WEAKNESS IN THE FRANC

SPOT FRANCS NOW ARE OFFERED IN LOCAL  
MARKET AT 4 61 3-4 CENTS OFF 3 POINTS - THIS  
IS SHARPEST BREAK TO HAVE TAKEN PLACE SINCE  
THE EARLY DAYS OF DEVALUATION - MARKET IS ON  
THE OFFERED SIDE ENTIRELY AND AS YET THE  
DROP DOES NOT SEEM TO HAVE PRODUCED OFFICIAL  
SUPPORT FROM ANY OF THE THREE CONTROLS DESPITE  
THE ANNOUNCED INTENTION OF MAINTAINING STABILI-

TY IN THE RATES AND CURBING SPECULATION  
WEAKNESS IN THE FORWARD FRANC WHICH  
BECAME ACUTE SUDDENLY YESTERDAY HAS BECOME  
INTENSIFIED THIS MORNING - THIRTY-DAY FRANCS  
ARE OFFERED AT A DISCOUNT OF 2 5-8 POINTS  
AGAINST 2 1-4 YESTERDAY AND 1 1-2 ON TUESDAY -  
NINETY-DAY FRANCS ARE OFFERED AT A DISCOUNT  
OF 8 1-2 POINTS UNDER SPOT AGAINST 7 AND 5 1-2  
POINTS

ACTUAL TURNOVER IN LOCAL MARKET IS SMALL -  
LONDON AND PARIS HOWEVER REPORT A GOOD  
VOLUME OF BUSINESS

LARGELY UNDER INFLUENCE OF THE FRENCH  
DEMAND STERLING IS FIRM IN NEW YORK AT 4 89  
3-8 UP 3-8 CENT

OFFICIAL SUPPORT FOR FRANCS 10:55

AFTER AN EARLY LOW OF 4 61 5-8 CENTS  
FRENCH FRANCS NOW HAVE RECOVERED TO 4 63  
1-2 CENTS - IT IS BELIEVED THAT THE RECOVERY  
IS DUE TO OFFICIAL SUPPORT THOUGHT TO HAVE  
COME FROM THE BANK OF FRANCE

WITH THE FIRMER TENDENCY IN FRANCS WHICH  
HAS DEVELOPED IN RECENT TRADING STERLING  
HAS REACTED TO 4 89 1-8 AGAINST 4 89 3-8  
EARLIER THIS MORNING

9:20  
LONDON- FEATURE OF FOREIGN EXCHANGE MARKET

WAS WEAKNESS IN SPOT FRANCS ON RENEWED  
NERVOUSNESS IN FRENCH SITUATION- BROKERS RE-  
PORTED CONSIDERABLE SALES FROM THE CONTINENT  
BUT THE TURNOVER WAS MODERATE

DISCOUNT ON THREE MONTHS PARIS WEAKENED  
FURTHER TO 1 3-4 FRANCS AFTER OPENING AT 1  
3-8 FRANCS- DISCOUNT ON ONE MONTH PARIS WAS  
5-8 FRANC- THERE HAS BEEN NO CONTROL INTER-  
VENTION SO FAR

OTHER CURRENCIES WEAKENED SLIGHTLY IN  
TERMS OF STERLING- DISCOUNT ON THREE MONTHS  
AMSTERDAM WAS 8 1-2 DUTCH CENTS AND ONE MONTH  
3 1-4 DUTCH CENTS

ADD LONDON FOREIGN EXCHANGE

LONDON - FRENCH FRANCS WEAKENED SHARPLY  
IN THE FOREIGN EXCHANGE MARKET THIS AFTERNOON  
THE RATE AT ONE TIME TOUCHING 106 37 AT  
WHICH LEVEL THE FRENCH STABILIZATION FUND  
INTERVENED AND BROUGHT THE RATE BACK TO 105 56

11.47

PARIS EXCHANGE

PARIS—SHORTLY AFTER THE CLOSING ON  
THE OFFICIAL BOURSE STERLING AND THE  
DOLLAR CONTINUED TO CLIMB REACHING 106 35  
AND 21 71 RESPECTIVELY— CONTROL WHICH  
HITHERTO HAD BEEN INACTIVE THEN INTERVENED  
BOLDLY BRINGING THE RATES TO 105 20 AND 21 52  
AND CORRESPONDINGLY BELGAS GUILDERS AND  
SWISS FRANCS— THERE WERE HEAVY DEALINGS BUT  
TOWARD THE CLOSE THE MARKET BECAME QUIETER /

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 22, 1936.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

I called Mr. Bolton at 11:30 with reference to the weakness of the franc. There was nothing new other than what the newspapers had presented for days; the whole thing developed from the political situation in France, where it was believed a split in the Blum Government was possible. Add to that, Bolton continued, the situation in Europe in general, Spain, Russia, etc., and you have the complete reason for the franc's weakness. Nobody was making an attempt to support the franc against which speculative drives had been engineered from various centers. I mentioned that, according to one report received here, there was evidence of renewed hoarding of sterling and dollar notes in France. As far as he knew, Bolton said, that was not true; the customs control in France was very strict and importation of gold coin or banknotes not at all easy. To his own knowledge Bank of England notes were still returning from hoard up to Monday of this week.

The franc rate seemed to be turning as we were talking; Bolton quoted me 10580 bid after 106 1/4 offered. The dollar market was steady all day at about 4.89 3/8. Gold movement was pivoting on the dollar-sterling rate. Actual <sup>gold</sup> business was much in excess of the figures reported done at fixing. Gold continued to be shipped to New York to be added to "your poor little gold hoard," as he put it.

I made confidential reference to the Swiss expressed willingness to quote us firm buying and selling prices for gold with a spread of over 2% and asked him whether a similar proposition had come up with them now or at some time in the past. Bolton replied that they had made

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 22, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

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no attempt with the Swiss along these lines; they were in contract with eachother, but had left it at that. Quoting a spread of 2%, he thought, indicated that they were trying to prevent us from trading here in Swiss francs.

LWK:KMC

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE October 22, 1946.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF FRANCE.

I called Mr. Cariguel at 11:55 and reported briefly as to market quotations here. I hinted that this morning's erratic franc market here, when for a time there was no buyer in sight, suggested the advisability of his giving us their gold prices in time to reach us here at our opening rather than as at present, <sup>in the</sup> afternoon. Cariguel immediately replied "We deliberately allowed the market to run up because it is all political and we wanted to give speculators a lesson, which they now have." I thanked him for this information. Any time they wanted us to operate for them in the morning here, we were of course ready to do so. I inquired whether <sup>our</sup> last night's purchase of francs had been in line with his intentions and explained that, in my opinion, we had acted in accordance with the purpose of the arrangement. Cariguel replied that that was absolutely correct.

LWK:KMC

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 23, 1936, 2 p.m.

NO.: 1034

FROM COCHRAN.

I refer to telegram No. 421 of October 21, 5 p.m., from the Department. The <sup>figures for</sup> price of gold for Swiss buying and selling are correct as given in my telegram No. 1021 of October 20, 11 a.m.

At the time I discussed the matter of a declaration with the three Swiss National Bank officers, I gave them an idea of our day to day working arrangements with London and Paris for fixing gold price in their respective currencies. These officers told me that in lieu of arriving at a day to day rate the Swiss preferred to quote definite prices for buying and selling gold against their currency. The rates set are subject to change. Of course, a wider difference exists between these prices now that the Swiss are no longer on the gold standard than there was when the gold weight was legally fixed for the Swiss franc under the former system. I understand that as stabilization <sup>the</sup> of/currency progresses, the Swiss will seek to compress this spread.

Today I received a letter from Bachmann, dated October 21, stating that on the twenty-third the Swiss Federal

eral

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eral Council would pass upon the question of the Swiss declaration, and that on Tuesday, October 27, the Board of General Managers of the Swiss National Bank would submit the question for approval to their board of delegates.

BULLITT.

EA:LWW

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 22, 1936, 5 p.m.

NO.: 1035

FROM COCHRAN.

Paris exchange market witnessed a wild day with most currencies fluctuating over one per cent against the franc. Dollar for instance opened at 21.50; moved to 21.74 and then was brought back to 21.51. French control intervened when rate thus soared against franc and brought them down very effectively through giving sterling and dollar and taking francs. My market contact says French control also operated in forward market reducing discount from 1-13/16 to 1-3/16 for three months. Pessimism of yesterday and today with respect to franc attributed generally to political reasons such as possibility of Little Entente states following Belgium's neutrality example and uncertainty of Radical Socialists convention convened today at Biarritz.

This evening I had a telephone conversation with Cariguel. He had personally supervised the control operations today on the market. It was his opinion that domestic politics had given the speculators courage to try to bear the franc down, and his success in checking this move pleased him.

Statement of Bank of France as of October 16 showed no change in gold holdings; advances against gold up 113,000,000, francs; 30-day advances down 300,000,000; no change in state items; discounts down 760,000,000;

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circulation down 407,000,000; deposits down 771,000,000; coverage 64.15 versus 63.38.

Press today carries evidently officially inspired denial of rumors that coming financial and budgetary proposals of French Treasury will contain provisions for taxes or levies on capital.

Under city note, LONDON TIMES today says in part smoothly but the Dutch and Swiss rates are still undergoing the readjustment process caused by the devaluation. These exchanges now show a greater independence of the French franc than was the case before the gold bloc dissolved; this independence is of course due to the better condition of their financing. The tend of the French franc yesterday again attracted chief attention in the foreign exchange market and its weakness was especially shown in the forward rate. This cannot be attributed to politics alone; until the awkward budget corner has been turned, and there are signs of a definite improvement in economic conditions in France, the return of confidence is bound to be slow."

BULLITT.

EA:LWW

October 22, 1936

At 5:15 o'clock, the Secretary had the following group in his office: Mr. Haas, Mr. Bell, Mr. Upham, Mr. Taylor, Mr. Oliphant, Mr. Lockhead, Dr. Fels, Dr. Goldenwelser and Dr. Williams. They were present to discuss the action to be taken on the requests of Belgium and Switzerland to join the tri-partite agreement.

Mr. Taylor expressed the opinion of the group which had been discussing the matter. He said, "The first point is, does extending this facility to Belgium open up very large or serious opportunities for speculation on the part of others using Belgium as the medium? We don't think so. Second, having to do with the desire to put a limitation on the amount of operations from day to day, as far as Belgium goes, such as the \$10,000,000 figure which you suggested. We also don't think so. The third point, which is the important one having to do with this question of Belgium having a central bank rather than a stabilization point and the completeness -- completeness is the proper word -- of the undertaking of the Belgian Governments; in other words, are they actually the principal or is the central bank the principal, was the subject of great discussion and I think you had better turn that point over to Mr. Oliphant."

The Secretary's comment was, "If you don't mind, that point hits me the least. What I would like to do -- Prof. Williams can't stay here more than a day." Dr. Williams answered, "Yes, I have classes." The Secretary asked him, "Have you classes on Monday?" He answered, "Yes. Perhaps I could do something about them, but I have classes on Monday."

HM, Jr. then said, "What I want to know -- the thing I want to get out of you people, especially Dr. Williams, and should I say 'our guests', is this point: what are the pros and cons for our putting Belgium on the October 13th basis and cancelling everything, withdrawing everything, that we have issued prior to that for anybody to sell them gold. That's the point in which I am most interested. To me the rest of the stuff we can sort of do in our own shop, but that is the important thing,

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because when we cross that we are crossing a very important bridge, in my opinion. Would each of you talk? Dr. Williams, will you please speak first?"

Dr. Williams said, "I think it is desirable to do that?" HM, Jr. said, "You do." Dr. Williams said, "Yes. I see no objection." HM, Jr. asked him, "You feel that's all right?" Dr. Williams answered, "Yes."

The Secretary then asked Dr. Goldenweiser for his opinion and he said, "I feel the same way. I feel in the whole set-up, with the Belgian price being fixed and it not being in any position for that reason to have any undesirable fluctuations, I think it is a very good thing to do, to say that we are going to admit each country on its merits without any blanket authority. Now we are admitting Belgium on such conditions as are mutually satisfactory and we will admit any other countries on conditions that are mutually satisfactory. I think it is a good thing to do." The Secretary asked, "You do?" Dr. Goldenweiser answered, "Yes, sir."

Dr. Williams added, "My reservation would be, I would favor a somewhat definite arrangement with the Belgians from the one you now have with the French and British, but on the question you raised, I certainly am in agreement." The Secretary remarked, "I will come back to you in a minute, if I may, but I would like to get this one point that bothers me the most."

He then asked Dr. Feis for his opinion. Dr. Feis said, "I agree." Turning to Dr. Williams, the Secretary asked him to continue his remarks. Dr. Williams said, "As to the difference, it seems to me it is desirable to have an understanding with the Belgian Government, but that arrangement would not need to bother the French or British altogether. There are some differences in the situation. They are offering us not a fluctuating price of gold, but a fixed price of gold. As I see it, there would not be much, and perhaps not any, occasion for operations in their exchange. It's more like the old gold standard; in fact, it is just like that. It can be terminated at the end of 24 hours and that, as I understand it, there would be no private commercial dealings in gold. In other words, it is not an equalization fund operation, but more a gold standard operation and for

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that reason I would think that, provided you had a clear understanding with the Belgian Government that they enter into the agreement of October 13th in all its respects, I think it would be unnecessary to insist upon setting up a Treasury fund for operations because, as I see it, there would be no operations. I think you could go along more or less with their suggestion that the Bank of Belgium undertake to buy and sell gold."

The Secretary said to Dr. Williams, "May I put it this way? As Cochran describes the situation in his cable, you feel that we can accept it?" Dr. Williams answered, "I would think so. It may be that you would want to strengthen the understanding that it is an understanding between Governments. I personally feel it is strong enough, but it may be desirable to make it stronger. If it starts off by saying, 'The Belgium Government declares and certifies that the central bank will do thus and so', in my mind I add to that the fact that the Bank of Belgium has no authority to put an embargo on gold or change the price of gold. Those are governmental functions and that being so, I cannot see that we need any strengthening of the agreement. But perhaps I am wrong about that. I don't see, though, that there is any occasion for insisting on Treasury operations from their end as the operations would be really the old-fashioned one of buying and selling gold at fixed points."

The Secretary then asked Dr. Williams, "How do you feel as to Switzerland?" He replied, "I feel the same way. They propose to do it there through a stabilization fund. I think that is a matter for them to decide. If they want that fund, I take it that it means that they are not certain in their mind what the exchange is going to be finally; what the price of gold is going to be finally. I note that they say in their most recent telegram that they propose to offer us a fixed price of gold. I should say that that was acceptable and that the method of carrying it out, whether through the bank or the stabilization fund, is in such case a detail; in any case, a domestic question for them."

"I see," the Secretary commented. "Anything you want to add?" Dr. Williams answered, "I do want to make it clear that in the case of England, France and the

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United States that there is a very valid reason for insisting on a stabilization fund for Treasury operations, because there you are dealing with a new thing. You are dealing with a fluctuating price of gold and contemplating operations in the exchange."

"As I see the picture," the Secretary said, "we are not bringing into the partnership as a full partner either Belgium or Switzerland. We are just offering them the facilities. We have three partners and it's a closed partnership for the moment. We are simply offering these people the facilities which if we don't offer they will get in Paris and London and it just shuts New York out of that world market." Dr. Williams added, "And it may raise some awkward questions in the public mind." HM, Jr. then said, "It might be favoring these people too much, but I have no intention of bringing them into full partnership." Dr. Williams remarked, "And if we reject them, it may raise some awkward problems."

The Secretary asked Dr. Goldenweiser if he wished to add anything and he said, "I have nothing to add because I agree entirely on that. There are plenty of arguments, but I don't think they are necessary at this time."

When the Secretary asked Dr. Feis, "Have you said enough on this," the answer was, "I rather was of the opinion that the commitment of the Belgium Government needed greater precision and greater fullness and you indicate an alternative attitude, that is, that it would not be a full partnership relation. The object of what I had in mind had been to make sure that the obligations resting on the Belgians were no different in order to make it a full partnership relation. If it is viewed in another way and decided that is the way to do, then I would come back with even more certainty to the idea of the daily limit. I wouldn't even put it as high as \$10,000,000. I would put it as low as \$5,000,000 which would certainly represent the full total of legitimate demands between Belgium and the United States because I am not sure -- I would like to listen to full discussion, though I doubt whether it would be conclusive now -- as to the possibilities of operating through Belgium, for example, on the pound sterling rate. I think I could take time and work out some hypothetical situations in

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which it might be done, especially if the Belgian authorities are not committed as fully to the whole undertaking as the other partners so they would not feel the same sense of responsibility."

Mr. Morgenthau then asked Dr. Feis, "May I ask you a question. As the representative of the State Department, do you think if I let this go over until Monday I am injuring anybody?" Dr. Feis' answer was, "Certainly not; certainly the other way around."

The Secretary said to Dr. Feis, "Would you mind getting off a cable to Cochran that due to pressure of business we find that we will not be able to give this matter of Belgium and Switzerland full consideration until Monday, or something like that." Mr. Lochhead suggested, "I would like to say the early part of the week." Mr. Oliphant agreed, saying "That's good." Mr. Morgenthau said, "Yes; instead of saying Monday. The combination of doing my speech and two for the President has put everybody through the key-hole and I think this is too important."

Mr. Lochhead remarked, "Wednesday is Dr. Williams' free day." Dr. Williams said, "That's a very small point, but I am free on Wednesday and Thursday." The Secretary then said to Dr. Williams, "You are invited here for Wednesday. I have other things than this which I have not had time to talk about. I would be delighted to have you. All right; I think that's all. I am tremendously obliged to all of you for your patience and consideration."

October 22, 1936

The President told me to tell Joe Murphy to go over and try to make his peace with J. Edgar Hoover, the President evidently having in mind to appoint Joe Murphy as head of the Secret Service.

I told the President that I had given my word to Homer Cummings that Murphy would go to the Pacific Coast and that he, the President, would have to make peace with Cummings. The President reiterated to me that Murphy should see Hoover.

I spoke to Murphy this morning and explained to him what the President's wishes were about his making up with Hoover and he flatly refused to do it. He said, "Hoover and his men can never explain why they shot Green in the back and if and when Senator McKellar calls on me for an explanation I am going to give him the facts just as I know them."

I told Murphy that the only suggestion I had was that after election he have a talk with the President.

October 22, 1936

11 a.m.

I know what the President's plans are after election. I do not want to be here alone. I want Jack Garner to be here. I mentioned it to the President, but he is so busy he did not pay much attention. When the President leaves here on November 11, I think that Garner should be here.

October 23, 1936.  
9:53 A. M.

Operator: Go ahead.

H.M.Jr: Hello?

Marriner  
Eccles: Hello.

H.M.Jr: Hello, Marriner?

E: Yes.

H.M.Jr: Henry talking.

E: How are you this morning?

H.M.Jr: Oh, pretty well. What do you think of the Government bond market?

E: Well, I - well, just what do you mean? You mean -

H.M.Jr: Well, I mean what - what is the way it's been acting the last couple days?

E: Well, it's - you can't expect it to always be exactly steady or to be going up. It's - I don't think it has - it hasn't shown enough weakness, do you think, to be - to be important? I know there's been a good deal of talk among bankers for some time ever since the stabilization agreement has been made. They've anticipated, of course, that there'd be some gold go out.

H.M.Jr: Uh huh.

E: The psychology of gold going out, of course, would be to reduce excess reserves and I think it's purely a psychological reaction.

H.M.Jr: Is the open market committee doing anything at all the last day or two?

E: I don't think so.

H.M.Jr: Uh huh.

E: George is away.

H.M.Jr: Uh huh; well -

- E: George - George is out in - he went over to Kansas City and then he's going down to Dallas.
- H.M.Jr: George who?
- E: George Harrison.
- H.M.Jr: Oh. Well, when he goes away the bond market falls, something happens - is that it?
- E: (Laughs) No, I wouldn't say that, I wouldn't say that.
- H.M.Jr: Yes.
- E: We've - he'll be - we've got a meeting called for next Friday.
- H.M.Jr: Well, supposing the bond market continues to fall four or five thirty-seconds every day for next week.
- E: Well, we'd get - we'd get in touch with you and see what you wanted done.
- H.M.Jr: Oh, I see. Well, I was just curious.
- E: Well, you wouldn't want us to go ahead and support a market without getting in touch with you, would you?
- H.M.Jr: Oh, I - no - I - I - I'd be delighted to talk it over, but I just wondered what the Board - what the Board thought of this Government bond market the last couple days, that's all.
- E: We - what we'd like to do as far as the Reserve System is concerned is - is increase very substantially our long term holdings.
- H.M.Jr: Yes.
- E: Well, we've - we've got a resolution giving the Executive Committee -
- H.M.Jr: Yes.
- E: - of the Open Market Committee -
- H.M.Jr: Yes.

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E: - our support as a Board - wouldn't - wouldn't take any action on it because it's of course up to the Open Market Committee.

H.M.Jr: Yes. But George is away.

E: What is it?

H.M.Jr: (Laughs) But George is away.

E: Oh well, George is - he went - he simply went over to Kansas City a couple of days ago.

H.M.Jr: I see.

E: Of course, the - the - whenever there's ever - whenever there's been any - any market that you've been concerned about, you've usually called up and said something about it.

H.M.Jr: No -

E: And I've felt that -

H.M.Jr: No, no, I've never done that in my life.

E: Haven't you?

H.M.Jr: No, no, we've always taken care of the Government bond market ever since November 19, 1933, without anybody's help. I never had any help and I never asked for any help.

E: Well, of course, the - the market -

H.M.Jr: I don't -

E: - the market has shown as much weakness before as it's shown in the last two or three -

H.M.Jr: I never called up anybody since I've been here.

E: Well, I talked to you about it, then.

H.M.Jr: That's perfectly possible, but I've never called up and asked for help.

E: Well, do you - what do you think about it? Do you think -

H.M.Jr: Oh, well, we're - we're doing what we always do. We - we're taking care of it. We took care of it yesterday, we took care of it the day before, we'll take care of it today, and we take care of it right straight along. That's the whole point, and that's just the point that I want to make.

E: Well, we've - we've got an order to buy up to - that is, an authority that the Committee gave to the - the the Executive Committee to buy up to five hundred million of long term bonds; that is, a shift from short to long.

H.M.Jr: Yes.

E: And we have had an understanding with Burgess on it that we would attempt to pick up those long term bonds so as not to put the market up at times when the market showed weakness. Now, they've been - been buying a few long terms. I don't know what they've done the last few days. But I know here a while ago while I was away they picked up a few when the market showed some weakness.

H.M.Jr: Well, I - I just wanted to register that - what we're doing - and -

E: Well -

H.M.Jr: - and that we - that when - when the things are critical, the Treasury -

E: You can -

H.M.Jr: - takes care of the bond market.

E: Yes; well, you can - you can figure that so far as we're concerned - at least, so far as I'm concerned -

H.M.Jr: Yes.

