

DIARY

Book 42

October 28 - October 31, 1936

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October 28, 1936.
9:35 A. M.

Operator: Go ahead.

H.Merle

Cochran: Hello.

H.M.Jr: Hello.

C: Hello, Mr. Morgenthau.

H.M.Jr: Hello, Cochran.

C: I'm speaking from the Embassy in Brussels.

H.M.Jr: Yes.

C: Here last night -

H.M.Jr: Yes.

C: - nine o'clock. This morning I went first to the
Governor of the Bank -

H.M.Jr: Yes

C: - Mr. Compton -

H.M.Jr: Yes

C: - and I took up the proposition with him to see
what we could draw up -

H.M.Jr: Yes

C: - and then he talked to the Minister of Finance
in my presence -

H.M.Jr: Yes.

C: - and we have a tentative statement which they will
get the Minister of Finance to sign -

H.M.Jr: Yes

C: - if it is agreeable to you.

H.M.Jr: Yes

C: Hello?

H.M.Jr: Go ahead

C: And I'll - I'll read it to you now.

H.M.Jr: Yes.

C: They're willing to address a letter to me -

H.M.Jr: Yes.

C: - so that it won't have to go through the diplomatic channels of the Embassy and the Foreign Office, and so on, in which they will say: "With reference to the declaration of October 17, 1936, I have the honor - " Now, this will be signed by the Minister of Finance.

H.M.Jr: Yes.

C: " - I have the honor to confirm to you that the Belgian Government fully guarantees to the Government of the United States the obligations assumed in this declaration by the National Bank of Belgium, which is furthermore, as you know, the fiscal agent of the State."

H.M.Jr: The what?

C: Is the fiscal agent.

H.M.Jr: Yes.

C: I knew you liked that phrase - "is the fiscal agent of the State."

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

C: So, do you think that one paragraph would straighten this out?

H.M.Jr: Well now, let me think a minute. What is the objection to sending it through the regular diplomatic channels?

C: There's one thing they make - there's one final sentence on this.

H.M.Jr: Oh.

C: As follows: "It is understood - "

H.M.Jr: Pardon me -

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C: " - that this declaration - "

H.M.Jr: I didn't get that.

C: "It is understood that this declaration shall not be made public without the consent of the two Governments."

H.M.Jr: Without the consent of the two Governments?

C: That's of your Government and the Belgian Government.

H.M.Jr: Yes.

C: Because they would rather not let - let this thing get out.

H.M.Jr: Why not?

C: Well, they - they insisted upon the separate functions and the independence of their Central Bank, and while the Treasury is willing to give us this assurance, they - they're afraid it would cause improper tactics on the part of the public.

H.M.Jr: Cause what?

C: Would cause unsympathetic criticism in Belgium.

H.M.Jr: I didn't get that.

C: They are afraid that it might cause criticism here in Belgium of the Government.

H.M.Jr: Yes. Well, I still say let's - let's leave that to one side for the minute. Just a minute -

C: All right.

H.M.Jr: (Short aside conversation.) Hello.

C: Hello. You see, they - they don't want to sign this unless it's something that's agreeable to us.

H.M.Jr: Well, I couldn't give an answer on that over the telephone. You'll have to send it to me in the form of a tentative draft.

C: I see.

H.M.Jr: I would - I would cable it from Belgium. Let the

- 4 -

- C: I'll be back in Paris in - in good time this evening.
- H.M.Jr: No. Well, I want it tomorrow morning.
- C: Well, I'll cable it from Paris tonight yet.
- H.M.Jr: Oh, would you?
- C: Yes. It's only a quarter to three. I can get the four o'clock train from here.
- H.M.Jr: Oh, I see. How long does it take you to get to Paris?
- C: Three hours and a half.
- H.M.Jr: Oh, I see. Well, if you could put it on tonight, then I'd have it in the morning.
- C: Well, I'll put it on there - from there tonight.
- H.M.Jr: Well, I'm - I wouldn't want to give a snap answer to that.
- C: Yes.
- H.M.Jr: Because - I furthermore. Just read me that note once more, will you - what it says.
- C: It will be a letter to be addressed to me.
- H.M.Jr: A letter to address to you.
- C: To be signed by the Minister of Finance -
- H.M.Jr: Yes.
- C: - of Belgium. And then it begins: "With reference to the declaration of October 17, 1936, I have the honor to confirm to you that the Belgian Government fully guarantees to the Government of the United States the obligations assumed in this declaration by the National Bank of Belgium, which is furthermore, as you know, the fiscal agent of the State.
- (Paragraph) "It is understood that this declaration shall not be made public without the consent of the two Governments."
- H.M.Jr: Well, there's one thing -

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C: It reads in the text as -

H.M.Jr: Yes. Well, there's one thing.