E: - that we're - we'll be - we want to cooperate, we want to support the market; in fact, we want to get a lot of long term Governments.

H.M.Jr: Yes, but just let me register this, Marriner. We're still doing the operating, see?

E: You what?

H.M.Jr: We're still doing the operating.

E: Well, do you want us to do it?

H.M.Jr: No, but I just want to register, see, with you -

E: Now, do you mean you're dissatisfied with what we're doing?

H.M.Jr: No, no, I - it's - it's no different than it's been any time since November '33. See? - as far as we're concerned. And I just want to register that with you.

E: Well (laughs) I - I figured from what you said this morning that you feel that we probably haven't done what we should do to cooperate.

H.M.Jr: No, no - I mean - I'm just registering this today. When I see you next Tuesday, I'll talk to you more about it, see?

E: Well - but I'm - here's the -

H.M.Jr: I mean we've had a weak bond market, the Treasury steps in on a second's notice and buys for our account; we have money. You're frank enough to say you don't know what they've done up there.

E: No -

H.M.Jr: Well -

E: - but they -

H.M.Jr: You don't even know what your own Open Market Committee has done, but you do want to know hourly what the stabilization fund does. And I just want to register that.

E: Well -

H.M.Jr: I know what you people have been doing, because I've got to keep track of it. And the point is, that I've

said before and I'm going to say it now - I want cooperation, I'm going to give cooperation, but up to now and up to ten o'clock today, we still do all the operating. Now just think it over and when we see too -

E: Well, if - if - you - you've known of course my attitude with reference to supporting the market. You've known -

H.M.Jr: Yes.

E: - that we wanted to increase our holdings in long term government bonds. At the time when we increased reserve requirements you - I understand that you made the statement that we had taken that action and were not - and George Harrison had said that he knew nothing at all about whether we had done anything to support the long - to support the government bond market. That's the morning that we announced the increase in reserve requirements. Well now, that isn't true, because I talked to George Harrison the night before and had a very definite understanding with both Harrison and with Burgess that they would buy government bonds the next morning; so that when you talked to Harrison on the phone and you said - as I understand it, Harrison said to you that he didn't know anything about it.

H.M.Jr: Yes.

E: Is that correct?

H.M.Jr: As I understand it, as I said it, when I talked to George at five minutes of ten that morning, he said that he had no understanding and didn't know what to do, wanted to know what we were going to do and talk it over; he was very nervous and very excited.

E: Well, the next time George comes down I think I better bring - I -

H.M.Jr: Uh, well -

E: George tells you one thing and he tells me another.

- 7 -

H.M.Jr: Well, we can - the three of us can meet.

E: Huh?

H.M.Jr: The three of us can meet.

E: That's what he does.

H.M.Jr: Well, anyhow -

E: Of course, I under--

H.M.Jr: I just wanted to say - I just thought you'd like to know that we are taking the bonds as the bonds are dropping and we're - we took four million dollars yesterday, and it's a very weak market, and we're the only governmental agency that is supporting it.

E: Well, I'll get - I'll - I'll call Burgess and see what he's doing for the - for the System account, and if he isn't doing anything why he isn't.

H.M.Jr: Yes; well, I know -

E: This -

H.M.Jr: We - we've got ample funds; we can take care -

E: Well, I know, but we've - we've been wanting to increase our holdings -

H.M.Jr: The whole thing -

E: - for the government for months.

H.M.Jr: But here's the whole point. Here's your own Open Market Committee and I don't - what you say - nobody on the Board, including yourself, knows what they're doing in the government bond market, but you do want to know hourly what we're doing in the Stabilization Committee.

E: No we don't.

H.M.Jr: Oh yes.

- 8 -

E: No, that -

H.M.Jr: Oh yes.

E: No, that isn't right.

H.M.Jr: Oh yes, and -

E: It isn't a question of knowing hourly, and it isn't a question of - you take on the operation of the market, we get a report on - on what bonds they've bought, what bonds they've shifted.

H.M.Jr: Yes.

E: We don't get it every day because we didn't figure that there was any - that we figured that Burgess would call up if there was any situation there that required action. Now, Burgess didn't call yesterday and apparently he should have called.

H.M.Jr: I don't know; I don't know. As far as Burgess is concerned, the Treasury does a swell job for him. We have no complaint.

E: Well, you - you apparently feel that we - I mean we haven't done what we should have done.

H.M.Jr: No, I just feel that conditions are just the way they've always been. The Treasury has to be on the firing line and it is on the firing line, and we've got an operating job here, and we're doing -

E: Well, if the Treasury wants to drop completely out, we'll take care of the market.

H.M.Jr: (Laughs) Well, if it did it'd be the last thing -

E: Well, I've - I've - I've -

H.M.Jr: It would be the first time since November '33 that we have.

E: I've given you that assurance time and again that we were to take some of the increased reserve requirements when the market went down.

H.M.Jr: Yes.

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E: We would have taken all the bonds but you said you wanted half of them.

H.M.Jr: Oh no - no, no, n-n-no. That's incorrect.

E: Huh?

H.M.Jr: No, no, n-n-n-no. That's incorrect.

E: We split the bonds that were purchased during that period.

H.M.Jr: True, because George Harrison and I came to that understanding at five minutes of ten on that morning.

E: Yes, that's right.

H.M.Jr: Yes.

E: But we would have been glad to take all the bonds, and as I understand it you wanted to - to - you had some trust funds to invest and you wanted half of them. You -

H.M.Jr: If George -

E: That's what George - that's what George Harrison reported.

H.M.Jr: Well, you and George and I better talk that over the next time he's -

E: Well, we certainly had, because George has certainly put me in the wrong light with you.

H.M.Jr: Yes. Well, let's the three of us sit down and talk it over.

E: Yes.

H.M.Jr: And - then I'll see you next Tuesday.

E: Well, all right then.

H.M.Jr: Thank you.

October 23, 1936

At 11 o'clock today, Mr. Bewley came in and Mr. Taylor received him in his office, the Secretary having left for New York to give his address this evening before the Business Men's Club. Lochhead was present with Mr. Taylor and Mr. Bewley.

Mr. Taylor told Mr. Bewley that partly in deference to the French request for delay in making the announcement here until they have been able to make similar contacts, and partly on account of pressure of business here, we did not expect to do anything, one way or the other, about the Belgian and Swiss requests until early next week or, preferably, sometime next week.

Mr. Bewley then said, "Well, I do not have very much. In the first place, the Chancellor wanted to thank the Secretary for the information he had given him and as regards Switzerland he did not want to offer any observations at all. He had already said he welcomed extension to other countries and has nothing further to say in regard to Switzerland.

As regards Belgium, while he recognizes that the decision is entirely one, on this matter, for the Americans, as Mr. Morgenthau was kind enough to ask for his reactions he would like to say that he does not, himself, think that the existence of a stabilization fund ought to be treated as a necessary condition for mutual cooperation. It does not seem to him to be an essential condition, but he feels if the arrangement with Belgium is to be really reciprocal it does go further than the other arrangements in that it seems to require the conversion into gold of dollar balances which the National Bank of Belgium might hold at any time over here, whatever the state of exchange might be, and that is a bigger thing, really, than merely to turn into gold balances held. It seems to go a step further. But he merely points that out. He does not wish to make any comment in fact and he wouldn't even point it out only Mr. Morgenthau was good enough to ask for his reactions.

"That's the gist of the telegram. And I take it he would like to have the thing go through with Belgium, but he was just pointing it out."

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Mr. Lochhead's comment was, "I was interested in that angle, because just because Belgium is on that straight gold standard, one way or the other, that would necessarily mean they could transfer balances regardless of the market. I think we would try to put them on the same basis even though they don't have a stabilization fund. That wouldn't bar them out. On the other hand, they could operate without a stabilization fund on practically the same basis as the others -- in other words, day to day operations."

Mr. Taylor said, "We don't think the existence or non-existence of a stabilization fund is important." Bewley remarked, "We are both agreed on that then." Taylor added, "Also, the Belgian case as such is not necessarily important, except that it is a slightly different model and for that reason we are giving it a whole lot of discussion." Bewley said, "Quite. I don't think the Chancellor's remarks add very much." Mr. Taylor then said, "We appreciate them very much. It is an excellent point and one we would naturally in our own conclusions, naturally will give full consideration to." Bewley said, "Yes, quite. I think that covers the contents of this message."

Mr. Lochhead then said to Mr. Bewley, "You would be interested in the spread of two points. The Swiss verified those figures and said that their intention was that they would be more inclined to keep a steady gold rate with wider spread rather than vary their currency. That was their idea, though they did say that the gold rate would be subject to change. In other words, it was meant to be somewhat steady but would be subject to change and, secondly, they did this because they changed from the old gold standard to this and it would be their idea, in time, to compress the spread as they went along." Mr. Bewley said, "I see."

Continuing, Mr. Lochhead said, "Since that time I have checked with the Federal Reserve and they agree with me that it is a little bit out of line no matter what the explanation. It allows them to work in other markets on a narrower spread than you could operate in their market. We know the Swiss are very good exchange operators. That was not an accident. That calculated that pretty carefully."

"Incidentally," he added, "the Federal Reserve in

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talking with the Bank of England, back and forth, asked if they had done anything with Switzerland and I think Bolton over there expressed the opinion that you could do a fair amount of talking, but it's hard to get together with Switzerland on operations. I am just passing that along as general gossip to you."

Mr. Bewley's comment was, "Yes. I don't imagine that our control fund would work with Switzerland unless at the request of the Swiss, because after all we want to work on the dollar and franc as far as keeping the pound steady. In point of view of the exchange fund, there would be no reason to work on the Swiss."

Mr. Lochnead remarked, "It would allow Switzerland to join in the general agreement and tend to greater stability all around and close up another avenue and I think the Swiss are inclined to take advantage of the London open gold market." Bewley said, "I should imagine so."

Mr. Taylor then said, "We think that general desire for stability and cooperation on the part of these other nations is the thing to be most desired." Bewley's reply was, "I think we all agree on that." Continuing, Mr. Taylor said, "So the form of cooperation, as long as they will indicate their general feelings, is not tremendously important." Bewley answered, "No, I think that's right."

To Mr. Bewley, Mr. Taylor said, "If you will please thank the Chancellor on behalf of the Treasury for his cooperation." Mr. Lochhead jestingly remarked, "I think they have a code word for that."

FEDERAL RESERVE BANK  
OF NEW YORK

*The Collected* 102

OFFICE CORRESPONDENCE

DATE October 23, 1936.

To CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 11:50 to say that, as a result of yesterday's operations, his account B would be overdrawn tomorrow in the neighborhood of \$170,000. This overdraft should be covered through the sale of gold. I asked whether he would give us instructions and he said he would.

Cariguel then reported briefly about today's market. They had done half of yesterday's turnover; so far they had sold £1,000,000. As the market looked at the moment, they might be able to buy some of this sterling back. I asked whether we could do anything for him here and he replied that he would cable us in a few minutes.

LWK:KMC

GOLD STOCK UP 1 738 000 DLS

WASHN -

OCT 23 1936 10:00

ADD GOLD STOCK

10

WASHN - TREASURY-S GOLD STOCK INCREASED BY  
1 738 000 DLS ON OCT 21 RISING TO A TOTAL  
OF 11 008 069 576 DLS

WCNS34

GOLD IMPORTS FOR THE WEEK ENDED OCT. 16 FELL TO \$53,574,685 FROM \$124,938,717 THE PRECEDING WEEK, THE DEPARTMENT OF COMMERCE REPORTS.

SILVER IMPORTS FOR THE WEEK TOTALLED \$1,028,774 AS AGAINST \$1,619,159 THE PREVIOUS WEEK. EXPORTS OF BOTH METALS WERE NEGLIGIBLE.

10/23--R1045A

LONDON FOREIGN EXCHANGE MARKET WAS QUIET  
FRENCH FRANCS WERE OFFERED AT 105 1-4 IN THE  
EARLY DEALINGS BUT FOLLOWING SUPPORT BY THE  
FRENCH STABILIZATION FUND THE RATE RECOVERED  
TO 105 5-32 BUT THE TURNOVER WAS SMALL- OTHER  
CURRENCIES WERE STEADY- DISCOUNT ON THREE  
MONTHS PARIS IMPROVED AT 1 3-8 FRANCS AND  
AMSTERDAM 8 3-4 DUTCH CENTS- DISCOUNT ON ONE  
MONTH PARIS WAS 1-2 FRANC AND AMSTERDAM 3 1-2  
DUTCH CENTS

*8, 40*  
' SUBSTANTIALLY EASIER CONDITIONS HAVE  
DEVELOPED IN MONEY MARKET IN AMSTERDAM ACCORDING  
TO LOCAL PRIVATE CABLE ADVICES- PRIVATE  
DISCOUNT RATE HAS BEEN LOWERED TO 1 7-8 PC FROM  
2 5-8 PC PREVAILING EARLIER IN THE MONTH WHILE  
BUYING RATE ON PRIME GUILDER ACCEPTANCES  
IS DOWN TO 2 PC AS AGAINST 2 3-4 PC EARLIER IN  
THE MONTH

9861 88 150

AURIOL ON FRENCH BUDGET

2,44

PARIS - VINCENT AURIOL MINISTER OF FINANCE  
IN AN INTERVIEW WITH L-INTRANSIGEANT DECLARED  
THAT ASSERTIONS THAT THE 1936 AND 1937 BUDGET  
DEFICITS WILL TOTAL 25 AND 33 BILLIONS ARE  
EXAGGERATED

-ALONGSIDE NORMAL EXPENDITURES AGAINST  
WHICH I SHALL PUT ACTUAL REVENUES THERE ARE  
IMPORTANT DEPARTMENTS LIKE ARMAMENTS WHICH I  
HAVE THE RIGHT TO COVER BY LOANS- MR AURIOL  
SAID

-THE GOVERNMENT CONTINUES TO BELIEVE IN  
ABSORBING UNEMPLOYMENT AND STIMULATING NATION-  
AL ACTIVITIES - IT IS WORKING EFFECTIVELY FOR

REDUCTION OF THE DEFICIT WHICH SHOULD NOT  
ALARM EITHER THE BOURSE OR THE EXCHANGES-

IT IS COMMONLY UNDERSTOOD THAT IT IS  
PROPOSED TO INTRODUCE BOTH ORDINARY AND EX-  
TRAORDINARY BUDGETS FOLLOWING THE EXAMPLE  
SET BY MARCEL REGNIER AND URGED BY JOSEPH  
CAILLAUX

PERSISTENT RUMORS THAT THE EGYPTIAN POUND  
WILL BREAK ITS TIE WITH STERLING DESPITE OFFI-  
CIAL DENIALS WERE REPORTED ACCOMPANIED BY  
HEAVY EXPORTS OF CAPITAL - ACCORDING TO A  
L-INTRANSIGEANT DISPATCH FROM CAIRO EXCHANGE  
OF STERLING AGAINST THE EGYPTIAN POUND HAS  
BECOME IMPRACTICABLE AND SAVINGS BANKS ARE  
LOSING DEPOSITS

## TREASURY DEPARTMENT

Washington

FOR RELEASE UPON DELIVERY.  
10-23-36.

Press Service  
No. 8-74

Address of the Secretary of the Treasury  
to be delivered at the Business Men's  
Dinner under the auspices of the Good  
Neighbor League at the Waldorf-Astoria  
Hotel in New York, Friday evening,  
October 23, 1936.

I am here to report to you, the stockholders of America, about the financial management of your great corporation, the United States Government. What I shall say looks more to the future than to the past, because I believe it is in the future that you are particularly interested.

Since President Roosevelt took office in March, 1933, manufacturing employment has risen 50 per cent; manufacturing payrolls have doubled; prices paid to farmers have more than doubled; the market price of corporate bonds has risen 50 per cent.

The Federal Reserve Board index of industrial production is, I think, the most comprehensive measure of business activity that we have. It stood at 59 in March, 1933. Today it is approximately 109.

These facts speak for themselves. They are confirmed by the first-hand experience of every man and woman in the range of my voice. They represent the combined efforts of the whole Nation -- efforts which were made effective by the financial policies adopted and carried out by this Administration.

Just what were those policies?

First, we brought the value of our currency into a more satisfactory relation with the currencies of other countries. By that step we stopped a disastrous deflation in the United States and brought about an immediate and still growing revival in our foreign trade. We broke the shackles that were

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dragging us down. Thirty nations had preceded us in readjusting their currencies; virtually all the rest have followed us.

The soundness and stability of the American dollar are now recognized throughout the world. That didn't just happen. It is the result of monetary policies that have been carefully formulated and executed.

In the past month a new step has been taken. Great Britain and France have joined with us in a common effort to maintain equilibrium in international exchange. We hope that this cooperation will provide the basis for freeing international trade from excessive restrictions. We believe it is a real contribution to the cause of international peace. The three nations agree, of course, that each must, as a first consideration, safeguard its own internal prosperity.

The second major element in our fiscal policies was our decision to provide safety for bank depositors, protection for farms and homes, jobs for the unemployed, and relief for the needy, at a time when no other agency in this country, public or private, was equal to the task.

We restored the buying power of our people.

As the President has so aptly said, we made an investment in the future of America. It has rebuilt both human and material values. It is now paying large dividends to every man, woman, and child in the United States.

But some people ask: Could we afford this investment? The answer is: We couldn't afford not to make it. The future of our country, of our democratic form of Government, and the lives and well-being of 125 million persons were at stake.

Others ask: How are we going to pay for it? The fact is, it is being paid for out of the dividends of recovery. This brings me to the third and final major financial policy of this Administration — taxation.

It would have been popular among certain groups of our population to have raised additional revenues by new excise and sales taxes -- taxes that would have fallen most heavily on those least able to pay.

What did we do? First, we borrowed to meet the emergency. Later, when incomes were growing larger as a result of recovery, we revised the tax system so as to make it fully adequate to meet the future revenue needs of the Federal Government. We did this by providing taxes based upon the democratic principle of ability to pay -- primarily income and estate taxes. Through the Revenue Acts of 1934, 1935 and 1936, we lowered the effective rates of taxation on small individual incomes and on small corporation incomes, but we raised and made more fully effective the rates of income tax on those best able to pay them.

Our revenue receipts have not yet shown the full effect of these tax changes. The bulk of collections under the 1935 and the 1936 Revenue Acts will begin to come in next year. But our increased receipts already show the effects of business recovery and the great improvement in our tax structure.

Total revenues of the Federal Government have increased substantially in every year of the present Administration. In the fiscal year ended last June, our revenues were nearly twice as large as they were in 1933; and, during the present fiscal year, we count on a further increase of more than one-third.

These facts reveal how groundless are the fears, voiced for campaign purposes, of the soundness of our fiscal position.

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We have so improved and strengthened the Federal tax structure that it is providing additional revenues easily sufficient to insure an early balancing of the budget and thereafter a rapid reduction in the public debt.

Some persons who, to put it mildly, are not too friendly to this Administration, are loudly and frequently asserting that our policies will bring inflation, and endanger the value of savings bank accounts, life insurance policies, and other forms of savings.

The facts I have cited, as to the continued and rapid increase of our revenues, furnish a complete answer to these fears.

If there was anything further needed to clinch the fact that there is no such danger, it was supplied this year by the President and the Congress. In January the President in his budget message told Congress that any expenditures added to the budget and any loss of revenues must be financed by taxes. In June Congress, carrying out the President's recommendations, provided the supplementary revenues.

It took both courage and statesmanship on the part of the President and of the Democratic Congress to enact an important piece of revenue legislation less than five months before a national election, but it constituted your final assurance that the fiscal policies of this Administration are and will continue to be sound.

Four years ago great financial structures were collapsing and values of all kinds were disappearing. It was then that life insurance policies and the people's savings and investments were in danger. They are not in danger now. The man who says they are is just four years behind the times.

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You still hear microphone opinions to the effect that our dollar is not safe. But the proof of men's real opinions is to be found in the way they act.

Investment bankers give to you their real opinions when they offer for subscription and recommend to their customers 25-year, 35-year, and even 60-year bonds, bearing interest rates of  $3\frac{1}{2}$  per cent or even less. Commercial and savings bankers give you their real opinion by their actions in buying these bonds.

What do investors think of the safety of the dollar? Their actions show what they think. They are buying good-quality, long-term, low interest bonds, and other high-grade securities.

They are paying 105 today for the same 3 per cent Government bond that sold below 83 in 1932.

What do foreigners think about the safety of the American dollar? They are not influenced by sentiment. They can keep their money at home, if they like. Instead, they have been sending it over here to buy participation in American recovery. Since January, 1935, foreigners have increased their holdings of American securities by more than 700 million dollars.

Today, in every field of finance where the real opinion of bankers, businessmen, and investors is tested by their actions, we find them proving their confidence in our future in the only way in which confidence can really be proved: By laying down their money on the barrel head!

Some people are broadcasting America short; no one is fool enough to sell America short.

--oOo--

October 23, 1936.

## DRAFT SPEECH FOR SECRETARY MORGENTHAU

I am going to talk to you this evening about the fiscal policies of this Administration, of their results, and of the present fiscal outlook of the United States. I am going to do this because I am particularly anxious to correct and clear up a number of misleading or erroneous statements, inspired by partisan motives, that have been made in these connections.

In March 1933, when this Administration took office, the most inclusive measure of business activity that we have -- the Federal Reserve Board index of industrial production -- was only 59 percent of the 1923-1925 average. Today, it is approximately 105 percent of that average.

During this Administration, manufacturing employment has increased by more than 50 percent and manufacturing pay rolls have more than doubled.

Prices received by farmers at the farms have more than doubled.

The Dow-Jones index of the prices of industrial stocks has more than tripled.

The average market rate of interest on all long-term United States bonds has declined by 30 percent.

The aggregate volume of bank deposits in the member banks of the Federal Reserve System has increased by about ten billion dollars.

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These figures, ladies and gentlemen, speak for themselves. They are in large part the results of the fiscal policies adopted and carried out by this Administration. Some people would have you believe that the only result of our fiscal policies has been an increase in the public debt. The figures that I have just recited and the first-hand personal knowledge of every individual within range of my voice prove the contrary.

Now, what, briefly, have been the major fiscal policies that have contributed so significantly to the rising tide of business recovery that this country is now enjoying? There are three of them: our monetary policy, our spending policy, and our taxation policy.

First, we brought an immediate stop to the vicious spiral of deflation in the United States, and an immediate and still growing revival in our foreign trade, by bringing the domestic and international value of our currency into alignment with the currencies of other countries. In doing this, we broke the shackles that were dragging us down. Thirty nations had preceded us in breaking away from the old gold standard; virtually all the rest have followed us.

In consequence, the United States today enjoys a currency that is backed by greater reserves of gold and silver than are possessed by any other nation on earth.

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The soundness and stability of the American dollar, achieved as a result of carefully planned and carefully executed monetary policies, are now recognized throughout the world. Just in the past month, Great Britain and France have decided to join with us in a gentleman's agreement with the object<sup>of</sup> achieving a lasting monetary equilibrium. Barring unforeseen developments, which are always possible in the present international situation, and for which we must of necessity, like other countries, retain a free hand, this agreement may prove the basis for a liberation of international trade from the artificial restraints arising out of monetary maladjustments.

The second major element in our fiscal policies was our decision to provide jobs to the unemployed, relief to the destitute, and financial strength to our banks, railroads, and insurance companies at a time when no other agency in this country, public or private, was willing to put up the necessary funds.

Some people have called this "priming the pump of recovery." Other people have called it waste and unsound finance. Still other people, while agreeing with the program in general, have disputed over its details. Nobody, however, can doubt, in the face of the tremendous results in both human and material terms, that the investment that we were willing to make in the future of America has proved a most successful investment, and one that is now paying large dividends to every man, woman, and child in the United States.

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But could we afford this investment? And how are we going to pay for it? are the questions that some people ask.

The answer to the first of these questions I have already given to you. It could be stated otherwise in these terms: We could not afford not to undertake these expenditures. The future of our country, of our democratic form of government, and the lives and well-being of 125 million persons were at stake.

The answer to the second of these questions -- how are we going to pay -- brings us to our third and final major fiscal policy -- taxation.

There are some persons who are going about the country on partisan missions, making speeches in which they imply or actually assert that the fiscal policies of this Administration have endangered the value of savings bank accounts, life insurance policies, and other forms of savings. They would have you ignore entirely the effects of the outstanding improvements in the Federal tax structure, in both fairness and adequacy, that have been enacted during this Administration; improvements that insure an early balancing of the budget and a rapid reduction in the public debt.

It would have been easy and it might have been popular for this Administration to have resorted to inflationary devices rather than direct borrowing to meet the temporary deficits;

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and it would have been easy and it might have been popular to postpone until a later date the enactment of additional tax legislation to increase the Federal revenues. It also would have been popular among certain favored groups of our population to have raised additional revenues by new excise and sales taxes that would have been paid by the masses of our people.

What did we do in these respects? We decided to make adequate, intelligent, and fair provision for the increased revenue requirements of the Federal Government, by taxes based upon the principle of ability to pay -- by income and estate taxes primarily. Through the Revenue Acts of 1934, 1935, and 1936, we lowered the effective rates of taxation on small individual incomes and on small corporation incomes, but we raised and made more fully effective the rates of income tax on those best able to pay them.

Through these measures, we not only insured that Federal revenues would very shortly be fully sufficient to meet all needs, but we also insured that our people would not pay increased taxes until their incomes -- that means their ability to pay -- had increased.

The effects of these tax measures have not yet been fully reflected in the revenue receipts of the Federal Government, because of the normal delay of one to two fiscal years in the receipts of such taxes. Nevertheless, the figures already

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available afford striking proof of the enormous improvement that has taken place in the strength of our revenue structure, and they should lay permanently to rest the ridiculous fears, voiced for campaign purposes, respecting the soundness of our fiscal position.

These figures show that the total revenues of the Federal Government have increased substantially in every year of the present Administration. In the fiscal year ended last June 30th, our total revenues were nearly twice as large as they were in the fiscal year 1933; and during the present fiscal year, we count on a further increase of more than one-third over the revenue receipts of the previous fiscal year. In the budget estimates for the fiscal year that will begin next July, and which will be submitted by the President to the Congress next January, I expect that our estimate for total revenue receipts, without the imposition of any new taxes, will approximate seven billion dollars. Our expenditures, on the other hand, will have passed their peak and will be declining.

In the light of this prodigious and continuing improvement in the revenues of the Federal Government, the fear that continued budget deficits will produce an inflation of our currency is a fear that looks silly for any but political purposes. The time when savings bank accounts and insurance policies were really in danger was back in the dark days of 1932, when gold was leaving

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this country on every outgoing ship; when 90 percent of the aggregate amount of Government bonds was selling below par; when the property values and the incomes of this country were going down day by day. THAT WAS THE TIME TO FEAR INFLATION.

If any of you had any remaining doubts about the soundness of our monetary and fiscal policies, these doubts should have been definitely and finally laid away by the action of the President on March 3, 1936.

You will remember that almost at the very moment that the budget message of January 3, 1936 was transmitted to the Congress, the Supreme Court invalidated the Agricultural Adjustment Act. Shortly thereafter, the Congress enacted the Soil Conservation and Domestic Allotment Act, designed to carry on the major activities that had been started under the AAA, but lacking the revenue provisions of that Act. In addition, the Congress voted for the prepayment of the Veterans' Bonus.

These events tore a big hole in the revenue estimates upon which the President's budget message was based.

In this situation, there was a need for rare courage and high statesmanship.

The President had both.

It was an election year. You know the kind of political advice that was given to the President. "Why take the political risk of imposing new taxes in an election year?"

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The President, however, again proved his high statesmanship. He realized thoroughly that the continuation of a sound recovery, and the maintenance of a sound currency required a tax structure that would balance the budget in the near future. The President's tax message of March 3, 1936 was the result.

The courage and statesmanship of the President in transmitting this message, and the courage and statesmanship of the Democratic Congress, in enacting an important piece of revenue legislation just six months before a national election, constituted your final assurance that the fiscal policies of this Administration are and will continue to be sound. You still hear campaign opinions to the effect that our dollar is not safe. But the proof of men's real opinions is to be found in the way they act.

And, what is the opinion of American bankers, investors, salary and wage earners, and finally of foreigners, about the safety of the American dollar?

The opinion of our great investment bankers has been given to you every day in the financial columns of the newspapers throughout the past year, when they have offered for subscription

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and recommended to their customers 20, 30, and even longer-term corporation bonds, bearing interest rates of  $3\frac{1}{2}$  percent or  $3\frac{1}{4}$  percent, or even less. The opinions of the commercial and savings bankers have been given to you by their actions in purchasing these bonds, as well as United States Government bonds, for their own portfolios at the prices offered.

What do investors think of the safety of the dollar? Their actions show what they think. They are buying all the good-quality, long-term, low interest bonds that are being offered to them.

They are paying 105 today for the same 3 percent Government bond that sold below 83 in 1932. They are paying 105 for the same bond of the Pennsylvania Railroad, not due until 1970, that was sold below 33¢ on the dollar in 1932.

What do our salary and wage earners and other purchasers of life insurance policies think of the safety of the dollar? Back in 1932, many of them were so afraid for the safety of the dollar that they borrowed to the hilt on their life insurance policies and withdrew savings from banks for hoarding. Today, policy loans are being rapidly reduced, the hoarding of currency has virtually disappeared; and the sales of new life insurance policies are again at prosperity levels.

- 10 -

What do foreigners think about the safety of the American dollar? They have no sentiment of American patriotism to influence them. Many of them can keep their money in gold if they like. Instead, they have been sending it over here to be invested in the bonds of the United States Government and the stocks and bonds of American corporations.

Today, in every field of finance where the real opinion of the most astute bankers, businessmen, and investors, is tested every day by their actions, we find the whole world proving its confidence in our currency in the only way in which that confidence can really be proved: By laying down money on the barrel head.

*Hand draft*

DRAFT SPEECH FOR SECRETARY MORGENTHAU

I am going to talk to you this evening about the fiscal policies of this Administration, of their results, and of the present fiscal outlook of the United States. I am going to do this because I am particularly anxious to correct and clear up a number of misleading or erroneous statements, inspired by partisan motives, that have been made in these connections.

In March 1933, when this Administration took office, the most inclusive measure of business activity that we have -- the Federal Reserve Board index of industrial production -- was only 59 percent of the 1923-1925 average. Today, it is approximately 105 percent of that average.

During this Administration, manufacturing employment has increased by more than 50 percent and manufacturing payrolls have more than doubled.

Prices received by farmers at the farms have more than doubled.

The Dow-Jones index of the prices of industrial stocks has more than tripled.

The average market rate of interest on all long-term United States bonds has declined by 30 percent.

The aggregate volume of bank deposits in the member banks of the Federal Reserve System has increased by about ten billion dollars.

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These figures, ladies and gentlemen, speak for themselves. They are in large part the results of the fiscal policies adopted and carried out by this Administration. Some people would have you believe that the only result of our fiscal policies has been an increase in the public debt. The figures that I have just recited and the first-hand personal knowledge of every individual within range of my voice prove the contrary.

Now, what, briefly, have been the major fiscal policies that have contributed so significantly to the rising tide of business recovery that this country is now enjoying?

First, we brought an immediate stop to the vicious spiral of deflation in the United States, and an immediate and still growing revival in our foreign trade, by bringing the domestic and international value of our currency into alignment with the currencies of other countries. In doing this, we broke the shackles that were dragging us down. Thirty nations had preceded us in breaking away from the old gold standard; virtually all the rest have followed us.

In consequence, the United States today enjoys a currency that is backed by greater reserves of gold and silver than are possessed by any other nation on earth.

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The soundness and stability of the American dollar, achieved as a result of carefully planned and carefully executed monetary policies, are now recognized throughout the world. Just in the past month, Great Britain and France have decided to join with us in a gentlemen's agreement with the object of achieving a lasting monetary equilibrium. Barring unforeseen developments, which are always possible in the present international situation, and for which we must of necessity, like other countries, retain a free hand, this agreement may prove the basis for a liberation of international trade from the artificial restraints arising out of monetary maladjustments.

The second major element in our fiscal policies was our decision to provide jobs to the unemployed, relief to the destitute, and financial strength to our banks, railroads, and insurance companies — at a time when no other agency in this country, public or private, was willing to put up the necessary funds.

Some people have called this "priming the pump of recovery." Other people have called it waste and unsound finance. Still other people, while agreeing with the program in general, have disputed over its details. Nobody, however, can doubt, in the face of the tremendous results in both human and material terms, that the investment that we were willing to make in the future of America has proved a most successful investment, and one that is now paying large dividends to every man, woman, and child in the United States.

- 4 -

But could we afford this investment? And how are we going to pay for it? are the questions that some people ask.

The answer to the first of these questions I have already given to you. It could be stated otherwise in these terms: We could not afford not to undertake these expenditures. The future of our country, of our democratic form of government, and the lives and well-being of 125 million persons were at stake.

The answer to the second of these questions -- how are we going to pay -- brings us to our third and final major fiscal policy -- taxation.

There are some persons who are going about the country on partisan missions, making speeches in which they imply or actually assert that the fiscal policies of this Administration have endangered the value of savings bank accounts, life-insurance policies, and other forms of savings. They would have you ignore entirely the effects of the outstanding improvements in the Federal tax structure, in both fairness and adequacy, that have been enacted during this Administration; improvements that insure an early balancing of the budget and a rapid reduction in the public debt.

It would have been easy and it might have been popular for this Administration to have resorted to inflationary devices rather than direct borrowing to meet the temporary deficits;

- 5 -

and it would have been easy and it might have been popular to postpone until a later date the enactment of additional tax legislation to increase the Federal revenues. It also would have been popular among certain favored groups of our population to have raised additional revenues by new excise and sales taxes that would have been paid by the masses of our people.

What did we do in these respects? We decided to make adequate, intelligent, and fair provision for the increased revenue requirements of the Federal Government, by taxes based upon the principle of ability to pay — by income and estate taxes primarily. Through the Revenue Acts of 1934, 1935, and 1936, we lowered the effective rates of taxation on small individual incomes and on small corporation incomes, but we raised and made more fully effective the rates of income tax on those best able to pay them.

Through these measures, we not only insured that Federal revenues would very shortly be fully sufficient to meet all needs, but we also insured that our people would not pay increased taxes until their incomes — that means their ability to pay — had increased.

The effects of these tax measures have not yet been fully reflected in the revenue receipts of the Federal Government, because of the normal delay of one to two fiscal years in the receipts of such taxes. Nevertheless, the figures already

- 6 -

available afford striking proof of the enormous improvement that has taken place in the strength of our revenue structure, and they should lay permanently to rest the ridiculous fears, voiced for campaign purposes, respecting the soundness of our fiscal position.

These figures show that the total revenues of the Federal Government have increased substantially in every year of the present Administration. In the fiscal year ended last June 30th, our total revenues were nearly twice as large as they were in the fiscal year 1933; and during the present fiscal year, we count on a further increase of more than one-third over the revenue receipts of the previous fiscal year. In the budget estimates for the fiscal year that will begin next July, and which will be submitted by the President to the Congress next January, I expect that our estimate for total revenue receipts, without the imposition of any new taxes, will approximate seven billion dollars. Our expenditures, on the other hand, will be declining.

In the light of this prodigious and continuing improvement in the revenues of the Federal Government, the fear that continued budget deficits will produce an inflation of our currency is a fear that looks silly for any but political purposes. The time when savings bank accounts and insurance policies were really in danger was back in the dark days of 1932, when gold was leaving.

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this country on every outgoing ship; when 90 percent of the aggregate amount of Government bonds was selling below par; when the property values and the incomes of this country were going down day by day. THAT WAS THE TIME TO FEAR INFLATION.

If any of you had any remaining doubts about the soundness of our monetary and fiscal policies, these doubts should have been definitely and finally laid away by the action of the President on March 3, 1936.

You will remember that almost at the very moment that the budget message of January 3, 1936 was transmitted to the Congress, the Supreme Court invalidated the Agricultural Adjustment Act. Shortly thereafter, the Congress enacted the Soil Conservation and Domestic Allotment Act, designed to carry on the major activities that had been started under the AAA, but lacking the revenue provisions of that Act. In addition, the Congress voted for the prepayment of the Veterans' Bonus.

These events tore a big hole in the revenue estimates upon which the President's budget message was based.

In this situation, there was a need for rare courage and high statesmanship.

The President had both.

It was an election year. You know the kind of political advice that was given to the President. "Why take the political risk of imposing new taxes in an election year?"

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The President, however, again proved his high statesmanship. He realized thoroughly that the continuation of a sound recovery, and the maintenance of a sound currency required a tax structure that would balance the budget in the near future. The President's tax message of March 3, 1936 was the result.

The courage and statesmanship of the President in transmitting this message, and the courage and statesmanship of the Democratic Congress in enacting an important piece of revenue legislation just six months before a national election, constituted your final assurance that the fiscal policies of this Administration are and will continue to be sound.

You still hear microphone opinions to the effect that our dollar is not safe. But the proof of men's real opinions is to be found in the way they act.

The opinion of our great investment bankers has been given to you every day in the financial columns of the newspapers throughout the past year, when they have offered for subscription

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DRAFT SPEECH FOR SECRETARY MORGENTHAU

~~Tonight~~ I am going to talk to you <sup>tonight</sup> about the fiscal and monetary policies of this Administration and what they mean to you for the future.

<sup>Pres. Roosevelt</sup>  
When ~~this Administration~~ took office in March 1933, the most inclusive measure of business activity that we have -- the Federal Reserve Board index of industrial production -- was only 99 percent of the 1923-1925 average. Today, it is approximately 166 percent of that average.

During this Administration, manufacturing employment has increased by more than 50 percent and manufacturing payrolls have more than doubled.

Prices received by farmers at the farms have more than doubled.

The Dow-Jones index of the prices of industrial stocks has more than tripled.

The average market rate of interest on all long-term United States bonds has declined by 30 percent. <sup>75</sup>

The aggregate volume of bank deposits in all banks in the United States has increased by more than thirteen billion dollars, or by about one-third.

These figures, ladies and gentlemen, speak for themselves. They represent the combined efforts of the whole Nation, and these efforts were made effective in large part by the fiscal policies adopted and carried out by this Administration. Some people would have you

- 2 -

believe that the only result of our fiscal policies has been an increase in the public debt. The figures that I have just recited and the first-hand personal knowledge of every individual within range of my voice provide eloquent testimony to the contrary.

Now, what, briefly, have been the major fiscal policies, that have contributed so significantly to the rising tide of business recovery that this country is now enjoying?

First, we brought an immediate stop to the vicious spiral of deflation in the United States, and an immediate and still growing revival in our foreign trade, by bringing the domestic and international value of our currency into alignment with the currencies of other countries. In doing this, we broke the shackles that were dragging us down. Thirty nations had preceded us in breaking away from the old gold standard; virtually all the rest have followed us.

*but* The United States today enjoys a currency that is backed by greater reserves of gold and silver than are possessed by any other nation on earth.

The soundness and stability of the American dollar, achieved as a result of carefully executed monetary policies, are now recognized throughout the world. Just in the past month, Great Britain and France have joined with us in a gentlemen's agreement with the object of achieving monetary equilibrium, each nation in its policy toward international monetary relations taking into full

- 3 -

account the requirements of internal prosperity. We hope that this agreement will provide the basis for a liberation of international trade from artificial restraints. *add here*

The second major element in our fiscal policies was our decision to provide jobs to the unemployed, relief to the destitute, and financial strength to our banks, railroads, and insurance companies -- at a time when no other agency in this country, public or private, was willing to put up the necessary funds.

We made an investment in the future of America. It has had enormous results in both human and material values. It is now paying large dividends to every man, woman, and child in the United States. Yet some people have called this waste and uncouth finance.

Some people ask: Could we afford this investment? The answer is: We could not afford not to undertake these expenditures. The future of our country, of our democratic form of government, and the lives and well-being of 125 million persons were at stake.

Others ask: How are we going to pay for this investment? This brings me to the third and final major fiscal policy of this Administration -- taxation.

It would have been easy and it might have been popular for this Administration to have resorted to inflationary devices rather than direct borrowing to meet the temporary deficits; and it would have been easy and it might have been popular to postpone until a later

- 4 -

date the enactment of additional tax legislation to increase the Federal revenues. It also would have been popular among certain favored groups of our population to have raised additional revenues by new excise and sales taxes that would have been paid by the masses of our people.

What did we do in these respects? We decided to make adequate, intelligent, and fair provision for the increased revenue requirements of the Federal Government, by taxes based upon the <sup>democratic</sup> principle of ability to pay -- by income and estate taxes primarily. Through the Revenue Acts of 1934, 1935, and 1936, we lowered the effective rates of taxation on small individual incomes and on small corporation incomes, but we raised and made more fully effective the rates of income tax on those best able to pay them.

Through these measures, we not only insured that Federal revenues would very shortly be fully sufficient to meet all needs, but we also insured that no head of a family with an earned income of less than \$25,000 would pay more in taxes. His income -- that means his ability to pay -- had increased.

*rest*

The effects of these tax measures have not yet been fully reflected in the revenue receipts of the Federal Government, because of the normal delay of one to two fiscal years in the receipts of such taxes. Nevertheless, the figures already available afford striking proof of the enormous improvement that has taken place in the strength of our revenue structure, and they should lay permanently to rest the ridiculous fears, voiced for campaign purposes, respecting the soundness of our fiscal position.

- 5 -

These figures show that the total revenues of the Federal Government have increased substantially in every year of the present Administration. In the fiscal year ended last June 30th, our total revenues were nearly twice as large as they were in the fiscal year 1933; and during the present fiscal year, we count on a further increase of more than one-third over the revenue receipts of the previous fiscal year. In the budget estimates for the fiscal year that will begin next July, and which will be submitted by the President to the Congress next January, I expect that our estimate for total revenue receipts, without the imposition of any new taxes, will approximate seven billion dollars. Our expenditures, on the other hand, will be declining.

I understand that some persons who are not too friendly to this Administration are loudly and frequently asserting that the budgetary deficits of this Administration have endangered the value of savings bank accounts, life insurance policies, and other forms of savings. They not only disregard the fact that these deficits were investments in recovery which are already producing their dividends, but that, in addition, we have so improved the Federal tax structure that it is providing additional revenues easily sufficient to insure an early balancing of the budget and thereafter a rapid reduction in the public debt. I insist that, thanks to these efforts of the Administration, savings accounts, life insurance policies, and other forms of savings, are now more secure than ever before in our country's history.

This prodigious and continuing improvement in the revenues of the Federal Government makes the fear expressed by some that there would be continued budget deficits a fear that looks silly even for the political purposes for which it is being raised. The time when savings bank accounts and insurance policies were really in danger was in the dark days of 1932 and early in 1933 prior to taking office by President Roosevelt. There were times in that period when gold was leaving this country on every outgoing ship; when 90 percent of the aggregate amount of Government bonds was selling below par; when the property values and the income of this country were sinking day by day.

A final demonstration of the determination of this Administration to pursue a sound fiscal policy was given by the action of the President on March 3, 1936.

You will remember that almost at the very moment that the budget message of January 3, 1936 was transmitted to the Congress, the Supreme Court invalidated the processing taxes under the Agricultural Adjustment Act. Shortly thereafter, the Congress enacted the Soil Conservation and Domestic Allotment Act, designed to carry on the major activities that had been started under the Agricultural Adjustment Act, but lacking the revenue provisions of that act. In addition, the Congress voted for the prepayment of the Veterans' Bonus.

These events bore a big hole in the revenue estimates upon which the President's budget message was based.

In this situation, there was a need for rare courage and high statesmanship.

The President had both.

It was an election year. You can guess the kind of political advice that was given to the President. "Why take the political risk of imposing new taxes in an election year?"

The President was convinced that the continuation of a sound recovery and the maintenance of a sound currency required a tax structure that would balance the budget in the near future. The President's tax message of March 3, 1936 was the result.

The courage and statesmanship of the President in transmitting this message, and of the Democratic Congress in enacting an important piece of revenue legislation just six months before a national election, constituted your final assurance that the fiscal policies of this Administration are and will continue to be sound.

You still hear microphone opinions to the effect that our dollar is not safe. But the proof of man's real opinions is to be found in the way they act.

Investment bankers give to you every day their real opinions when they offer for subscription and recommend to their customers 25-year, 50-year, and even longer-term corporation bonds, bearing interest rates of  $\frac{3}{8}$  percent or even less. Commercial and savings bankers give you their real opinion by their actions in purchasing these bonds.

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- 5 -

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Today, in every field of finance where the real opinion of bankers, businessmen, and investors is tested every day by their notions, we find the whole world proving its confidence in our future in the only way in which that confidence can really be proved: By laying down money on the barrel head! Some are broadcasting America short, but none are fools enough actually to sell it short.

## DRAFT SPEECH FOR SECRETARY HORNBEIN

Tonight, I am going to talk to you about the fiscal and monetary policies of this Administration and what they mean to you for the future.

*Pres. Roosevelt*  
*comprehensive* When ~~this Administration~~ took office in March 1933, the most inclusive measure of business activity that we have -- the Federal Reserve Board index of industrial production -- was only 59 percent of the 1923-1925 average. Today, it is approximately 106 percent of that average.

During this Administration, manufacturing employment has increased by more than 50 percent and manufacturing payrolls have more than doubled.

Prices received by farmers [at the farms] have more than doubled. [The Dow-Jones index of the] prices of industrial stocks has more than tripled.

[The average market rate of interest on all long-term United States bonds has declined by 30 percent.]