C: - and -

H.M.Jr: That's going to be signed by the Secretary of the Treasury of Belgium, isn't it?

C: Yes.

H.M.Jr: Well then, it should be addressed to me.

C: They - they were afraid it would have to go through channels - Oh, I think they could address it to you all right.

H.M.Jr: Well, they should address it to me.

C: And the Foreign Office - and the Ministry of -of Foreign Affairs can -

H.M.Jr: Well, even if it should - I mean I think it'd be that much better. I - I think that that - that should be addressed to me and that it should come through the Foreign Office.

Telco O: Six minutes.

H.M.Jr: Hello.

C: You prefer that it come that way.

H.M.Jr: Yes. But you can tell them this - there's no use routing it that way until we know it's acceptable.

C: No.

H.M.Jr: But I would say one - that the way - I mean the main thing is the content. Is the contents of it satisfactory? Well, I -

C: Yes.

H.M.Jr: You send it to me in tentative form.

C: Yes.

H.M.Jr: But before you leave you can say you talked to me -

C: Yes.

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H.M.Jr: - and if we want it we - I want it addressed to me and I want it to come through the Foreign Office.

C: You see - that's - I'm not sure that they'll be willing on that, because they - they don't want it to - to make any publicity or any argument in Parliament on it.

H.M.Jr: Well, if - if they can't do it then I - then I'm not sure that we can do business with them.

C: Well, I mean they're - they're trying to meet our requirements.

H.M.Jr: Well, I - I know, but I don't want - I can't - I - I cannot have any secret agreements. I mean any agreement -

C: Do you want this to be made public?

H.M.Jr: Well, any agreement that I make I'm going to make public.

C: I see.

H.M.Jr: I mean any agreement that - I've got to announce publicly that I'm doing business with Belgium.

C: Yes, you - you have to announce publicly that you're doing business with them.

H.M.Jr: Yes.

C: That - that's understood.

H.M.Jr: Yes. But I have to make this note public. I'm not going to make any secret agreements.

C: Their - their statement the other day gave the exact situation here -

H.M.Jr: Yes.

C: - and gave such as they're authorized to make under the law.

H.M.Jr: Well, you send - you send a cable, send the whole thing, and I'll discuss it with the State Department here tomorrow.

C: Yes.

H.M.Jr: And we'll have a careful discussion and then we'll decide. But they may not agree with me, the State Department. See? Hello?

C: Hello.

H.M.Jr: But certainly the note should be addressed to me.

C: All right.

H.M.Jr: And you send it to me tentative and by the time you get back to Paris you will undoubtedly have the Swiss answer also.

C: Yes, yes, I should have that.

H.M.Jr: You see? And -

C: Maybe I'd better file this from here this afternoon.

H.M.Jr: I think so.

C: All right.

H.M.Jr: And - I think so - and then just give me what your opinion is the reasons why it should not be made public.

C: Yes.

H.M.Jr: But I've got to make something public.

C: You - you see, they - they don't want to give the State the impression here of instability. I mean they - they don't take to the idea of reestablishing a - a stabilization fund or anything of that sort.

H.M.Jr: No, but there's no - why should it be a sign of instability if the Government communicates with the Government of the United States? I should think it would add to their strength.

C: No, that's not the thing. They understand that the Bank of Belgium stands on its own, that it's independent, and that they really need no guarantee from the state -

H.M.Jr: Well -

C: - to get it to hold to its promises.

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H.M.Jr: But my dear Cochran, we're not going to do business that way any more.

C: I - I understand, and I've argued here and I've gotten this letter out of them -

H.M.Jr: Yes.