~~The aggregate volume of bank deposits in all banks in the United States has increased by more than thirteen billion dollars, or by about one-third.~~

These figures, [ladies and gentlemen,] speak for themselves. They represent the combined efforts of the whole Nation, ~~and these~~ *which* efforts were made effective in large part by the fiscal policies adopted and carried out by this Administration. Some people would have you

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believe that the only result of our fiscal policies has been an increase in the public debt. The figures that I have just recited and the first-hand personal knowledge of every individual within range of my voice provide eloquent testimony to the contrary.

Now, what, briefly, have been the major fiscal policies, that have contributed so significantly to the rising tide of business recovery that this country is now enjoying?

First, we brought an immediate stop to the vicious spiral of deflation in the United States, and an immediate and still growing revival in our foreign trade, by bringing the domestic and international value of our currency into alignment with the currencies of other countries. In doing this, we broke the shackles that were dragging us down. Thirty nations had preceded us in breaking away from the old gold standard; virtually all the rest have followed us.

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The soundness and stability of the American dollar, achieved as a result of carefully executed monetary policies, are now recognized throughout the world. Just in the past month, Great Britain and France have joined with us in a gentlemen's agreement with the object of achieving monetary equilibrium, each nation in its policy toward international monetary relations taking into full

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account the requirements of internal prosperity. We hope that this agreement will provide the basis for a liberation of international trade from artificial restraints.

The second major element in our fiscal policies was our decision to provide jobs to the unemployed, relief to the destitute, and financial strength to our banks, railroads, and insurance companies -- at a time when no other agency in this country, public or private, was willing to put up the necessary funds.

We made an investment in the future of America. It has had enormous results in both human and material values. It is now paying large dividends to every man, woman, and child in the United States. Yet some people have called this waste and unsound finance.

Some people ask: Could we afford this investment? The answer is: We could not afford not to undertake these expenditures. The future of our country, of our democratic form of government, and the lives and well-being of 125 million persons were at stake.

Others ask: How are we going to pay for this investment? This brings me to the third and final major fiscal policy of this Administration -- taxation.

It would have been easy and it might have been popular for this Administration to have resorted to inflationary devices rather than direct borrowing to meet the temporary deficits; and it would have been easy and it might have been popular to postpone until a later

- 4 -

into the enactment of additional tax legislation to increase the Federal revenues. It also would have been popular among certain favored groups of our population to have raised additional revenues by new excise and sales taxes that would have been paid by the masses of our people.

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~~Through these measures, we not only insured that Federal revenues would very shortly be fully sufficient to meet all needs, but we also insured that no head of a family with an earned income of less than \$26,000 would pay more in taxes. His income -- that means his ability to pay -- had increased.~~

The effects of these tax measures have not yet been fully reflected in the revenue receipts of the Federal Government, because of the normal delay (of one to two fiscal years) in the receipts of such taxes. Nevertheless, the figures already available afford striking proof of the enormous improvement that has taken place in the strength of our revenue structure, and they should lay permanently to rest the ridiculous fears, voiced for campaign purposes, respecting the soundness of our fiscal position.

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These figures show that the total revenues of the Federal Government have increased substantially in every year of the present Administration. In the fiscal year ended last June 30th, our total revenues were nearly twice as large as they were in the fiscal year 1933; and during the present fiscal year, we count on a further increase of more than one-third over the revenue receipts of the previous fiscal year. In the budget estimates for the fiscal year that will begin next July, and which will be submitted by the President to the Congress next January, I expect that our estimate for total revenue receipts, without the imposition of any new taxes, will approximate seven billion dollars. Our expenditures, on the other hand, will be declining.

I understand that some persons who are not too friendly to this Administration are loudly and frequently asserting that [the] budgetary deficits [of this Administration] have endangered the value of savings bank accounts, life insurance policies, and other forms of savings. They not only disregard the fact that these deficits were investments in recovery which are already producing their dividends, but that, in addition, we have so improved the Federal tax structure that it is providing additional revenues easily sufficient to insure an early balancing of the budget and thereafter a rapid reduction in the public debt. [I insist that,] thanks to these efforts of the Administration, savings accounts, life insurance policies, and other forms of savings, are now more secure than ever before in our country's history.

*believe*

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This prodigious and continuing improvement in the revenues of the Federal Government makes the fear expressed by some that there would be continued budget deficits a fear that looks silly even for the political purposes for which it is being raised. The time when savings bank accounts and insurance policies were really in danger was in the dark days of 1932 and early in 1933 prior to taking office by President Roosevelt. There were times in that period when gold was leaving this country on every outgoing ship; when 90 percent of the aggregate amount of Government bonds was selling below par; when the property values and the income of this country were sinking day by day.

A final demonstration of the determination of this Administration to pursue a sound fiscal policy was given by the action of the President on March 3, 1936.

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In this situation, there was a need for rare courage and high statesmanship.

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It was an election year. You can guess the kind of political advice that was given to the President. "Why take the political risk of imposing new taxes in an election year?"

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Today, in every field of finance where the real opinion of bankers, businessmen, and investors is tested every day by their actions, we find the whole world proving its confidence in our future in the only way in which that confidence can really be proved: By laying down money on the barrel head! Some are broadcasting America short, but none are fools enough actually to sell it short.

October 23, 1936.

I am here to report to you, the stockholders of America, about the financial management of your great corporation, the United States Government. What I shall say looks more to the future than to the past, because I believe it is in the future that you are particularly interested.

Since President Roosevelt took office in March, 1933, manufacturing employment has risen 50 per cent; manufacturing payrolls have doubled; prices paid to farmers have more than doubled; the market price of corporate bonds has risen 50 per cent.

The Federal Reserve Board index of industrial production is, I think, the most comprehensive measure of business activity that we have. It stood at 59 in March, 1933. Today it is approximately 109.

These facts speak for themselves. They are confirmed by the first-hand experience of every man and woman in the range of my voice. They represent the combined efforts of the whole Nation -- efforts which were made effective by the financial policies adopted and carried out by this Administration.

- 2 -

*Pause*  
Just what were those policies?

First, we brought the value of our currency into a more satisfactory relation with the currencies of other countries. By that step we stopped a disastrous deflation in the United States and brought about an immediate and still growing revival in our foreign trade. We broke the shackles that were dragging us down. Thirty nations had preceded us in readjusting their currencies; virtually all the rest have followed us.

The soundness and stability of the American dollar are now recognized throughout the world. That didn't just happen. It is the result of monetary policies that have been carefully formulated and <sup>*carefully*</sup> executed.

101  
1073

- 3 -

In the past month a new step has been taken.

Great Britain and France have joined with us in a common effort to maintain equilibrium in international exchange. We hope that this cooperation will provide the basis for freeing international trade from excessive restrictions. We believe it is a real contribution to the cause of international peace. The three nations agree, of course, that each must, as a first consideration, safeguard its own internal prosperity.

*Pause*

The second major element in our fiscal policies was our decision to provide safety for bank depositors, protection for farms and homes, jobs for the unemployed, and relief for the needy, at a time when no other agency in this country, public or private, was equal to the task.

*Pause*

We restored the buying power of our people.

132  
9.41

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As the President has so aptly said, we made an investment in the future of America. It has rebuilt both human and material values. It is now paying large dividends to every man, woman, and child in the United States.

*Pause*

But some people ask: Could we afford this investment? The answer is: We couldn't afford not to make it. The future of our country, of our democratic form of Government, and the lives and well-being of 125 million persons were at stake.

Others ask: How are we going to pay for it? The fact is, it is being paid for out of the dividends of recovery. This brings me to the third and final major financial policy of this Administration -- taxation.

11  
816

- 5 -

It would have been popular among certain groups of our population to have raised additional revenues by new excise and sales taxes -- taxes that would have fallen most heavily on those least able to pay.

*Pause*

What did we do? First, we borrowed to meet the emergency. Later, when incomes were growing larger as a result of recovery, we revised the tax system so as to make it fully adequate to meet the future revenue needs of the Federal Government. We did this by providing taxes based upon the democratic principle of ability to pay -- primarily income and estate taxes. Through the Revenue Acts of 1934, 1935, and 1936, we lowered the effective rates of taxation on small individual incomes and on small corporation incomes, but we raised and made more fully effective the rates of income tax on those best able to pay them.

191  
665

- 6 -

Our revenue receipts have not yet shown the full effect of these tax changes. The bulk of collections under the 1935 and the 1936 Revenue Acts will begin to come in next year. But our increased receipts already show the effects of business recovery and the great improvement in our tax structure.

Total revenues of the Federal Government have increased substantially in every year of the present Administration. In the fiscal year ended last June, our revenues were nearly twice as large as they were in 1933; and, during the present fiscal year, we count on a further increase of more than one-third.

These facts reveal how groundless are the fears, voiced for campaign purposes, of the soundness of our fiscal position.

129  
536

- 7 -

We have so improved and strengthened the Federal tax structure that it is providing additional revenues easily sufficient to insure an early balancing of the budget and thereafter a rapid reduction in the public debt.

*Pause* Some persons who, to put it mildly, are not too friendly to this Administration, are loudly and frequently asserting that our policies will bring inflation, and endanger the value of savings bank accounts, life insurance policies, and other forms of savings.

The facts I have <sup>*just*</sup> cited as to the continued and rapid increase of our revenues furnish a complete answer to these fears.

98  
438

- 8 -

If there was anything <sup>1</sup> *further* needed to clinch the fact that there <sup>such</sup> is no danger , it was supplied this year by the President and the Congress. In January the President in his budget message told Congress that any expenditures added to the budget and any loss of revenues must be financed by taxes. In June Congress, carrying out the President's recommendations, provided the supplementary revenues.

It took both courage and statesmanship on the part of the President and of the Democratic Congress to enact an important piece of revenue legislation less than five months before a national election, but it constituted your final assurance that the fiscal policies of this Administration are and will continue to be sound.

119  
319

- 9 -

Paras.

Four years ago great financial structures were collapsing and values of all kinds were disappearing. It was then that life insurance policies and the people's savings and investments were in danger. They are not in danger now. The man who says they are is just four years behind the times.

You still hear microphone opinions to the effect that our dollar is not safe. But the proof of men's real opinions is to be found in the way they act.

Investment bankers give to you their real opinions when they offer for subscription and recommend to their customers 25-year, 35-year, and even 60-year bonds, bearing interest rates of  $3\frac{1}{2}$  per cent or even less. Commercial and savings bankers give you their real opinion by their actions in buying these bonds.

138  
181

- 10 -

Pause

What do investors think of the safety of the dollar? Their actions show what they think. They are buying good-quality, long-term, low interest bonds, and other high-grade securities.

They are paying 105 today for the <sup>very</sup> same 3 per cent Government bond that sold below 83 in 1932.

Pause

What do foreigners think about the safety of the American dollar? They are not influenced by sentiment. They can keep their money at home, if they like. Instead, they have been sending it over here to buy participation in American recovery. Since January, 1935, foreigners have increased their holdings of American securities by more than 700 million dollars.

117  
64

- 11 -

Today, in every field of finance where the real opinion of bankers, businessmen, and investors is tested by their actions, we find them proving their confidence in our future in the only way in which confidence can really be proved: By laying down their money on the barrel head!

Some people are broadcasting America short; no one is fool enough to sell America short.

--oOo--

64

October 23, 1936.

161

I am here to report to you, the stockholders of America, about the financial management of your great corporation, the United States Government. What I shall say looks more to the future than to the past, because I believe it is in the future that you are particularly interested.

Since President Roosevelt took office in March, 1933, manufacturing employment has risen 50 per cent; manufacturing payrolls have doubled; prices paid to farmers have more than doubled; the market price of corporate bonds has risen 50 per cent.

The Federal Reserve Board index of industrial production is, I think, the most comprehensive measure of business activity that we have. It stood at 59 in March, 1933. Today it is approximately 109.

These facts speak for themselves. They are confirmed by the first-hand experience of every man and woman in the range of my voice. They represent the combined efforts of the whole Nation -- efforts which were made effective by the financial policies adopted and carried out by this Administration.

Just what were those policies?

First, we brought the value of our currency into a more satisfactory relation with the currencies of other countries. By that step we stopped a disastrous deflation in the United States and brought about an immediate and still growing revival in our foreign trade. We broke the shackles that were dragging us down. Thirty nations had preceded us in readjusting their currencies; virtually all the rest have followed us.

The soundness and stability of the American dollar are now recognized throughout the world. That didn't just happen. It is the result of monetary policies that have been carefully formulated and executed.

- 3 -

In the past month a new step has been taken.

Great Britain and France have joined with us in a common effort to maintain equilibrium in international exchange. We hope that this cooperation will provide the basis for freeing international trade from excessive restrictions. We believe it is a real contribution to the cause of international peace. The three nations agree, of course, that each must, as a first consideration, safeguard its own internal prosperity.

The second major element in our fiscal policies was our decision to provide safety for bank depositors, protection for farms and homes, jobs for the unemployed, and relief for the needy, at a time when no other agency in this country, public or private, was equal to the task.

We restored the buying power of our people.

- 4 -

As the President has so aptly said, we made an investment in the future of America. It has rebuilt both human and material values. It is now paying large dividends to every man, woman, and child in the United States.

But some people ask: Could we afford this investment? The answer is: We couldn't afford not to make it. The future of our country, of our democratic form of Government, and the lives and well-being of 125 million persons were at stake.

Others ask: How are we going to pay for it? The fact is, it is being paid for out of the dividends of recovery. This brings me to the third and final major financial policy of this Administration -- taxation.

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- 8 -  
Hawthorn

If there was anything needed to clinch the fact that there is no <sup>Such</sup> danger ~~from the~~ ~~source~~, it was supplied this year by the President and the Congress. In January the President in his budget message told Congress that any expenditures added to the budget and any loss of revenues must be financed by taxes. In June Congress, carrying out the President's recommendations, provided the supplementary revenues.

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9  
- 15 -

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- 10 -

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-H-

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- 8 -

There has been a lot of this loose talk about inflation. Inflation may mean many things, but to most people it means <sup>the</sup> use of the printing-press method of paying the Government's bills. This method has been available to President Roosevelt since the spring of 1933, when the Congress authorized the issue of three billion dollars in greenbacks. In spite of the magnitude of the task of putting America back on its feet, one of the biggest peace-time tasks any President has ever faced, President Roosevelt has not used the printing-press method. I can <sup>Pause</sup> assure you that that method will not be used.

There are some who profess to see danger of inflation in our budgetary deficits. Their fears <sup>are</sup> also ~~are~~ groundless.

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FROM: MR. GASTON'S OFFICE

TO:

Re Secretary, 10/23/36

MR. GASTON:

Mr. Rose said Mr. Gibbons telephoned him and asked that you tell the Secretary that 1100 tickets have been sold for the dinner up until this morning. They will probably have a capacity. No more than 1500 can be accommodated.

*JLH*

COPY

October 23, 1936

My dear Mr. President:

I am sending you herewith a copy of the speech which I propose to give tonight over the radio.

I will telephone you from New York between 3:30 and 3:45 and I hope at that time to get your approval.

Respectfully,

/S/ Henry Morgenthau, Jr.

The President,  
The White House.

October 28, 1936

The Secretary addressed the gathering of business men at the testimonial dinner to the President, arranged for by the Good Neighbor League, on Friday night, October 23 at the Waldorf Astoria Hotel in New York.

The President was scheduled to arrive back in Washington on Thursday night, October 22, and HM, Jr. was to see him Friday morning at 9:15 to get a clearance on his speech. However, HM, Jr. received word early Friday morning that the President had arrived after midnight and could not see him at 9:15, but that he should send the speech over to Mr. Muir, take an early train to New York and telephone the President later in the day. HM, Jr. sent the speech to Mr. Muir with a note that he would call the President between 3:30 and 3:45.

The Secretary, Mrs. Morgenthau and Mrs. Klotz left Washington on the 11 o'clock train for New York. Due to heavy traffic from the Pennsylvania Station to the Hotel, HM, Jr. did not arrive at the hotel until 10 minutes to 4, at which time he telephoned to the White House. McIntyre came to the 'phone and said that the President was at Cabinet. He did not know whether the President had read the speech, but said that he would get word to the President that HM, Jr. was waiting for a clearance. He wanted to know what part of the speech HM, Jr. particularly wanted a clearance on and while HM, Jr. did not want to call the President's attention to page 8, dealing with inflation, but preferred his reading the entire speech, since McIntyre pressed for this information he felt he ought to give it to him.

At 4:30, still not having had any word from the White House and the time getting short if there were to be any revisions, HM, Jr. again called the White House and not being able to get McIntyre on the 'phone, he spoke to Kannee. Kannee told the Secretary that they had sent to the President's bed room for the speech about a half hour ago, but that the President was working on his own speech and when he was finished he would read HM, Jr.'s.

-2-

The President called HM, Jr. at 8 minutes to 5. He said that he definitely did not want HM, Jr. to say anything about inflation and told him to 'kill' page 8. He said, "Actions speak louder than words." He also said, "I cannot say that I am not going to use the printing press method. It would be lots of fun to use it sometime." The Secretary's reply was, "Well, I wish you would let me say what I have written on page 8 at this time," but the President repeated that he definitely did not want him to use it.

Page 8, as it was submitted to the President, is attached hereto.

HM, Jr. was terribly upset over the delay in getting a clearance from the President. The dinner was scheduled for 7:30 and he did not get the clearance until 5 and up to that time he did not know how much the President would tear the speech apart. The suspense was terrific and HM, Jr. was under a great strain.

However, he and Mr. Gaston (the latter was at the hotel when the Secretary arrived and was present throughout the conversations with the White House) immediately got busy smoothing out the connection between pages 7 and 8 since page 8 was now out.

October 26, 1936.  
10 a.m.

Burgess: Hello

H.M.Jr: How are you?

B: I just wanted to make sure we understood each other to-day about what you want us to do.

H.M.Jr: On the bonds?

B: Yes, that 's right.

H.M.Jr: Well I'd stay right there with the market. I wouldn't try to put it up but .....

B: Yes.

H.M.Jr: .....I - I certainly don't want it - I want the orders under there just about 1/32d under.

B: Orders 1/32d under, yes.

H.M.Jr: And I'd be fairly aggressive.

B: Yes.

H.M.Jr : Do you look for any trouble?

B: No - no everything's all right and there's no real selling here.

H.M.Jr: Well I'd like to leave it this way - this week I'm here - if the market at any time has a soft spot will you call me personally yourself?

B: Yes - yes.

H.M.Jr: I mean right away.

B: Yes.

H.M.Jr: And - ah - hello.

B: Yep.

H.M.Jr: Ah - I mean if there's any soft spots just let me know.

- 2 -

B: Yes. Now Marriner - Marriner talked with me after you talked with him.

H.M.Jr: (Laughter)

B: (Laughter) I told him you were riding him. (Laughter)

H.M.Jr: What?

B: I told him you were riding him. (Laughter)

H.M.Jr: Yea.

B: (Laughter) But of course if this thing got to the point where there was any real - real bulk of support necessary we'd be quite prepared to go in in as he said.

H.M.Jr: Well he said this - if the market isn't right something about your letting them know.

B: That's right, yes.

H.M.Jr: So I said, "listen, don't you worry about Burgess", I said, "Burgess is taking darn good care of the market for us".

B: Yes.

H.M.Jr: And I said, "Don't worry - don't - don't - this isn't on Burgess".

B: Yes.

H.M.Jr: And I said that two or three times.

B: Good for you.

H.M.Jr: And I said, "I just wanted to find out what you call the market and if you've been doing anything".

B: (Laughter)

H.M.Jr: And of course he didn't even know that the market was off.

B: Yes. (Laughter)

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H.M.Jr: And after all if I just sat here and waited for you to call me up I might have to wait quite a long time.

B: That's right we go ahead and do things.

H.M.Jr: What?

B: We can go ahead and take care of .....

H.M.Jr: No I want to make it perfectly clear - I - I just wanted to make - well I have certain reasons.

B: Yes I understood it. I thought I understood it perfectly.

H.M.Jr: And - but I made it very plain when he switched and sort of tried to - wanted to make it as though you should keep him informed. Well after all he's Chairman of the Open Market Committee.

B: Yes.

H.M.Jr: I don't think you're even a member, are you?

B: No I'm not a member - I'm just the hired employee.

H.M.Jr: Pardon me?

B: I'm the hired man.

H.M.Jr: Well I made it very plain that as far as the Treasury was concerned and your work there we're more than pleased.

B: Yes, well that's fine. I'm glad to hear that.

H.M.Jr: But I also wanted to make the record that when it comes to supporting the market or - or buying why we're carrying the ball.

B: That's right. That's right.

H.M.Jr: We have carried it and I guess we'll have to continue to carry it.

B: Well the system - anytime that you feel that we ought to help why we can work it out you know perfectly well.

H.M.Jr: Well -

- 4 -

B: I think it would confuse things right now though to - while you've got money that you need to invest.

H.M.Jr: Yes.

B: And the amounts are small like this.

H.M.Jr: No - I - I was just making a record that's all.

B: Yes - surprise ourselves.

H.M.Jr: But - it's - you got that.

B: Yes, I got it.

H.M.Jr: And I don't know whether Eccles got it or not.

B: I think he got it. (Laughter)

H.M.Jr: What?

B: I think he got it, yes.

H.M.Jr: All right Burgess. Well if anything is weak particularly there might be - people get a little nervous one way or the other .....

B: Yep - yep.

H.M.Jr: ....you call me.

B: All right we'll be right there under the market.

H.M.Jr: Thank you.

B: Very good.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Goodbye.

October 26, 1936.  
10:25 A.M.

Present: Mr. Taylor  
Mr. Gaston  
Mr. Upham  
Mr. Haas  
Mr. White  
Mr. Lochhead

H.M.Jr: This is Belgium and Switzerland. Mr. Oliphant has got sinus trouble. He says - I'm perfectly serious - he says, "Mr. Upham is my attorney and he can represent me."

Upham: Oliphant said that?

H.M.Jr: Oliphant said that.

Well now, look. Which one of you fellows? - let's take Switzerland first. Who's got this thing at his fingertips? Archie, have you got it at your fingertips?

Lochhead: Well, Switzerland we haven't discussed in as great detail as Belgium. But Switzerland has got a stabilization fund. The question of Switzerland is a little different than Belgium because they have that stabilization fund and it isn't just whether or not you are working with a country without a stabilization fund.

The second point. They are making up this declaration and in the cable they mention that it has to be passed by the Swiss Federation. Now, I don't know just legally how far, from Mr. Oliphant's viewpoint, that would cover the question of dealing with the Government rather than with the Central Bank.

White: In any case, it wouldn't be the same thing, because you are dealing with a stabilization fund which is owned by the government.

H.M.Jr: As I understand it - let me see if I understand this thing. Switzerland says she'll sell us gold between gold points which vary 2 percent. Is that 2 percent from the mean or 1 percent up from that?

- 2 -

Lochhead: 1 percent up from that.

H.M.Jr: I see. How big a stabilization fund has she got?

Lochhead: A stabilization fund only about three - let's see, I think it gives - 358 it was in the newspapers. It's 538 million francs resulting from devaluation to the extent of 35 -

H.M.Jr: Well now, at the mean how much have they devalued - Switzerland? If you take the mean -

Lochhead: At the mean, 30 percent.

H.M.Jr: That would vary, 1 percent up and 1 percent - ?

Lochhead: That seems to be their idea.

H.M.Jr: Does that mean, for instance, that we can buy between those points?

Lochhead: Well, we can buy between those points, but if we did we couldn't convert into gold without a loss; we have to wait until it runs the full 1 percent either side.

H.M.Jr: The full 1 percent?

Lochhead: Yes.

H.M.Jr: That's quite a big margin. What is the mean? What is it worth in cents, the Swiss franc?

Lochhead: Well, 1 percent either side -

H.M.Jr: No, what is it worth at 30 percent devaluation?

Lochhead: I hate to let my memory - may I get my sheet?

H.M.Jr: Get everything.

(Lochhead goes out)

Do you know, White?

White: No, I don't know exactly.

Gaston: Isn't it about the same as the French franc?

- 3 -

White: I'm not sure that you quite understand they can extend that range, if they want to, more than that by changing their buying and selling. That's not their definitive devaluation.

H.M.Jr: You mean they can go more than 30?

White: Yes, they can more than the French. But they can change the buying and selling price.

H.M.Jr: Well, White, from our standpoint there's nothing in it for us.

White: On the contrary, I'm afraid I'm in disagreement with Archie on this.

(Lochhead comes in)

H.M.Jr: Let's just take this thing. When they devalue 30 percent, what's the Swiss franc?

Lochhead: They're down to about 23 cents.

H.M.Jr: How much?

Lochhead: 22.98

H.M.Jr: Well, we'll call it 23 cents.

Lochhead: 23 cents.

H.M.Jr: All right, well, it's worth 23 cents.

Lochhead: Yes, and we'll have to work between, say, 22.75 and 23.25, roughly.

H.M.Jr: Well now, Archie, what is there in it for us on this? What do we want to buy or sell Swiss francs for?

Lochhead: I wouldn't say that we really want to buy and sell Swiss francs ourselves at all. I hope that we don't have to go into the market. But the point is, if the market should be declining and we wanted to steady -

H.M.Jr: You mean the Swiss market?

- 4 -

- Lachhead: - the Swiss franc, we'd have to wait; we couldn't touch it for 25 points one side or the other on the buying and selling price they gave us. However, if they wanted to operate against our dollar, they can do it at one half of 1 percent spread, instead of -
- H.M.Jr: Why a half of 1?
- Lachhead: Because it is a quarter on either side. But I wouldn't say that would be something enough to stop any agreement on it at all.
- H.M.Jr: This is the way I feel. This is what the purpose of this argument is for. Now, we see, for instance, that to get this thing through they make three or four - This is the way they want to do. This is all on a 24-hour basis. Why not take it the way they set it up?
- White: I would say more than that. I think that, particularly because it is an important point to have the spread such as they desire it, we ought to move toward their direction and not toward our direction - for two reasons, which I won't go into for the moment, unless you wish to.
- H.M.Jr: Please go into it. I've got all morning.
- White: Well, the advantage of having a spread of about plus and minus one percent is two-fold, of course. One is it gives the stabilization fund or the Treasury which is operating a greater degree of control over the discouragement of undesired short term capital movements, without the necessity of entering upon any exchange controls.
- To demonstrate that the exchange risk of a possible increase from the low to the high of 2 percent over short term periods is enough to discourage capital which would otherwise move in response to varying exchange rates from one center to another center (of even as much as 2 or 3 percent), one of the disturbing factors has always been that these liquid funds go from one money center to the other in response to short term interest rates. Sometimes that is good - usually

- 5 -

it isn't - but the Treasury ought to be the judge as to whether it is desirable; and they can, by having this opportunity to manipulate the exchange rate or to control rates between countries - they can go a long way toward controlling the movements of that kind of short term capital. I'm not speaking of short term capital speculating against possible devaluation, and so on - that's another matter. I'm speaking of the kind of capital movements that will take place when things tend to settle down. That is one point which needs a little expansion, but I won't now.

To conclude with regard to the first point: Therefore, for us to make a stand, to say to Switzerland "We would prefer that you have it the same as we have it," makes it a little more difficult to do what I hope we will do, and that is to increase the spread and not leave it at the present point or go in a smaller degree.

The second point is, I think, a little more fundamental and a little more important. You've got two opposing schools of thought here.

E.M. Jr: You mean in the Treasury?

White: Well, let's say in Washington - in Washington and in the subject in general.

One is to push gradually to make those conditions possible which will result in a return to fixed exchange rates equivalent to the former gold standard so far as the exchange rates are concerned; that is, a stability, a fixity of exchange rates.

The other school believes that there should be some flexibility so that when conditions warrant, in the opinion of whatever the monetary authority is, the Treasury, there shall be some movement possible without the concomitants and disastrous effects that accompany a change.

Now, what has that got to do with this particular point? Something very important. If you have a fixed exchange rate in which the spread is very

- 6 -

narrow, the longer that persists the closer do you become to a legal gold standard in the sense that tradition plays the role that law would have played, and you cannot alter that law without introducing all kinds of difficulties and political considerations and stresses and strains.

You will notice England has kept away from that, and if you feel in sympathy with the other then you want to have that kind of a range of flexibility for the purpose that I said before, of control over international capital movements - this is a separate, but in order to make it possible for you to move a little beyond or a little above if the occasion warrants, without calling forth all the factors of objection and criticism and disturbance that would be called forth if you changed the fixed rate.

For example, I'll give you an illustration. When sterling moves from 490 to 495, or from five dollars to 490, the British people aren't disturbed at all. But supposing it had still been fixed at 486, 484 to 489, and then sterling went to 480. You would get altogether different consequences, and you would get an altogether different preliminary before that took place; it would have to take greater pressure to do it.

Therefore, I would say that, so long as we desire - we are not certain of wanting to return to a fixity in the long run - that we want some flexibility - that we oughtn't to take that initial step ourselves and therefore we oughtn't to encourage Switzerland to do it and thereby go on record and make it easier.

And beyond that, there is the further fact that a spread of plus or minus 1 percent doesn't put us at any disadvantage at all with regard to Switzerland. It isn't significant with regard to Switzerland. It might be a little more significant with regard to England; and in any case it bears, I would say, negligible effect upon those whom we are most concerned with - I mean the importers and exporters. A potential of plus or minus 1 percent is a negligible factor.

- 7 -

Those are the reasons, in brief. There is more to be said, but it's technical and I don't want to bore you.

H.M.Jr: Let me - Who agrees with White on this?

White: Here? I don't know.

Bass: I do.

Lochhead: May I say this, as far as the spread between the gold - the gold buying and selling rate. I am in favor of a wider spread than we used to have. In other words, we used to buy and sell gold at 20.67 and we were tied to it; so I think when we said quarter of 1 percent either side, buying or selling, we made a step in the right direction. Now, the question as to how wide that spread should be is one that is pretty difficult to figure out. It may be better to be 2 percent than a half of 1 percent. In other words, the spread between the half and 2 percent might make quite a difference in commercial matters. Now, I can see yours (to White) on short term capital movements. On the other hand, you've got your commercial people to weigh; and, in the same way that a spread of 2 percent discourages the flight of capital from one country to another, it also does act as a disturbing influence in commercial transactions.

H.M.Jr: Well, let me ask you this. In this thing with Switzerland, is there anything else we've got to get, for instance, England and France to agree to? I mean in the case of England and France they give us a fixed price each day at which they will sell.

Lochhead: Until further notice -

H.M.Jr: Between points.

Lochhead: I would say that it is not significant at all. The important thing here is that England can shift from day to day; it isn't what would happen within the day that is important for the purpose we are discussing.

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- H.M.Jr: But this is a little different. Belgium has given us a fixed price which they have. England and France have given us a price which shifts each day.
- Lochhead: And Switzerland has given us a price which - they are giving us a fixed price, but they may change.
- White: May change it, yes.
- H.M.Jr: Upham, have you got anything on this particular point?
- Upham: No, I think not. I should think it is a matter of exchange trading.
- H.M.Jr: Did you have any feeling?
- Upham: No. I will say that the explanation appears to be all right. I certainly don't think it should stop any agreement between us.
- H.M.Jr: Wayne?
- Taylor: I think it is desirable to have this other mechanism here, which we can describe as the Swiss mechanism, and to see what happens. We can't get hurt very much, and I think it is a desirable thing to have another experimental approach, if you want to call it that, to the problem.
- H.M.Jr: Let me just read this over . . . . .  
Who is it differs, as I call it, with White and Haas?
- White: Well, I know definitely that Williams and Goldenweiser would both be on the other side.
- Haas: Can't tell; I'm not sure. A year ago, yes, but I'm not sure now.
- White: I'm merely repeating what they stated Wednesday. They did state they preferred the narrower point.
- Lochhead: But that's only a small part; it's only minor.

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White: Well, I don't think it's that important.

(Secretary reads part of the Belgian agreement)

H.M.Jr: I don't get this yet.

Lochhead: Well now, he has a feeling that if we accepted Belgium in here as a gold standard country we might agree to allow Belgium to convert the balances they might owe here at any time regardless of when they secured them. In other words, just now we tell England and France "If you buy dollars today you have to tell us today whether or not you're going to convert, and if you don't then you'll have to take the chances later on." The Chamber of Deputies got the idea that we were going to allow Belgium the free right to convert balances into gold at any time.

Now, frankly, that wasn't in my mind. My feeling is that Belgium should be treated exactly as the other countries. They have to declare exactly the same day they operate.

Taylor: You see, Belgium does offer conversion to everybody, gold standard countries. So, to give full reciprocal facilities to Belgium -

H.M.Jr: But only for one day.

Taylor: But they will do it indefinitely. We only asked for one day.

White: There is an enormous difference. We've got nothing in Belgium; they've got a lot here. It is good for her here until she stops.

Lochhead: So we stick to it.

H.M.Jr: She'd have to do it each day. Well, did you explain it in that?

Lochhead: Yes.

Taylor: We naturally had that in mind - were very appreciative.

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fiscal agent just as our bank is operating as our fiscal agent; that the same problem did not arise with the other three countries because they have a stabilization fund operated and owned by the government. But here is a country without a stabilization fund and we'd like the same type of arrangement; we'd prefer it. I wouldn't say anything about insisting upon it. We would prefer to operate with Treasuries, and of course the Treasury can name the Central Bank as agent.

Now, I think there is something a little more at stake.

H.M.Jr: You don't have to argue that. If that point wasn't clear, I wouldn't - I mean as far as I'm concerned there's no argument on that. I've crossed that bridge. I mean I will only do business with the Treasury.

White: All right.

Taylor: And that was fully explained to Cochran before he went there.

White: Well, that's not clear from the cable; at least, there's some doubt in some of our minds that it - let me put it that way.

H.M.Jr: Well, as I understand it - does anybody disagree? - we only ought to do business with the Treasuries, irrespective of whether they have a stabilization fund.

White: There is considerable difference of opinion there.

H.M.Jr: I mean I crossed that bridge.

Taylor: You mean anybody here?

H.M.Jr: Anybody here.

Taylor: I don't think so.

H.M.Jr: Is Oliphant with us on that?

Lochhead: He argued it very strongly. That's the point.

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H.M.Jr: Who wanted to do business the other way?

Taylor: I would say that the Federal Reserve people had some questions in their mind about that. However, Williams, particularly in the discussions on - when was it? Wednesday or Thursday - stated very strongly that he thought that it was desirable to do business between Treasuries.

H.M.Jr: Williams?

Taylor: Yes

H.M.Jr: Well, I've crossed that bridge.

Taylor: Much more strongly than I have ever heard him say it before.

White: But there is a difference which I think the Secretary must be aware of. It seems subtle, but actually it is fundamental. I think it is subtle because it is presented in a subtle fashion, but not because the real differences are subtle. And - I don't know, I'm not sure - it seems to me that Williams definitely would say that it would be perfectly all right for the Central Bank to do business with us providing the Government there gave it its blessing.

H.M.Jr: Well, that isn't - we've - we've crossed that bridge.

White: I mean - is that a fair statement of his position?

Taylor: I think it is one of those fine lines of shading. I wouldn't be prepared to take - you get down to a question of the legal authority, of who owns the capital stock, what the purpose is, and so on.

White: That's only on the surface. I think it's -

H.M.Jr: Yes, it's much more. Now, the other thing. Somebody - not the President - the King of Belgium, by decree, withdrew this stabilization -

White: - and can - as far as we know, can create another stabilization fund and, it would seem, can also buy and

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sell gold, so that it doesn't seem as though they can raise an objection on the ground "Well, we have to get Parliament, we have to pass a law in order to make this possible." It doesn't seem to us that it is necessary to do that.

Upham: Except that they don't have any dough.

Lochhead: The point really gets down also to whether or not, if you made the arrangements, the Treasury - they say, "Yes, we're dealing with you" and the next day they say, "We're not dealing with you" - they turn it over to the Central Bank. Well now, the legal question there, whether or not that is satisfactory -

H.M.Jr: Listen, the minute that they don't do business in a satisfactory way, we stop doing business with them. Now look - certainly, you take - no one outside of the Treasury would have thought that China would be as scrupulous in her dealings as she's been with us, and still she's been absolutely on the up and up. Huh? And anybody that isn't becomes a financial outlaw, that's all; the hell with them.

Now, the thing that I wanted to get here today is whether we could announce that we have added Switzerland and if Switzerland is ready to go, and whether we have to wait for Belgium too.

Lochhead: We don't have to wait for Belgium, but didn't Cochran mention at one time that France was anxious, they'd like to see the whole three? There's no reason we should have to wait, except whether it will cast a doubt on the other two.

White: I think it is more effective when you have one and another one and another one.

H.M.Jr: It's been in the paper that Amsterdam has been gaining steadily over the port in Antwerp, and Antwerp, as I understand, is the big crux of the Holland-Belgium fight as to which of those ports do the big business; and they were gaining, and it looks as though they gained more. So Holland

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may want to sit back and see what she does. She may think it is to her advantage in her relationship with Belgium.

But I think this: that I wouldn't fool around very much longer and let Belgium have the right to take gold out of here without cancelling; and if Belgium didn't come to terms I'd simply cancel anything prior to October 13.

Well, in talking to Cochran I'll tell him, as far as Switzerland is concerned, "The minute that the Swiss pass this thing, send me a cable, will you." And then we'll take it up as to what we want.

Then, as to Belgium, if we don't feel as he stated it in the cable that it is entirely clear that we are doing business with the Belgian Government, not with the Central Bank, why, we want to do business with the Government, make it absolutely clear that we want to do business only with the Treasury.

Further, we think we are right in our idea that through a Royal Decree they could reinstate their stabilization fund. We are not going to insist on it, but we'd feel better about it.

Has Holland got a stabilization?

White: Yes.

H.M.Jr: That this seems to be the style right now.

White: There's good reason there for creating a stabilization fund. Well, there's less reason in Belgium - less reasons where there is fixed exchange. But there still can be made an excellent case.

Haas: There's only one question in my mind, Mr. Secretary, on this, and that is that - I think this is a very satisfactory arrangement - that if a country the size of Belgium doesn't have to have a stabilization fund, I don't think we ought to put pressure on them for it.

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- H.M.Jr: No, but I would say that we'd feel a little better if -
- Haas: But at least, about the dealing with the Government, you must deal with the Treasury actually as the principal. If the Bank comes in, it must be as the agent.
- White: Seems to me I'd go a little light on that second point, even that you'd feel a little better about it, because with their set-up there isn't great need for it.
- H.M.Jr: Well, there's no harm in saying it.
- White: Well, if you say it, say it lightly.
- Lochhead: You mean say it to Cochran, not to the Belgians. My feeling is they can explore this and there's no rush; make sure we understand each other, that's the main thing.
- Taylor: If it comes down to a question of whether we will or we won't, I don't think we ought to pay the slightest attention -
- H.M.Jr: I don't want any of this passed on to the Federal Reserve here until I give the word - through Marriner, I mean, what we are doing today. I mean, after all we see them at lunch tomorrow, which is time enough. I mean they know enough about it now. I mean I don't think it is necessary -
- Upham: - to run across the street every five minutes.
- H.M.Jr: No.
- Upham: No, I don't think so either.
- H.M.Jr: I think they know enough until noon tomorrow.
- And George has talked it over and we have agreed that the thing for George - he's going to get up the darndest thing for plans - five-year plan, monetary plan, and all kinds of things, and we'll lay them all on Marriner's doorstep. We're just

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going to - George is - in other words, we're going to make them sweat producing figures for us.

Taylor: We're going to cooperate.

H.M.Jr: That's right.

Upham: That's what you call 80 percent cooperation.

H.M.Jr: Yes.

And the other thing - George and I decided that on the 15th of November we're going to release the 1935 figures on the figures for the first of this year as to the dealings in gold, capital movements, and so on, and give it out on the 15th of November for the calendar year of 1935 and the first nine months of this year. There is a six months' drag there. And do that every three months and begin to open up some of this.

White: You say there's a six months' drag?

H.M.Jr: Six weeks' drag. Do that every three months.

Upham: Did you read the Herald-Tribune yesterday?

H.M.Jr: Yes. But I mean this is just - I sense that we should begin to give more; there's no reason in the world - one of the things I want to do before the first of January is to release -

Lochhead: As long as there is a sufficient lag I think it's all right.

H.M.Jr: Well, it's six weeks' lag.

White: There's no question in my mind that it ought to be three months.

Lochhead: It's just a little close. You say six weeks from the time we receive them or six weeks from the actual date?

H.M.Jr: No, you give nine months.

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- H.M.Jr: Now, we get down to this other business. Let me just switch a minute to the Belgium thing. As I understand it, some of the lawyers feel that this isn't - we haven't got enough backing of the Government of Belgium, too much Central Bank.
- White: Not only lawyers. I feel that way.
- H.M.Jr: I talked to George last night at the house, and he and I had a chance at it. Who wants to talk on this?
- Lochhead: The only last word, a very short word, is a question there as to whether or not this is an agreement of the Central Bank of Belgium with the United States Treasury containing the blessings of the Belgian Government, or whether or not the Belgian Government really is the principal, using the Central Bank as an agent. Now, I feel there that, naturally, it is much better to know we are dealing with the Treasury on the other side. It is a question, of course, as to how far their set-up will allow them to deal direct as a Treasury. But I do not feel there is any need of rushing and, if necessary, we ought to explore it, either through Cochran or other channels and find out just how far we can go. I don't think we can insist on certain forms, but we can remove any doubts by asking.
- H.M.Jr: How would you put it? I mean what do I ask for?
- White: Well, I think there is something more at stake, unless you want that answered.
- H.M.Jr: Answer that first.
- White: Well, I should ask Cochran to make inquiries to the effect of whether or not they do not already possess the power and whether or not they might not find it feasible, more desirable, to do exactly as the other three groups are doing; namely, to operate from Treasury to Treasury, and namely, that they appoint a fiscal agent of their Central Bank, that their Central Bank is operating as their

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White: It's a little close, Mr. Secretary.

Haas: He meant between October -

H.M.Jr: As to giving it, though - I mean I want to open up some of the stuff that isn't going to hurt anybody and give out, say, a summary of the audit of the stabilization fund.

Taylor: Very good.

White: The amount of the profits, you mean, etc.?

H.M.Jr: Yes.

White: I should register my objection against that, Mr. Secretary, very definitely.

H.M.Jr: Well, that isn't up right now. The other thing is.

White: That's different, but as far as that part of it is concerned, I would like to have an opportunity to express my objections, which are strong.

10.03

TREASURY TRANSFERS GOLD TO FEDERAL RESERVE  
WASHN-

WASHN- THE TREASURY TRANSFERRED 12 000  
000 DLS OF GOLD TO THE GOLD CERTIFICATE  
FUND OF THE FEDERAL RESERVE BOARD ON OCT 23  
THE TREASURY STATEMENT FOR THAT DAY SHOWS  
FUNDS SO TRANSFERRED ARE USED BY THE  
TREASURY FOR GENERAL OPERATIONS INCLUDING  
INTERNATIONAL CURRENCY TRANSACTIONS

OCT 26 1936

THE GOLD TRANSFER ON OCT 23 WAS MORE THAN  
OFFSET BY TREASURY EXPENDITURES OUT OF ITS  
DEPOSITS WITH THE FEDERAL RESERVE BANKS SINCE  
THE TREASURY ACCOUNT WITH THE RESERVE BANKS  
SHOWED A NET DECLINE OF ABOUT 800 000 DLS ON OCT  
23

(D.J. 4.10)

OCT 26 1936

GOLD MOVEMENT

GOLD AMOUNTING TO 5 292 000 DLS HAS BEEN ENGAGED IN ENGLAND FOR SHIPMENT TO NEW YORK OF WHICH 1 694 000 DLS WAS ENGAGED TODAY AND THE BALANCE AS OF SOME PREVIOUS DATE- 1 700 000 DLS WAS ENGAGED FROM BELGIUM TODAY

GOLD IMPORTS AT PORT OF NEW YORK UP TO 3 PM TODAY COMPRISED 600 800 DLS FROM ENGLAND 55 300 DLS FROM INDIA AND 10 200 DLS FROM EL SALVADOR- THERE WERE NO EXPORTS

MONETARY STOCKS GAINED 1 475 400 DLS AS A RESULT OF NET DECREASE IN GOLD HELD UNDER EARMARK FOR FOREIGN ACCOUNT

October 27, 1936  
(DJ 11:10 a.m.)

**T. J. Watson Sees Exchange Agreement Benefit to Trade**

Thomas J. Watson, President of International Business Exchange Corporation, on his arrival from Europe on the Aquitania, stated he believed conditions in Europe are improving and that business and financial leaders of the leading countries are making a determined effort to bring about better trade relations. The international agreement to hold exchange rates within reasonable bounds is considered practicable and all agreed that it will improve trade in all countries and help to bring about a normal flow of goods and services across the borders of nations.

October 26, 1936.  
11:05 a.m.

C: Hello Mr. Morgenthau.

H.M.Jr: How are you?

C: All right, thank you. How are you getting on?

H.M.Jr: Oh pretty well and how about you?

C: I'm all right.

H.M.Jr: Now this is the way I feel.

C: Yes.

H.M.Jr: On the Swiss - I take it tomorrow they'll go through their last motions.

C: Yes - that was to be at bank to bank tomorrow.

H.M.Jr: Well as far as Switzerland is concerned they're - we're satisfied.

C: You're satisfied.

H.M.Jr: As far as Belgium is concerned we're not.

C: I see.

H.M.Jr: The people here with me in the Treasury do not feel that we are doing business with the Treasury in Belgium.

C: I see.

H.M.Jr: We want to make absolutely sure that we're doing business with the Treasury and the principals.

C: Yes.

H.M.Jr: It's perfectly satisfactory to us to have the Treasury designate the National Bank of Belgium as their Fiscal Agents.

C: Yes.

H.M.Jr: But we want to do business with the Treasury in Belgium and I feel very strongly on that.

C: Yes.

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H.M.Jr: Now as to - we have tried here with the best facilities we have to look up the Belgium law.

C: Yes.

H.M.Jr: And we are under the impression that the King of Belgium dissolved the Stabilization Fund.....

C: ....Yes.

H.M.Jr: .....through a royal decree.

C: Well that's true.

H.M.Jr: And that he could re-establish that Stabilization Fund through a royal decree.

C: Yes.

H.M.Jr: Now as to their having a Stabilization Fund we'd a little bit rather have it.

C: Yes.

H.M.Jr: But we don't feel strongly about it.

C: No.

H.M.Jr: In other words, we'll do business with them if they can satisfy us through you that we are doing business with the Treasury. Now have I made myself perfectly clear?

C: Yes, yes I get your point.

H.M.Jr: Now do you think you ought to go over there and see them?

C: Well I - I don't like the point yet because I - I have that declaration drawn up to go in the Treasury here at the same time.

H.M.Jr: Yes well this - then we've had a lot of people here and they've spent all of last week going over it and they finally decided that that is not satisfactory.

C: Yes, I see.

H.M.Jr: See?

C: They consider that they're one step ahead of us. They say they've had the Stabilization Fund and will work through that so francs are now back to a point where the Central Bank is spunky and didn't.....

H.M.Jr: Well they may be - well I don't want to get into any argument - I mean as to what they think but as far as we are concerned we're not satisfied and we - if - we'd like to do business with Belgium but we'll have to be satisfied that we're doing business with the government.

C: Yes.

H.M.Jr: You see?

C: Of course I had the approval of the Minister of Finance - his own approval of the Premier of the country to that arrangement.

H.M.Jr: I know but I mean we've got a lot of people in here - people like - I mean Central Bank people as well as Treasury people and they've spent days on this you see?

C: Yes, yes.

H.M.Jr: And there's been arguing back and forth and back and forth and when we get all through.....

C: Yes.

H.M.Jr: .....the conclusion we come to is that we don't feel that the government through the Treasury at Belgium is the principal that we're dealing with.

C: I see - I see.

H.M.Jr: Now I think the best thing to do would be to go over there and spend a day and see them.

C: I see. And you don't insist on a Stabilization Fund being set up again.

H.M.Jr: No I do not. I'd a little bit prefer it but I do not insist.

C: Yes.

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H.M.Jr: I just asked - I'd a little bit prefer it.

C: Yes.

H.M.Jr: Now - I see the difference in time - could you still go tonight?

C: No I couldn't make it now because the train goes at 6:10.

H.M.Jr: Oh.

C: And I don't like to go up without making some appointment.

H.M.Jr: No, no. Well then all right. A day won't make any difference. You could go up there - and anyway you'd know tomorrow what action Switzerland is taking.

C: Yes that's it.

H.M.Jr: And then you could go up there Tuesday night.

C: Yes I could go up tomorrow night all right.

H.M.Jr: Yes, well supposing you do that.

C: All right. I ought to - I don't know just what time the Swiss will have their decision.

H.M.Jr: No.

C: See?

H.M.Jr: But I'd go up to Belgium anyway Tuesday night.

C: All right.

H.M.Jr: Now just a moment. (Pause - conversation carried on in H.M.Jr's. office)

C: Hello.

H.M.Jr: Just a minute. They're asking me to explain something - a point that the British have brought up but I tell them if they think it's necessary they can give you a cable which you'll get before you leave.

C: I see.

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- H.M.Jr: We've explained it to the British. There's something Mr. Chamberlain brought up. It's a technical point and Mr. Chamberlain misunderstood.
- C: I see.
- H.M.Jr: And we've explained it to them and I'll explain it to them again. Now I'm going to tell the British that I'm going to ask you to go up there Tuesday night to see them and I'm going to tell the British why you're going up, you see?
- C: I see.
- H.M.Jr: And you tell our friends in the French Treasury how I feel.
- C: All right.
- H.M.Jr: And I'm going to tell the British that I.....
- C: Has any of your people there any more specific suggestions as to what to suggest to the - to the Belgians ...
- H.M.Jr: Well it.....
- C: .... shall I get any sort of a formal document or do you want .....
- I'll
- H.M.Jr: Cochran, if they have anything now/tell them to put it in writing and get it off in the next hour or two.
- C: All right.
- H.M.Jr: I'll get it to you/<sup>anyway</sup>so that you have it if there's anything more other than just the very strong feeling that I have....
- C: Yes.
- H.M.Jr: .....that I want to be sure that it's between governments and between Treasuries.
- C: I see - I see.
- H.M.Jr: Now I - I - I can't say anything more than that and if anybody - the technical people have any more technical way of explaining it I'll have to put it down in black and white and send it to you.

C: All right just so it will get off tonight.

H.M.Jr: Yes - now....

C: .....I'll call tonight if I can and make and make an appointment for Wednesday then and go up from here tomorrow night.

H.M.Jr: And will you advise the French Treasury of the position that I'm taking?

C: Yes.

H.M.Jr: Please.

C: I talked to the French Treasury just two minutes ago and Baumgartner said we'll have no news. I kept him informed on this trip business.

H.M.Jr: Yes.

C: And he knows I expect something.

H.M.Jr: Now you might be thinking this over - I'd like your opinion - whether we - if the Belgians hold back should we go right ahead with Switzerland?

C: We'll go right ahead.

H.M.Jr: Should we or shouldn't we? With Switzerland alone?

C: The thing looks a little narrow if we only have one out of the three.

H.M.Jr: Yes.

C: Gold bloc country.

H.M.Jr: Yes.

C: I mean that would be my first view.

H.M.Jr: Well I don't think you'll have any trouble with Belgium.

C: No my only point was just a technical one as to whether - I mean we're going to tell them it isn't possible - as to what we'd get out of them.

H.M.Jr: Well it - it goes into a lot - you'd have to be over here - there's a very important principle which I have - I mean - I mean a fundamental principle that I want to do business between governments and not between Central Banks.

C: Yes - yes.

H.M.Jr: Now that's - I mean that is the fundamental principle.

C: Yes.

H.M.Jr: And I don't know that I'll ever go back as long as Mr. Roosevelt and I are here as to having the thing under the control of the Central Banks rather than the government.

C: Yes - yes.

H.M.Jr: But that is, as I might say, the Roosevelt-Morgenthau policy now.

C: I see.

H.M.Jr: And it certainly will be for some time to come.

C: Well I'll read over that Belgian financial law again before I go up.

H.M.Jr: Yes but I mean that is the fundamental thing and this thing is going to be between governments rather than between Central Banks and I've explained that to both the Federal Reserve Board here and to the Bank in New York and they understand my position fully.

C: Yes - yes.

H.M.Jr: And - but the best way I can describe it is the Roosevelt-Morgenthau policy as to how we're going to do business.

C: Yes - all right.

H.M.Jr: Now Cochran

C: Yes.

H.M.Jr: While I have you - ah - ah - if the French want to bring any pressure on Holland I have no objection but we'll .....

C: .....Just when I was talking with Baumgartner a minute ago I said, "Have you people ever heard from the Dutch on this". I said, "We haven't had a word". He said, no that we heard last week that Tripp was coming over here this week and said to-day there had been no further word of it and he's inclined to think that nothing was developing.

H.M.Jr: Yes. Well there's been something in our American papers about the fact that Amsterdam - the Port of Amsterdam is going ahead - the Port of Antwerp.

C: Yes.

H.M.Jr: And I wonder if Holland doesn't feel that she has an advantage now which she doesn't want to give up.

C: It's entirely possible and Tripp is pretty wise and the bank thinks that these funds might get to working in his pocket some way that would put him at a disadvantage. I don't know but.....

H.M.Jr: Yes. Now.....

C: I haven't told him - I haven't had a word with him.

H.M.Jr: Ah-ha. Did the French papers carry any of my radio talk Friday night.

C: They just summarized it briefly. I have one before me now. They say that some praise of the financial policy of the government has occurred from the increase of receipts has permitted the balancing of the budget next year.

H.M.Jr: Ah - ha.

C: That's the gist of the summary.

H.M.Jr: Well I think I'll send you over a copy by mail. You might like to have it. I'll mail you a copy. Hello

C: Hello

H.M.Jr: Now how are economic conditions right now in France -  
I mean are they.....

C: .....Not awfully good. They had this radical-socialist  
convention down at Biarritz - lasted several days -

H.M.Jr: Yes.

C: They ended up by agreeing to support the government.

H.M.Jr: Yes.

C: You see the radical-socialist are the most conservative  
of the three parties constituting the popular front  
but they were strongly against any more of these  
moves toward occupying factories and so on.

H.M.Jr: I see.

C: And there's still quite a lot of criticism of the way in  
which the French Treasury has threatened capital, that is,  
putting a tax on profits made in exchange in the last  
month, see?

H.M.Jr: Uh-huh.

C: And on the gold returning.

H.M.Jr: Ah-ha.

C: With the result that there's really a movement of  
capital out of France now instead of back into France.

H.M.Jr: Ah-ha.

C: So they're not getting the full benefits of devaluation.

H.M.Jr: Ah-ha.

C: But it may improve. They're having a Cabinet Meeting  
tomorrow to start the budget.

H.M.Jr: Yes.

C: Then it looks like he'll get Parliament together on  
the 3d of November.

H.M.Jr: Yes.

C: For probably a very short session.

H.M.Jr: Yes.

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C: Then recess a little while.

H.M.Jr: Yes.

C: And then come back to pass the budget toward the end of the year.

H.M.Jr: All right.

C: But it doesn't look like the government is threatened that's all. But still there's this - then there's still a lack of confidence. A number of papers have been saying that they'll have to devalue again and so on.

H.M.Jr: All right.

C: All right then - then if you can give me anything by tomorrow all right. If not, I'll go on up tomorrow evening.

H.M.Jr: All right.

C: And I'll see Mann at the Treasury and see what I can do.

H.M.Jr: And when you get back from Belgium telephone me.

C: All right fine.

H.M.Jr: Thank you.

C: All right sir.

H.M.Jr: Goodbye.

C: Goodbye.

October 26, 1936

Mr. Bewley and Mr. Mallet came in to see the Secretary at 11:30 today.

The Secretary said to them, "I take it that when you gentlemen were kind enough to bring in Mr. Chamberlain's message where he made a suggestion, that that point has been cleared up? Has it?" Mr. Bewley asked, "On the gold?" The Secretary explained, "On Belgium -- whether or not they would have the right to convert balances into gold." Mr. Bewley said to the Secretary, "It was not a suggestion. It was merely that you were good enough to ask Mr. Chamberlain and he just called this to your attention."

HM, Jr. then said to Mr. Bewley, "I understood that perfectly. I just meant that isn't -- how shall I put it? -- it is not a point that is under discussion because if we do make arrangements with Belgium it will be on the same basis as with you and France, namely: the conversion privilege is good for that day only. Will you explain that to Mr. Chamberlain?" Mr. Bewley answered, "Yes." To Mr. Mallet the Secretary said, "Mr. Mallet, you understand?" Mr. Mallet replied, "Yes. It was a question of the possibility of their wishing to convert the whole of their balances from the Bank of Belgium." Bewley added, "It was merely a point that occurred to the Chancellor."

Explaining further, the Secretary said, "It's all in one day anyway and I still -- some of the people around the Treasury don't agree with me, but I still have it in the back of my mind that we should limit to to how much she can do in one day. Some of my advisers don't think it is important. It's still in the back of my head. But what I asked you gentlemen to come in for today is to tell you that I am asking Cochran to be in Belgium Wednesday because after very careful studying the Belgium message I am not satisfied that we are doing business with the Belgium treasury. It seems to me that we are doing business with the Belgium Central Bank, which I do not want to do." Mr. Bewley's comment was, "Yes."

Continuing his remarks, the Secretary said, "I don't want to do that. The policy which we have laid

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down here now is that we wish to do business between Governments, which means between treasuries; diplomatic approach and between Governments, which is between the Government's fiscal agent, which is the treasury. In other words, we want to do business between Governments and not between central banks which are privately owned."

Mr. Bewley and Mr. Mallet both commented, "Yes; quite."

Adding to his remarks, the Secretary said, "So I am sending Cochran -- this is Monday; I have given him instructions to tell them that it is our policy here that we want to do business between Governments and between treasuries through diplomatic channels and the way we understand it now is that the Belgium Government will turn it over to the Bank of Belgium and the Bank of Belgium is the principal and not the Belgium Government and we are not satisfied." Mr. Bewley and Mr. Mallet both said, "Yes."

The Secretary then said to the two British gentlemen, "I want to explain that to you. I don't know whether it makes much difference to you, but it does to us. We are definitely not going to go back to the old way of doing business. We feel that very strongly. We feel we have made a distinct step in the right direction and I can say we are pleased with our relation and we want to keep it between Governments and treasuries and so we have it with the three of us this way and we don't want to on the side do business with the Bank of Belgium."

Continuing, the Secretary said, "And the other message was that I would rather -- a very 'mild' rather -- have them have a stabilization fund, but I did not make it ...." Interrupting, Mr. Mallet said, "Not a sine qui non." The Secretary then added, "I would a little bit rather, but it's not a sine qui non. But the other is. As to Sweden, tomorrow there are steps to go through the last motion." Bewley asked, "That's the Federal Council?" The Secretary answered, "Yes. And then the question comes up: let's say the Federal Council passed it. Should we wait for Belgium or should we go ahead with Sweden. It does not make much difference

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to me." Bewley's reaction was, "It does not seem any particular reason why the two should be done together I don't see at all." The Secretary added, "Cochran would have an answer for us, he said, by Thursday. And the other thing -- we looked up and found that the King of Belgium by decree dissolved the stabilization fund and he still has that same right to re-create it." Bewley asked, "He does not have to take it to Parliament?" The Secretary answered, "No."

Again addressing himself to the British, the Secretary said, "I might also add that the French had hoped that Holland would join at this time, but I told them that I would not approach the Dutch. If the French wanted to, all right; but I would not approach them. In other words, I don't want to solicit anybody. The thing I sort of picked up, and you might check it, it seems that right now Amsterdam has a little the edge over Antwerp and that increased business is growing in Amsterdam daily so Holland might think that by holding back she will keep her competitive advantage. I don't know. The French feel a little bit that they would like to see Holland, Switzerland and Belgium all do it at the same time. I said if they feel that way, all right. Mr. Tripp, who is President of the Bank of Holland, has said a couple of times he would come to Paris, but he has not come. But we are not going to solicit." Mr. Mallet's reaction was, "There is no hurry."

Mr. Morgenthau agreed with Mr. Mallet saying, "No. If Holland wants to come in, all right, and if they don't -- I mean I don't want to be in the position that it can be said that the United States brought pressure on anybody." Mr. Bewley's comment was, "quite. No; quite."

HM, Jr. then said, "I think that's about the whole story."

Mr. Taylor said to the Secretary, "You might tell them about that other message that we got from a country in this part of the world." HM, Jr. answered, "No, because I have not had a chance to read it. I have to read it first."

Mr. Mallet inquired of the Secretary, "I am not

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quite clear -- are you expecting some sort of a declaration to be made in London at the same time you give it here?" HM, Jr's answer was, "I think it would be nice." Mr. Mallet then said to Mr. Bewley, "I think we had better put that in our telegram." The Secretary added, "I think it would be nice together. The French have said they needed three or four days to get ready from the time we are ready to do business." Mr. Mallet then inquired, "The declaration would merely tell the press that similar arrangements have been made with Sweden and Belgium as the agreement that was made with the French and British?"

Taylor remarked, "It is possible there might be a difference in this case." Mr. Mallet asked, "Because of the 1934 regulation?" And Bewley remarked, "I am thinking as far as the British are concerned, they have not been approached by either Switzerland or Belgium as far as we know. So it may be that there won't be any announcement to make." Mr. Mallet added, "Maybe there will be nothing to say in London." Taylor remarked, "They are using the open gold market."

To Mr. Taylor, the Secretary said, "I disagree with you entirely, Wayne. I am sorry. I think the three ought to go through the same motions. I think it is a nice gesture. It does not look as though we were acting separately."

Mr. Bewley said, "We can always put it up to London and if they have not been approached they would not want to make an announcement. Mr. Mallet commented, "We have not been told whether they have approached London."

Mr. Morgenthau's response to this remark was, "Well, then, I think I will tell them to. I can do that. I can say that before I make this move I take it -- I should imagine, because I was under the distinct impression that they had talked to London and France." Bewley said, "Of course, I don't know at all; perhaps they have." Continuing, HM, Jr. said, "Before I moved I certainly would say, 'Please also approach the English and French. Oh, very much so! I wouldn't do it unless they did. I am a very good partner, you know!'"

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Mr. Mallet's comment was, "I think we had better telegraph to London to clear that point up." HM, Jr. remarked, "I took it perfectly for granted that they had talked to them." Bewley said, "We haven't heard one way or the other." HM, Jr. added, "I think we ought to clear it up. I wouldn't enter into this agreement with either Belgium or Switzerland unless they gave you the same opportunity. Absolutely, unless they talked to you, I would not do it." Mr. Mallet repeated, "We had better clear it up." The Secretary then said, "I was under the impression that they had." Mr. Mallet's reply was, "I was under the impression when you first told us about it that they presumably had, but since then we have had nothing further and I rather wonder. We had better find out."

At this point, Mr. Bewley remarked, "The position is a little different from their point of view, if they approach you and say they can buy gold in London and can't here." Mr. Morgenthau replied, "That's all true, but as a matter of fact, when I talked to you about this second arrangement, this second step, you had already come to an agreement with France; on the Saturday previous that we had the day to day arrangement, and even if you had not if we should enter into this arrangement with Switzerland and announce it separately it you -- you would see some countries say, 'Uh Huh! They can't even last one month together. The United States has made a separate deal. They can't even last one month.' Even if it was purely just going through the motion."

Mr. Mallet agreed, saying, "Yes; even if you were doing it, it might be a good thing for us to say that we were doing it. Announce it at the same time." Continuing his remarks, the Secretary said, "Because some country would say, 'They are not in agreement one month before one steps out and makes a separate arrangement.' If you are doing it, it is just going through the motions of saying so and from your standpoint I should think it would be a distinct advantage and I can't see any harm." Bewley agreed, saying, "I can't see any harm." Mallet added, "We will just say publicly we will do this. And in that case, it would be necessary to synchronize the announcements?" HM, Jr.'s answer was, "Yes. And you see, the French have asked for four

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days from the time we come to agreement." Bewley repeated, "Four days from the time." And Mr. Mallet said, "That would not be until the end of this week." HM, Jr. added, "And if it went that long, it would be the day before election and I would rather wait until after election. I wouldn't hold it up for a week, but if it is a matter of a day or two, why take a chance? I have taken so many risks I don't want to take any more."

Mr. Bewley's reaction was, "Quite," and Mr. Mallet said, "We will telegraph and get that clear." The Secretary asked, "You have that all right?" and Mr. Bewley answered, "Yes, I have all the necessary notes."

Mr. Morgenthau ended the meeting by saying, "Thank you for coming down."

October 26, 1936.  
3 p.m.

H.M.Jr: Hello

Operator: Dr. Feis.

Feis: Hello Henry. I'm sorry I've been so difficult.

H.M.Jr: That's all right. You haven't. Herbert, they said you wanted to talk to me about this Mexican thing.

F: When you're ready, yes.

H.M.Jr: Is there any hurry?

F: No. The only hurry would arise from the fact that he's probably expecting an answer before they leave here for Buenos Aires.

H.M.Jr: I could do it either at half past three or half past four - either one.

F: I beg your pardon?

H.M.Jr: I could do it either at 3:30 or 4:30.

F: Well I was going to ask you whether tomorrow would be all right.

H.M.Jr: Tomorrow is all right with me.

F: Is it? All right. It 's better for us.

H.M.Jr: Because the way I feel - I'm just trying to do it with all of the people going down there.

F: You're disinclined to do what?

H.M.Jr: To see this man at the head of the Buenos Aires trip.

F: Ah - I'm very glad to hear you say that - it's in substance - I mean the Secretary wanted me to explain his attitude toward you and that coincides.

H.M.Jr: Well then we won't - supposing you come over and bring anybody you want at ten.

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F: All right. Now another thing I've had on my mind.....

H.M.Jr: Is that a good time for you?

F: Ten tomorrow morning?

H.M.Jr: Yes.

F: Yep - fine.

H.M.Jr: And then when you - if you bring Reed - explain to Reed when we get through I want to talk to you about Europe.

F: Well that - you must be reading my mind.

H.M.Jr: Yes.

F: We've had some interesting political telegrams.

H.M.Jr: Yes.

F: And I want to recite on those for you.

H.M.Jr: Good. Well would you do it at that time?

F: Ten o'clock. Now do you want me to come at ten and have him come over at 10:15?

H.M.Jr: Well what I - you can't - well why can't I just ask him - tell him I want to talk about Europe and ask him to leave.

F: You can.

H.M.Jr: What?

F: The other thing might be a little bit easier. Just tell him to join us over there at 10:15.

H.M.Jr: All right do it your way.

F: All right.

H.M.Jr: Now the other thing. I spoke to Cochran and asked him to go to Belgium tomorrow night because I wasn't satisfied, see?

F: Yes.

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H.M.Jr: Does he need any additional instructions on that?  
He didn't raise it.

F: I'd rather - I'd almost rather not give him any.

H.M.Jr: You'd rather not give him any.

F: And wait until you get further reports from him.

H.M.Jr: Well - I mean he didn't - he didn't question his  
authority to go.

F: No. I think .....

H.M.Jr: He's just going to follow up. I don't see why  
but I just wanted to make sure.

F: Well - no - I mean after all Bullitt knows - he was  
in on this thing and I don't think right now you'd  
have to worry about having Joe Bullitt think you're  
pulling one of his men away on this mission. I  
think later on if you wanted to do it we can again  
do what you've always done.

H.M.Jr: Yes.

F: Let us say - send a cable to the Ambassador and say  
if you have no objection would like Cochran to go  
but on this mission it is so closely connected with  
the thing that was - I mean it's so much a part -

H.M.Jr: It is a part.

F: Exactly. That I.....

H.M.Jr: To tell them how I feel and want additional assurances  
from Belgium.

F: Exactly.

H.M.Jr: But.....

F: Well it's about the Belgian situation I wanted to talk  
with you and..

H.M.Jr: I see.

F: ....and give you that background.

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H.M.Jr: Well, I'll keep plenty of time and then, after all, if Reed's here and he waits a few minutes, what of it?

F: All right.

H.M.Jr: I mean, if we run over that, what of it? I mean -

F: Precisely -

H.M.Jr: And I just wanted to say - no,- on Mexico, with Mr. Hull leaving just now, I don't want to start anything.

F: Well, the suggestion we were going to make -

H.M.Jr: Yes

F: Except the Secretary didn't feel free, I mean he said -

H.M.Jr: Yes

F: He instructed me to wait and see what your attitude was.

H.M.Jr: Well, -

F: But his own attitude -

H.M.Jr: Yes

F: - is definitely -

H.M.Jr: What should I -

F: - to say this, that this Conference was not going to talk monetary matters -

H.M.Jr: Yes

F: - that there was another special financial conference scheduled to be held in Santiago, Chile, some time in the future.

H.M.Jr: Well, why - excuse me.

F: Yes

H.M.Jr: You finish first.

F: Well, that's all.

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H.M.Jr: Why don't I call up Mr. Hull? - I called up this morning anyway and he was at his press conference and I'll call him up and tell him that; and that ends it.

F: All right. I think the person you really ought to talk to on it, if I may suggest, is Wells.

H.M.Jr: I'd rather not if you don't mind.

F: You'd rather not?

H.M.Jr: I mean, if Hull says so, all right - I - I (Laughs) I don't want to go into it but I'd rather call -

F: Well, I mean, the Secretary is editing two speeches and it's kept us sitting - -

H.M.Jr: Well, let it go until tomorrow, what the hell, - I -

F: That's the - let it - let's let it go until tomorrow.

H.M.Jr: Suits me.

F: All right, ten o'clock I'll be there.

H.M.Jr: O. K.

F: Right.

October 26, 1936

At 3:30 this afternoon, HM, Jr. called Secretary Hull and said to him, "On this Mexican thing, I would much rather leave it alone until you get back from Buenos Aires. They wired me that the Mexican Secretary of the Treasury wants to come up now, but I would much rather wait until you get back. We did have this matter up about six months ago with Sumner Welles. I feel at this time, just before you left, that we would not want to start anything new.



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
EA 812.515/593

October 23, 1936

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information a copy of telegram No. 183 of October 22, 1936, from the American Embassy, Mexico City, with regard to stabilization of currencies on the American Continent.

Enclosure:  
No. 183 of October 22, 1936,  
from Mexico City.

**Department of State**

**EA**

BUREAU  
DIVISION

**ENCLOSURE**

**TO**

**Letter drafted**

**ADDRESSED TO**

**TREASURY**

JS

MEXICO CITY

Dated October 22, 1936

Rec'd 9:56 p.m.

Secretary of State,  
Washington, D.C.

183, October 22, 6 p.m. CONFIDENTIAL.

In a confidential conversation with the Commercial Attache today, the Finance Minister pointed out that he had completely fulfilled his agreements with our Treasury to replace demonetized silver coins in circulation and reconstitute the monetary reserve of the Bank of Mexico on the basis of four parts gold and one part silver. He expressed the opinion that the recent arrangements between the United States, France, and Great Britain had given our Treasury the whip hand in the finances of Europe and said it appeared to him that the tremendous monetary power which our Treasury could now use towards stabilization indicated that the time was now approaching when cooperative stabilizing measures in Central and South America might advantageously be undertaken. The Minister expressed the hope that our Treasury would work toward the end of having silver form a certain portion of the monetary reserves of the various countries and also that a certain percentage of silver might be accepted for the payment of international

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From Mexico City #183

international balances. The Minister desired to express to the Secretary of the Treasury his willingness to give him the fullest cooperation in measures tending towards stabilization of currencies particularly on this continent. He said he believed a conference on this subject between himself and Secretary Morgenthau might be advisable in the near future and that he would be ready to make a trip to Washington at any time Mr. Morgenthau might indicate.

DANIELS

SMS EMB

*Handwritten signature* 226



DEPARTMENT OF STATE  
WASHINGTON

November 12, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses five copies of despatch No. 4056 of October 31, 1936, from the American Embassy, Mexico, transmitting a message from Eduardo Suarez, Minister of Finance of Mexico.

Enclosure:

As stated.

EMBASSY OF THE UNITED STATES OF AMERICA

Mexico, October 31, 1936.

No. 4056.

SUBJECT: Message to Secretary Morgenthau from Eduardo Suarez, Minister of Finance.

The Honorable,  
The Secretary of State,  
Washington.

Sir:

I have the honor to report that the contents of Department's telegram number 180 of October 28, 1936, were transmitted to Mr. Eduardo Suarez, Minister of Finance, on October 30, 1936, by the Commercial Attache. Mr. Suarez displayed intense interest in the message from Secretary Morgenthau and asked that his deepest appreciation be extended to him for his very friendly response. Mr. Suarez said that he would look forward with pleasure to a conference with Secretary Morgenthau sometime in February or March at a date which would be convenient for the latter and which could be arranged after the termination of the forthcoming Conference at Buenos Aires.

Respectfully yours,

JOSEPHUS DANIELS.

## TELEGRAM SENT

October 28, 1936

Noon

AMEMBASSY

MEXICO, D.F.

180

CONFIDENTIAL

Your telegram No. 183, October 22 six p.m.

Please inform Finance Minister Suarez that Secretary Morgenthau is most appreciative of his friendly message and of his offer of cooperation in measures looking toward international currency stabilization; also that Secretary Morgenthau will always be glad to receive the Minister and to confer with him on matters of mutual interest to the Treasuries of the two countries whenever the Minister may have occasion to visit Washington. However, it appears doubtful that a suitable opportunity for profitable discussions on the matters mentioned in the Minister's message will present itself prior to the conclusion of the forthcoming conference at Buenos Aires. It is therefore suggested that Minister Suarez might wish to consider deferring his suggested visit until February.

HULL  
SW

Monday  
October 26, 1936  
5:10 p. m.

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Senator

Wm. L.

Hill: - entertainment of the Florida Society -

HMjr: Oh yes -

H: A Miss McCall -

HMjr: Yes

H: - who has been employed in the Treasury Department  
for a long time -

HMjr: Yes

H: - attended that function and us and insisted  
that we come and see you and plead in her behalf.

HMjr: What's the lady's name?

H: McCall -

HMjr: McCall? - Miss or Mrs?

H: Miss McCall -

HMjr: Oh, Miss -

H: Yes

HMjr: - of Florida?

H: About forty years in the Treasury Department. And  
about a year ago, I think perhaps through Senator  
Fletcher's talk with you, she was granted an ex-  
tension for a year.

HMjr: Yes

H: That time expires on the thirty-first of this month.

HMjr: Yes

H: She was injured in an accident and was laid up for  
about five - four or five or six months.

HMjr: Do you know which Bureau she's in?

H: Well, no, I can't tell you. I don't recall right  
now.

HMjr: Yes

H: Anyway, she's filed a letter with the President asking for a further extension of six months or twelve months.

HMjr: Yes

H: Someone in your office, I expect, has that file.

HMjr: I see.

H: We promised her, Senator Loftin and I, that we'd talk to you -

HMjr: Yes

H: - today if possible.

HMjr: Right

H: And ask if you could consistently extend that for six months or twelve months, or recommend it, rather.

HMjr: I see.

H: Now, that - I'm making that -

HMjr: I understand.

H: - statement on behalf of Senator Loftin and myself.

HMjr: Well -

H: I want to be able to tell her with great sincerity -

HMjr: You have.

H: - that we have talked with you about it.

HMjr: I understand perfectly.

H: And she also wanted to say that if you couldn't do it please don't take any action until after the fourth of November - third of November.

HMjr: I see.

H: I'm passing that on to you so that each of us can tell her that we did everything - or I can tell her that I -

HMjr: Well, you -

H: - both of us.

HMjr: You've passed your burden on to me and I accept it.

H: Thank you so much.

HMjr: All right, Senator.

H: Righto

HMjr: Thank you.

H: Goodbye.

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October 26, 1936

EXCERPT FROM MR. UPHAM'S REPORT TO SECRETARY  
dated October 26, 1936.

I visited at the Federal Reserve Bank of New York Saturday morning with Mr. Lochhead. One of the stops we made was at the desk of Mr. Madison, who seems to operate the market transactions of the Open Market Committee under the management of Dr. Burgess. Mr. Lochhead explained to him our interest in coordinating the investments in Government bonds made by trust accounts and investment funds for which the Treasury acts, with the condition of the market from day to day. Following that explanation, I asked Madison purely as an academic matter, what the Open Market Committee was doing in the market. I referred to the fact that there is frequently a statement made that the Federal Reserve is responsible for the domestic dollar and is interested in exercising an influence over credit conditions. It seemed to me as a matter of theory that the Open Market Committee would be interested in active and frequent operations in the market. Mr. Madison was inclined to think that they were content to leave that to the Treasury, and stated that the Open Market Committee does nothing other than replace maturities, and occasionally shift their holdings from one issue to another. They apparently have no thought of watching the market from minute to minute or day to day, and supporting it on occasion.

You may have noticed that the man who writes about Governments in the American Banker uses the Treasury and the Federal Reserve almost interchangeably. He referred this week to the fact that "the Reserve was able to turn the market so easily and still allow the Treasury" to do so and so, and then goes on to say this "is a tribute to its discretion", meaning the discretion of the Federal Reserve. Again he speaks of the "brilliant and fast work by the Federal Reserve to stem the tide of nervous selling."

October 26, 1936.  
10:15 A.M.

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Present: Mr. Gaston  
Mr. Taylor

H.W.Jr: This is what the President said - the President said to me, you know, about this business of their saying that Landon's figures were wrong, and he didn't know anything about the Pat Harrison, see? So he said, "Now, I understand they want to say - give out a statement and say that Landon's figures were right and my figures were right. Of course, that's just silly." And I said it's silly too. "Of course that's just silly," I said. "After all, Mr. President, last night's speech is cold turkey today, and what you said at Worcester or what Mr. Landon said in some place else people have forgotten."

So he pressed me a little bit. I said, "I'll tell you what happened." I said, "One of our people in the Treasury, who was very tired, sat down and got out a statement, gave it out. The man who did it called me up Saturday, said he made a mistake, terribly upset. I think the whole thing - " And that seemed to entirely satisfy him. I said, "I haven't got the details, but my advice is I'd forget it."

He said, "All right, let's forget it." See?

Gaston: Yes

H.W.Jr: So that has nothing to do with anything else, has it? What about this hidden tax business? Have you got that information?

Gaston: Of course, this bore on the question of indirect taxes. The thing that we thought was the most that we could possibly do was to say that so many questions had been received at the Treasury Department as to the amount of the indirect taxes and the direct taxes and the record of tax receipts in the last few years, that the Treasury is herewith making public the figures as shown from the official records, classifying taxes - classifying direct and indirect taxes and the receipts thereof, and a summary of the changes in the tax laws affecting these taxes.

H.M.Jr: Well, I mean that has nothing to do with -

Gaston: I don't see that there is any great value of it, but Sam says that the President wants it.

Taylor: Well, that must be for this conversation that's just been -

Gaston: No, I talked to Sam again this morning.

H.M.Jr: I just left the President. I just left him. I know the President hasn't seen anybody but me this morning.

Gaston: Well, it seems to me, then, that we are not called upon to do anything.

H.M.Jr: Well, I just left the President and he hadn't seen anybody. He hadn't finished his breakfast. I'm sure he hadn't seen anybody.

Gaston: Well, I talked to Sam -

Taylor: The only way is to get a thoroughly statistical release.

Gaston: Such a statement would be taken as an effort by the Treasury Department to justify what the President.

H.M.Jr: Listen, after talking to the President, I'd forget the whole thing.

Now, what I am going to go into - I don't know whether you want to sit in - I'm going in on this Belgian and Swiss thing.

Gaston: Yes, I'd like to.

H.M.Jr: O.K.

October 27, 1936

Mr. Reed and Dr. Feis of the State Department and Mr. Taylor and Mr. Lochhead of the Treasury met with the Secretary at 10 o'clock this morning.

The Secretary said to Mr. Reed, "The State Department is so diplomatic that they want me to talk first. As far as I am concerned, I would be delighted to let Suarez postpone his trip until after Mr. Hull's return from South America. Can you people draft a note to Ambassador Daniels? This thing came up while the President was on a battleship last spring and at that time the President wired me, having received word from Welles about a request that was made by some country that on the agenda at Buenos Aires be put the stabilization of currencies. The President telephoned me -- I think it was last spring -- and I told him at that time that I felt I would much rather not have any international monetary conversations included in the South American Conference. Welles said it was a peace conference and that he did not want to sidetrack it as a monetary conference."

Mr. Reed inquired, "Do you think it was Mexico?" Mr. Taylor replied, "It was and it was while you (Mr. Morgenthau) was at Sea Island."

The Secretary agreed, saying, "Yes; it was, and we covered the thing then. For many reasons I would just as well not see Suarez now."

Mr. Reed said, "We can draft a message." "Thank you very much," said the Secretary. To Mr. Reed, Dr. Feis said, "When you have the draft prepared, read it over the telephone to Mrs. Klotz and she will pass it along to the Secretary."

At this point Mr. Reed and Mr. Lochhead left the meeting, Dr. Feis and Mr. Taylor remaining with the Secretary.

Dr. Feis said, "This is on my own initiative. I want to read a cable which we received from Mr. Bullitt after he had been to see Blum. The gist of the cable is:

"The French Premier was very much disturbed because the Belgium action had come

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to him as a complete surprise. He had received information as a result of conversations between the French Foreign Minister and the Belgium Premier that when some action was contemplated the French would be fully informed of the action itself and of its significance before any public announcement was made. The French Premier felt that possibly Belgium had acted contrary to the tentatively agreed upon procedure because Belgium might have more up-to-date and specific information regarding Germany's contemplated move on the western front and therefore felt that she must take independent action rather than rely on the French to defend certain sections. There was reference to an article by Edgar Mowrer of the Chicago Daily News which apparently referred to German plans for attack or defense on the western front and the place of Belgium and Switzerland in these plans. There was also considerable comment on the attitude of Poland. The general sense of this comment was that Poland and France were working very closely together and that as a result of the recent visit of the Polish Chief-of-Staff to Paris that French-Polish relationships had been re-established.

The situation in Czechoslovakia also was mentioned as a somewhat disturbing factor, indicating the extent of the break-up of the Little Entente and the extension of German influence in that direction. The French Premier stated that he saw no reason to attempt to interfere with the expansion of German economic relationships in Central Europe and the Balkans, in fact that an orderly expansion of these relationships could contribute to the possibilities for peace but that steps should be taken to insure that the economic

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development should not become so extensive that it carried with it political relationships as well.

In commenting on the French domestic situation he stated that he had relied in the past on the cooperation of the Moscow Government to influence the Communist party in France whenever the need was very real and that up to the last two weeks this support had been forthcoming on the occasions on which he had invoked it. He now felt that he himself and his Government were no longer in the good graces of the Moscow authorities and that the latter would like to see his Government fall; that this was very short-sighted on their part as the only government which could replace his would be one much farther to the Right and that in case of a general election the Communist Party would lose more than half their seats; that the recent tendency was to increase the difficulties between the employer and workers and that the small employers were much more rigid in their opposition to needed reforms than had been the case previously.

He also referred to a message received from the President and to the attitude of the United States in the currency negotiations and that he was convinced that the United States was the sincere friend of France.'

Dr. Feis remarked, "This cable is ten days old and only got to me yesterday. Anything might have happened subsequently."

The Secretary's comment was, "I think conditions are a little bit better now. This cable is ten days old."

I call up Hull regularly. Anything that I have, I pass on to him. We are absolutely alone and by ourselves and this sort of thing -- oh, well! what's the

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use!" Feis added, "My bringing this stuff over here is on my own. You understand that."

Continuing his remarks, the Secretary said, "On this Japanese thing, I have just begged for information. I haven't received anything! I guess they just have nothing. They know nothing about what is going on. The only message I got was that the Premier of Japan went up to see the Emperor."

There are two things that are happening: (1) that the Japanese balances have gone up on deposits in this country from \$30,000,000 to \$35,000,000. The other thing is that the outstanding commodity which has risen since the devaluation is silk. Our boys are studying the reason for this.

Let me give you something else. I have had two checks made, from two different sources, and there has been no big swing of buying or selling of commodities since devaluation and for a very interesting reason. There has already been a sufficient jump in prices abroad so that there is no distinct advantage for our importers to buy. The French devaluation and others will not mean that there will be a dumping of goods on this shore.

After election I am going to invite certain people in to meet informally with me who will give me the information I want. It will be similar to the group we had at my house the night we explained our recent monetary moves.

This is the first flash I have had. The thing is, to me it is very important because if there had been a lot of cheap goods come in, when Congress met we would hear about it. Our boys are working on this and are getting the information by telegraph and cable."

Dr. Feis remarked, "You will always have difficulty in getting the political information from abroad." HM, Jr's response was, "You do not get many cables like the one you just read." Dr. Feis agreed, saying, "No; the rest you can get out of the newspapers. Nine out of ten cables you get you already know about."

The Secretary then said, "One man who is new to me was this man Fox, of the Tariff Commission. He was on

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toes and I never knew he existed. I appreciate this information you have given me.

Do you know that the Port of Amsterdam is now running ahead of Antwerp? That may possibly be why Holland does not want to join us. You know what I have done on the gold business? We have decided to accept Switzerland and I have asked Cochran to go to Belgium and say that we were not satisfied and that we wanted to do business with the Government and not with the Bank of Belgium. I told this to the British yesterday." He then gave Dr. Feis the gist of his conversation yesterday with Mr. Mallet and Mr. Bewley.

After Dr. Feis left, HM, Jr. said, "One of these days, Schacht will be coming to this country. The next big move is for somebody to talk to Germany on money and not on colonies and trade treaties."

The French Premier was very disturbed because the Belgium action had come to him as a complete surprise. He had received information as a result of conversations between the French Foreign Minister and the Belgium Premier that when some action was contemplated the French would be fully informed of the action itself and of its significance before any public announcement was made. The French Premier felt that possibly Belgium had acted contrary to the tentatively agreed upon procedure because Belgium might have more up-to-date and specific information regarding Germany's contemplated moves on the western front and therefore felt that she must take independent action rather than rely on the French to defend certain sections. There was reference to an article by Edgar Mowrer of the Chicago Daily News which apparently referred to German plans for attack or defense on the western front and the place of Belgium and Switzerland in these plans. There was also considerable comment on the attitude of Poland. The general sense of this comment was that Poland and France were working very closely together and that as a result of the recent visit of the Polish Chief-of-Staff to Paris that French-Polish relationships had been re-established.

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October 27, 1936.

Chairman Eccles, Governor Ransom, Mr. Taylor and Mr. Upham had lunch with the Secretary at 1 o'clock.

Mr. Eccles referred to a telephone conversation which the Secretary had had with him a few days ago with reference to the Treasury bearing full responsibility for the Government bond market and the fact that the Open Market Committee is not operating in the market. He stated that he never could tell whether the Secretary was in earnest or kidding him.

The Secretary interposed to say he was having fun with him.

Secretary Morgenthau went on to say that there is some need for putting investment and trust funds into the market just now, that he has been buying fairly heavily during the last few days, that it may be necessary to continue for a little while, and that the Federal Reserve system might give some consideration to helping carry that burden. He related that after the President's Green Bay speech, for instance, he had purchased \$45 million of Government bonds within half a day. It appears now that there is some pressure on the market which can perhaps be linked to the forthcoming election.

Mr. Morgenthau said that he is supporting the market one thirty-second below the bid price now, and that if the new bond gets down to 101 he will fight to keep it there. He does not want it to break through 101.

Mr. Eccles stated that the Executive Committee of the Open Market Committee, which is made up of himself and two other members of the Board of Governors and two Presidents of the Reserve Banks,

can instruct Dr. Burgess, the manager of the fund, to conduct open market operations. He stated that the Executive Committee has freedom to use \$500 million of the fund for investment purposes, and freedom to increase the total reserve system portfolio by \$250 million. They have in the system portfolio bonds in the amount of \$378 million which they want to increase by \$122 million to half a billion. The \$378 million represents an increase of approximately \$250 million since March of this year. He indicated that there is some desire to increase earnings. ~~258~~

Mr. Eccles said that he thinks it would be possible and proper for the Open Market Committee to share any open market operations at this time and he suggested that Dr. Burgess could conduct operations for both accounts. He suggested that if an unusual situation developed where it was thought that the Federal Reserve might help out, Dr. Burgess might get in touch with him and he could authorize purchases for the account of the Open Market Committee.

Mr. Morgenthau saw one difficulty. He explained that sometimes Dr. Burgess is not in thorough agreement with him as to the purchases that should be made. In general, Dr. Burgess is inclined to be a little more conservative and, while he does a splendid job and serves as a useful check on Treasury operations, it must be, after all, a decision of some one person and neither Dr. Burgess nor anyone else can serve two bosses. Mr. Morgenthau suggested, therefore, that it might be a good plan for him to proceed as he has been for the last three years -- to conduct the

market operations for the day, giving the Open Market Committee the option at the end of each day of taking half of the bonds purchased. Any time they do not want to, all they have to do is say so.

Mr. Eccles agreed to this and Mr. Ransom stated that he considered it more than fair.

Mr. Eccles agreed to communicate at once with the other members of the Executive Committee of the Open Market Committee and to let Mr. Morgenthau know later in the day, or certainly before the market opens in the morning, their decision.

Mr. Morgenthau asked Mr. Taylor if he were in agreement with the proposal and Mr. Taylor said that before answering definitely he would like to clear up one or two points. He stated that he thought there might be some criticism from the public if they found out, as they undoubtedly would, that the Federal Reserve System was supporting the market for Government bonds.

Mr. Eccles said they need not know, but Mr. Taylor felt that they would inevitably find out.

Mr. Taylor wondered what reply the Federal Reserve could make to such a criticism inasmuch as their main interest is long term credit policy rather than day to day market support.

Both Mr. Eccles and Mr. Ransom were of the opinion that the Federal Reserve, through its open market operations, had a very legitimate interest in maintaining the long term Government bond market.

Mr. Eccles said that he would have no hesitancy in saying that

he considered it essential in the interest of the long term credit position that there be a strong market for Government bonds.

Mr. Taylor agreed (and explained after the meeting that his line of questions had been designed to get a commitment from Mr. Eccles and Mr. Ransom to the proposition that a strong market for Government bonds is a necessary concomitant of a cheap money policy).

Mr. Morgenthau asked Mr. Upham if he approved of the idea and he replied that he did but wanted to inquire if the operations of the Open Market Committee, in participating in Treasury purchases, would serve to increase their portfolio or be washed out by sales of equal amounts of bills and notes.

Mr. Eccles replied that it would not increase the portfolio except perhaps from day to day between weekly report periods.

Mr. Upham asked if it would be any disadvantage to the Open Market Committee to have bonds purchased for them by the Treasury one day and they be under the necessity of making offsetting sales of bills and notes on the following day, to which both Mr. Eccles and Mr. Ransom replied that they thought not -- that they operate that way in their exchanges at the present time and that everything adjusts itself within the week, before report date.

Toward the close of the luncheon Mr. Harris came in for a moment at the Secretary's request and reported that the market is quiet, and that he had bought \$8,875 million bonds during the day.

Before leaving the Treasury, Mr. Eccles and Mr. Ransom examined the ticker facilities in Mr. Lochhead's room. Mr. Ransom

was of the opinion that the Reserve Board should have a duplication of the facilities and information for their use.

Upm.



October 27th

The following were present at the 9:30 meeting in Secretary Morgenthau's office this morning:

Mr. Bell  
Mr. Gaston  
Mr. Gibbons  
Mr. Haas  
Mr. McReynolds  
Mr. Oliphant  
Miss Roche  
Mr. Taylor  
Mr. Upham

H.M.Jr: Well Dan I hope you are ready to be kidded this morning.

Bell: I have been already. I was just telling them (meaning the group outside before the meeting was called) he decided my vote.

H.M.Jr: What did he call Dan? (This question was addressed to the group)

Bell: "Just a room in the White House". He is going to correct that.

H.M.Jr: He (Landon) said McCarl was the legal check on spending.

Bell: Yes and that important position has been vacant since July and you know what happens when the boss is away.

Gibbons: Was this his last night's speech?

H.M.Jr: Yes.

H.M.Jr: Mac, O.K. on Hester?

McReynolds: I would like to add another member - Elmer Irely.

H.M.Jr: No I don't think so because I don't think these investigating boys - they have to make good on investigation. No. Well Herman put it in better English - it has reached its judicial stage.

H.M.Jr: Wayne?

Taylor: Nothing.

H.M.Jr: Wayne, Feis will be here at ten. I want you to sit in.

Taylor: Mex? (meaning Mexicans)

H.M.Jr: Mex.

Gaston: David Lowe, a British cartoonist, is here in town doing pictures for the English newspapers. He wants to make a sketch of you while you are talking or working. He is going to sketch the President this afternoon.

Group: Sure - why not?

Taylor: Trade one of you for two pictures of Mrs. Simpson.  
(Laughter)

H.M.Jr: What do you recommend?

Gaston: I would like to see him do it - yes.

H.M.Jr: Well let me think about it. Ask me about 11 o'clock.

Gaston: All right.

Gibbons: Have you decided about Saturday night?

Gaston: I will talk to you about that.

Gibbons: I sent Joe Maynard a wire on that Curley thing. Said he handled himself very well.

H.M.Jr: Herbert walked home with me last night and he told me about it.

H.M.Jr: How about you?

Roche: I just got back this morning and everything is running fine - O.K. Great enthusiasm everywhere.

Gibbons: Cincinnati Inquirer yesterday said Roosevelt would carry Ohio by one million four hundred twenty four thousand and one million two hundred twenty eight - something like that - for Landon. They have been printing vicious editorials right on the front page.

H.M.Jr: George (Haas) I know you are all right.

H.M.Jr: Dan, I haven't seen you. Is the money holding up?

Bell: Pretty good.

H.M.Jr: I would like to see you about 11. Have you a hearing on?

Bell: Yes I have a hearing.

H.M.Jr: How about 12?

Bell: Fine.

H.M.Jr: Did you do any business over the week-end?

Bell: No sir.

H.M.Jr: Lose anything?

Bell: No sir.

Bell: We have about eight million scattered throughout the country and it is on demand. The banks have to keep a reserve against that of 15 per cent. I would like to make an arrangement whereby these deposits can be made time instead of demand and that reduces reserve requirements and gives the bank a little more in balance.

H.M.Jr: Would you talk that over with Cy Upham?

Bell: Yes sir.

H.M.Jr: Well Cy is supposed to be the liaison officer between Federal Reserve and myself. Let the two of you.....

Bell: .....Yes sir.

H.M.Jr: What else?

Bell: The Home Loan Bank System is getting short on funds and they want to get into .....

H.M.Jr: Dan, let's do that at noon.

Bell: Nothing to do now except you to see Delano and Mr. Taylor the second or third day after election.

H.M.Jr: Will you take it up again at 12?

Bell: Surely.

H.M.Jr: Check up with Eccles and Ransom as to whether they are coming to lunch.

Upham: One o'clock?

H.M.Jr: Yes. You are not coming?

Upham: I don't think they will miss me.

H.M.Jr: You let Mrs. Klotz know so she can order lunch.

H.M.Jr: Oh if you want to go home to vote it is all right. You want to leave here Friday?

Upham: O.K.

Mc Reynolds: I was supposed to talk to you on the way down this morning about Caledonia McCall.

H.M.Jr: Let me tell the story my way.

Note: At this point Secretary Morgenthau instructed McHugh not to take the story down as it was too silly.

H.M.Jr: Well everybody is happy. I guess that is about all.

October 27, 1936.  
11:25 a.m.

Burgess: Hello

H.M.Jr: Hello Burgess.

Burgess: Oh hello sir.

H.M.Jr: How are you?

B: Oh pretty well. We're picking up a little stuff this morning. I thought I'd let you know.

H.M.Jr: Good.

B: We bought about five or six million.

H.M.Jr: Five or six million?

B: Yes - they're.....

H.M.Jr: ....You call that a "little stuff".

B: (Laughter)

H.M.Jr: Of course we down here in the Treasury - we watch the pennies and up in New York you talk in millions.

B: (Laughter) Well we're ----

H.M.Jr: Yes.

B: .....we're, as you said, being fairly courageous.

H.M.Jr: Yes.

B: We're buying a hundred and one two -  $2\frac{3}{4}$ s.

H.M.Jr: Oh really.

B: Yes.

H.M.Jr: Ah -

B: Now that was - that was, as you said, a thirty-second under the market.

H.M.Jr: Well that's all right. I'm glad you are. I think they're a good buy.

B: I think they are.

H.M.Jr: I - I wouldn't be afraid. I - I - I'd rather not see them go below a hundred and one.

B: Yes - yes. Well that was .....

H.M.Jr: In fact when they get to one hundred and one I'd fight quite hard.

B: That's what we're working on and we wanted to leave ourselves a thirty-second or two leeway so that we wouldn't get in too quick and too hard on it and we'd have a little leeway to work on.

H.M.Jr: Yes. Well I'm glad you called me up. I'll call you back again in a half an hour.

B: All right, that's fine.

H.M.Jr: Are you - are you concentrating on the 56-59?

B: That's right, yes.

H.M.Jr: Right.

B: Yes. We're buying some other stuff - we've got bids in at a thirty-second below the market on other agencies - other important issues.

H.M.Jr: And - but this is all for the Treasury.

B: That's right.

H.M.Jr: I see.

B: That's right. Now if the market gets heavy we can take some of the load if you want us to.

H.M.Jr: Well it'll have to get damn heavy.

B: Yea - you've got a lot of money you want to invest.

H.M.Jr: Yes and I think they're a good buy.

B: I think so too.

H.M.Jr: Of course if the President begs me to let him have some of these cheap bonds why that will be something else.

B: Yes - yes - yes.

H.M.Jr: But for the moment I'm glad to buy them. I think they're a good investment.

B: I think they are.

H.M.Jr: Yes. All right, Burgess, I'll call you again a little later. Thanks for calling.

B: Very good.

H.M.Jr: Thank you.

\* \* \* \* \*

H.M.Jr: Hello

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello

B: Hello.

H.M.Jr: How they going?

B: Oh we bought a little more. They're holding reasonably well.

H.M.Jr: What are they up to now?

B: They're....

H.M.Jr: .....I mean how many have we bought?

B: About seven million.

H.M.Jr: Seven million.

B: That is about a million more than when I talked to you last.

H.M.Jr: Ah-ha.

B: But they're - they're holding pretty well.

H.M.Jr: All right. Well I'll talk to you a little later.  
Of course if anything happens very startling you  
call me.

B: Yep. All right.

H.M.Jr: Thank you.

B: First rate.

H.M.Jr: Goodbye.

October 27, 1936.  
3:59 P.M.

H.M.Jr: Captain Puleston, and if he's not - did we call him today?

Operator: Yes, we called him and they said he was ill.

H.M.Jr: Well, how sick is he?

O: I don't know. She said he had a very bad throat.

H.M.Jr: A bad what?

O: Throat. Sore throat.

H.M.Jr: Well, did you call up his home?

O: No, I didn't. I think he can probably come to the phone.

H.M.Jr: Ask if he can talk on the phone, will you?

O: All right.

H.M.Jr: At home.

O: All right.

H.M.Jr: Ask if he can talk.

O: All right.

(Pause)

H.M.Jr: Hello.

O: Captain Puleston.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

W.D. Puleston: Hello, Mr. Secretary. How are you?

H.M.Jr: I hope I haven't bothered you, but I -

P: No

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H.M.Jr: - I'm a little disturbed. Hello.

P: Hello.

H.M.Jr: Have you heard about this case up at Baltimore where our Customs Agent Cruickshank, where the newspapers have found -

P: Wait a minute.

H.M.Jr: - he was taking numbers on a car - of some Communist meetings? Hello?

P: No, no, I haven't heard about that.

H.M.Jr: Well, as soon as you get well and get back and -

P: Just a minute.

H.M.Jr: Your man Dorsey up there -

P: Yes

H.M.Jr: - and I - I think Dorsey went too far.

P: Too far, you think. Is - is he my man - Dorsey?

H.M.Jr: Yes, you got a man there by the name of Dorsey.

P: Yes - D-o-r-s-e-y?

H.M.Jr: D-o-r-s-e-y.

P: Yes.

H.M.Jr: Now, we'll have to take the brunt of it and keep quiet -

P: Yes

H.M.Jr: - but he went too far.

P: Uh. huh.

H.M.Jr: And he had our man standing out there on the curb taking numbers of cars going in, so forth and so on. See?

- 3 -

P: Yes

H.M.Jr: Well, that's a little bit outside of our line.

P: Yes

H.M.Jr: And when you get back -

P: (Laughs) All right, sir.

H.M.Jr: I mean - I think you and Harold Graves better get together and have another talk.

P: Uh huh, I will. I'm awful sorry about it. I hope it didn't -

H.M.Jr: Well, we're not going to - we're not going to talk. We'll keep our mouth shut, see?

P: Yes

H.M.Jr: But as soon as you're well you and Harold get together.

P: All right.

H.M.Jr: But I - I don't want something like that to happen again.

P: All right.

H.M.Jr: Because - well, it'll spoil your work and it spoils our work.

P: Yes

H.M.Jr: Right?

P: Righto.

H.M.Jr: I hope you'll be well soon.

P: Well, I don't - it's nothing but a heavy cold, but that doctor thought I'd better stay away from the office for a couple of days.

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H.M.Jr: Well, you - soon as you're well you see Harold Graves.

P: I will indeed.

H.M.Jr: Thank you.

P: Very well.

H.M.Jr: Goodbye.

P: Goodbye.

October 27, 1936.  
3:55 p.m.

H.M.Jr: O.K.

Operator: All right. Go ahead.

H.M.Jr: Hello.

Eccles: Hello. That - that arrangement is 100% satisfactory.

H.M.Jr: Well now that's fine, Marriner. Now we're partners.

E: That's right. We're - we're full fledged partners.

H.M.Jr: And if you don't like what I do during the day you don't have to take it - is that right?

E: Well that's all right. We - we appreciate that friendly offer but as a practical matter why we're not going to take any advantage of it.

H.M.Jr: Well -

E: Ah - we - we - I talked to all five members of the Executive Committee.....

H.M.Jr: .... .Yes.

E: .....and they're all in full accord.

H.M.Jr: Fine.

E: I talked to Burgess.....

H.M.Jr: .....Yes.

E: .....and Burgess says that that's - he thinks that's all right - that's perfectly agreeable to him.....

H.M.Jr: Fine.

E: .....and he'll start to - operating that way in the morning and.....

H.M.Jr: Oh damn - in the morning!

E: Sure.

H.M.Jr: Don't you want to wait till after election?

E: (Laughter) No of course I don't want to wait - hell I (laughter)

H.M.Jr: Oh now, Marriner, let me have a few of these cheap bonds now. (Laughter).

E: Well I'll tell you - we've been letting you have all of them.

H.M.Jr: Oh go on.

E: We've been letting you have all of them.

H.M.Jr: You want to start in the morning, eh?

E: Yep.

H.M.JrE All right.

E: How's that - is that all right?

H.M.Jr: I let you in on the ground floor.

E: You might be darn glad to have us in before the week is out.

H.M.Jr: Oh (laughter)

E: What?

H.M.Jr: Maybe before the year is out but I can take it for a week anyway.

E: Well I ....

H.M.Jr: I - I like the arrangement. I think it's fine and I'm serious now and I think it's a move in the right direction.

E: Well I - we feel that way about it. I think it's something that - that - if they'd done that a couple of years ago when the market really needed some support - and of course it may need it in the future - if we establish it now.

H.M.Jr: Right.

E: Ah - it - it - it means that if we get in a tough place in the future we've at least established a precedent.

H.M.Jr: Now I'm very much pleased, Marriner - I appreciate....

E: ..... Well if it doesn't work to your satisfaction anytime you let me know and if our fellows want to kick over the traces I'll let you know.

H.M.Jr: O.K.

E: All right.

H.M.Jr: Fair enough. Thank you for calling.

E: Goodbye.

October 27, 1936  
3:59 P.M.

H.M.Jr: How are you?  
Prof.  
Williams: I'm fine.

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

W: Yes, I called because I wondered about tomorrow.  
You know -

H.M.Jr: Well -

W: when I left last week -

H.M.Jr: Yes

W: - you thought you might have a meeting tomorrow.

H.M.Jr: Well, here's the situation. We sent back inquiries  
for more information.

W: Yes

H.M.Jr: And I doubt whether we'll get that before Thursday  
or Friday. Now, you always go to New York Thursday,  
don't you?

W: Yes, I usually go down tonight.

H.M.Jr: To New York.

W: Tonight.

H.M.Jr: To New York.

W: Yes

H.M.Jr: Oh, this - today's Tuesday?

W: Yes, today's Tuesday.

H.M.Jr: Well - oh - and what days do you spend in New York?

W: I usually spend Wednesday and Thursday there.

H.M.Jr: Well, I would suggest that you go to New York,  
because there's nothing doing here tomorrow -

W: Yes

- 2 -

H.M.Jr: - and if something breaks I'll call you.

W: All right.

H.M.Jr: How's that?

W; That's fine. I suppose what - has Cochran gone - ?

H.M.Jr: He's going to Belgium. He's going to Belgium tonight.

W: Yes

H.M.Jr: Well -

W: Well then, I'll go to New York tonight and wait to hear from you.

H.M.Jr: Yes. Well, you better call me up from New York.

W: All right, I'll do that tomorrow.

H.M.Jr: But he went to Belgium tonight.

W: Oh yes.

H.M.Jr: So we won't hear anything until - let's see - Wednesday, Thursday morning -

W: Yes

H.M.Jr: - will be the earliest.

W: Yes

H.M.Jr: So will you give me a ring tomorrow?

W: All right, I will.

H.M.Jr: Thank you for calling.

W: All right. Thanks for calling me.

H.M.Jr: Goodbye.

October 27, 1936.  
3:55 p.m.

H.M.Jr: O.K.

Operator: All right. Go ahead.

H.M.Jr: Hello.

Eccles: Hello. That - that arrangement is 100% satisfactory.

H.M.Jr: Well now that's fine, Marriner. Now we're partners.

E: That's right. We're - we're full fledged partners.

H.M.Jr: And if you don't like what I do during the day you don't have to take it - is that right?

E: Well that's all right. We - we appreciate that friendly offer but as a practical matter why we're not going to take any advantage of it.

H.M.Jr: Well -

E: Ah - we - we - I talked to all five members of the Executive Committee.....

H.M.Jr: .....Yes.

E: .....and they're all in full accord.

H.M.Jr: Fine.

E: I talked to Burgess.....

H.M.Jr: .....Yes.

E: ....and Burgess says that that's - he thinks that's all right - that's perfectly agreeable to him.....

H.M.Jr: Fine.

E: ....and he'll start to - operating that way in the morning and.....

- 2 -

H.M.Jr: Oh damn - in the morning!

E: Sure.

H.M.Jr: Don't you want to wait till after election?

E: (Laughter) No of course I don't want to wait - hell I (laughter)

H.M.Jr: Oh now, Marriner, let me have a few of these cheap bonds now. (Laughter).

E: Well I'll tell you - we've been letting you have all of them.

H.M.Jr: Oh go on.

E: We've been letting you have all of them.

H.M.Jr: You want to start in the morning, eh?

E: Yep.

H.M.Jr: All right.

E: How's that - is that all right?

H.M.Jr: I let you in on the ground floor.

E: You might be darn glad to have us in before the week is out.

H.M.Jr: Oh (laughter)

E: What?

H.M.Jr: Maybe before the year is out but I can take it for a week anyway.

E: Well I ....

H.M.Jr: I - I like the arrangement. I think it's fine and I'm serious now and I think it's a move in the right direction.

E: Well I - we feel that way about it. I think it's something that - that - if they'd done that a couple of years ago when the market really needed some support - and of course it may need it in the future - if we establish it now.

- 3 -

H.M.Jr: Right.

E: Ah - it - it - it means that if we get in a tough place in the future we've at least established a precedent.

H.M.Jr: Now I'm very much pleased, Marriner - I appreciate....

E: ..... Well if it doesn't work to your satisfaction any time you let me know and if our fellows want to kick over the traces I'll let you know.

H.M.Jr: O.K.

E: All right.

H.M.Jr: Fair enough. Thank you for calling.

E: Goodbye.

October 27, 1936  
4:45 P.M.

H.M.Jr: Hello.

Operator: Dr. Burgess - go ahead.

H.M.Jr: Hello.

W.R.  
Burgess: Hello, sir.

H.M.Jr: Well, I suppose you've heard about the new deal we've put over.

B: Yes, Marriner called me up and told me about it.

H.M.Jr: And you're satisfied?

B: Yes, I think that's all right.

H.M.Jr: Of course I think the Treasury's got the bad end of it, but I suppose I'll have to stand up under the burden.

B: Well, I think we - we'll both benefit from it. Now, I understand we start that with purchases tomorrow.

H.M.Jr: That's right. No, I'm joking. I - I think it's all right.

B: All right.

H.M.Jr: And I - seriously, I think from your standpoint it's - it's good, because you won't have to take orders from a Board and from an individual both.

B: That's right.

H.M.Jr: And I think if - if it had been that way, I think it would have been - your position would have been made absolutely impossible.

B: Well, there's - there's a good old saying somewhere about no man being able to serve two masters.

- 2 -

H.M.Jr: And this way - just a minute.

(Pause)

Hello.

B: Yes

H.M.Jr: I think that this way - well, we'll continue to work just as we have in the past -

B: Sure

H.M.Jr: - as far as I'm concerned.

B: That's right.

H.M.Jr: I've been more than pleased with the arrangement.

B: Yes

H.M.Jr: And I'm delighted to see the Board come in.

B: I think so; I think they should really.

H.M.Jr: Yes

B: At least in their present position they can afford to increase their long bonds.

H.M.Jr: Yes

B: Now, the time may come when they shouldn't increase them any more, but it hasn't come yet.

H.M.Jr: I understand we did thirteen million today.

B: That's right - 13,708,000.

H.M.Jr: Fine.

B: About half of that was at two and three-quarters.

H.M.Jr: Right.

B: The rest of it went -

- 3 -

H.M.Jr: How did the tone close? How was the tone of the market?

B: Well, not bad. It's - it's fairly steady.

H.M.Jr: Yes

B: We only bought a few million toward the end there.

H.M.Jr: Uh huh. Well -

B: So it behaved pretty well.

H.M.Jr: Fine. All right, I'll be talking to you in the morning.

B: I don't think there's any very great selling, you know.

H.M.Jr: No.

B: It's just a few sellers.

H.M.Jr: Right. Right. You might tell me tomorrow where the selling is coming from. You might sort of look it up for me.

B: All right.

H.M.Jr: Will you do that?

B: All right.

H.M.Jr: Thank you, Burgess.

B: Very good.

H.M.Jr: Goodbye.

B: Goodbye.

WCNS25

*French Situation - Budget*

PARIS--THE "BILLION DOLLAR" 1937 NATIONAL BUDGET ON WHICH THE FATE OF THE POPULAR FRONT ADMINISTRATION OF PREMIER BLUM DEPENDS WILL GO BEFORE THE CABINET TODAY. THE ESTIMATES MUST BE VOTED BEFORE THE END OF THE YEAR.

THE BUDGET HAS BEEN DRAWN UP BY FINANCE MINISTER AURIOL AND THE VARIOUS CABINET MEMBERS IN THE GREATEST SECRECY. HOWEVER, THE UNITED PRESS LEARNED THAT IT WILL BE BETWEEN 20,000,000,000 (B) AND 25,000,000,000 (B) FRANCS--OR FROM \$930,000,000 TO \$1,162,500,000 AT THE NEW DEPRECIATED RATE OF EXCHANGE.

THE ESTIMATES THIS YEAR TAKE ON ADDITIONAL SIGNIFICANCE IN VIEW OF THE REVALUATION OF THE FRANC BY APPROXIMATELY ONE-THIRD, FROM ITS FORMER VALUE OF AROUND 6 1/2 CENTS TO THE PRESENT RATE OF 4 2/3 CENTS PER FRANC.

10/27--TP1014A

10.47  
FRENCH CABINET TO GET BUDGET

OCT 27 1938

-BY UNITED PRESS-

PARIS - THE FIGURES OF THE 1937 NATIONAL B  
BUDGET ON WHICH THE FATE OF THE POPULAR  
FRONT ADMINISTRATION OF PREMIER LEON BLUM  
DEPENDS GO BEFORE THE CABINET TODAY - THE  
ESTIMATES MUST BE VOTED BEFORE THE END OF  
THE YEAR

-0-

Tuesda

October 27, 1936

Paris

BERTRAND ON BANK OF FRANCE REFORMS

3:40

ADD BERTRAND

COMMENTING ON REFORMS RECENTLY INSTITUTED  
BY BANK OF FRANCE JULES BERTRAND ADMINISTRATOR  
OF THE BANK STATED- -IT IS GENERAL  
OPINION THAT THESE REFORMS HAVE BEEN FORCED  
BY LEON BLUM-S POLITICAL PARTY AND THAT  
DIRECTORS OF BANK OF FRANCE HAVE MADE THESE  
REFORMS AGAINST THEIR WISHES-

IT IS MR BERTRAND-S OPINION THESE REFORMS  
ARE -CAMOUFLAGE- AND THERE IS NO CHANGE  
INWARDLY

-THE POLITICAL PARTY OF LEON BLUM WILL  
NOT LAST VERY LONG- MR BERTRAND STATED

-BECAUSE MR BLUM WAS PLACED IN POWER BY  
WORKING CLASS AND BENEFITS THEY HAVE RECEIVED  
IN FORM OF RISING WAGES ARE ALL BEING SPENT  
BECAUSE COST OF LIVING IN FRANCE IS RISING  
SO RAPIDLY

-BEFORE THE BLUM GOVERNMENT CAME INTO  
POWER THERE WERE SIGNS OF A BUSINESS RECOVERY  
BUT AT PRESENT A FEELING OF UNCERTAINTY  
PREVAILS IN FRANCE-

-0-

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