C: - but it's about as far as they'll go.

H.M.Jr: Well, you send it over. You send it to me. I don't see why you can't file it from where you are.

C: Yes.

H.M.Jr: And that will save time.

C: I'd rather think it over as I go home.

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

C: All right.

H.M.Jr: That's all right. And then when you get home you might phone Paris and tell them if they have anything from Switzerland to have it ready for you.

C: Yes - yes, that'll be there - I'll see to that when I -

H.M.Jr: And you send it along and then I'll discuss it with the people over at the State Department and we'll give it very careful consideration.

C: Fine. All right, sir, I'll fix up a message as I come home, and I'll tell them to - that we'll hold this tentatively -

H.M.Jr: Yes -

C: - and I'll phone back to the Ministry of Finance as soon as I have your answer.

H.M.Jr: And if you have any political impressions of any kind, you might just sort of give me a couple of hints in your cable.

C: Yes, yes.

H.M.Jr: I mean of - of Belgium.

C: Yes.

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H.M.Jr: I mean if you have anything that - that would bear on the economic side. You see what I mean?

C: I haven't a lot. I had luncheon today with - with the Minister of Agriculture and the Governor of the Bank and about - and all the Directors. This was the day of their monthly meeting.

H.M.Jr: Well, if you pick up anything which would bear on the economic, why, you - you put it in your cable.

C: All right, but I - I tell you I can't probably have much, because I'll have to hurry now and fleece up and get the train.

H.M.Jr: All right. Thank you.

C: If I took the later train, then I couldn't get the cablegram to you -

H.M.Jr: Yes.

C: - because there -

H.M.Jr: Well, you take it and you can be thinking it over and then when you get there you cable me.

C: All right.

H.M.Jr: Thank you very much.

C: But quite frankly, these people think they've gone quite a ways in this.

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

C: I'll - I'll put it up to you and - and let you think it over too.

H.M.Jr: Right.

C: Fine.

H.M.Jr: Thank you.

C: Goodbye.

H.M.Jr: Goodbye.

October 28, 1936
9:50 A.M.

H.M.Jr: - - that the Secretary of the Treasury would guarantee what the Bank of Belgium proposed to do, but they didn't want any publicity because they said it would weaken the position of the Bank of Belgium. See?

Well, I said, in the first place, any letter addressed to him - the letter must be addressed to me if it's from the Secretary of the Treasury of Belgium. Huh?

Herbert
Feis:

Yes.

H.M.Jr:

And not to Cochran.

F:

Right.

H.M.Jr:

In the second place, that -

F:

Who's doing this, by the way?

H.M.Jr:

The Secretary of the Treasury of Belgium.

F:

Yes.

H.M.Jr:

In the second place, that I - the way I felt - that any statement or any agreement that we had with them couldn't on the surface appear to be with the Bank of Belgium and in secret agreement with the - with the Treasury.

F:

Yes.

H.M.Jr:

That if we were going to do this thing, it would have to be out and above board.

F:

Right.

H.M.Jr:

That seemed to upset Cochran very much, because he -

F:

That seemed to what?

H.M.Jr:

Upset Cochran.

F:

Yes.

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H.M.Jr: Because he said he didn't think they'd agree to it because it would mean that the note would have to go through the Foreign Office and the State Department to me; and I said that's just the way I wanted it to go. See?

F: Certainly going through the State Department doesn't -

H.M.Jr: No, he meant through the Belgian Foreign Office, and -

F: You - you're quite right.

H.M.Jr: Now - then he said - well, that he was quite sure that they wouldn't do it because it would be a sign of weakness on the part of the Bank of Belgium, would be so interpreted. Well, I said I just couldn't see it and would they please - he could - he could - he's taking a three o'clock train to Belgium - to Paris and will file the cable tonight. See?

F: Yes

H.M.Jr: Now -

F: Why should it be a sign of weakness in the Bank of Belgium when it wasn't in the -

H.M.Jr: That's what I say.

F: - Bank of England up -

H.M.Jr: Yes - and that they don't want any publicity, and I said - well, I - they way I feel, if I can't announce it, if Belgium can't do business that way, we'd better not do business at all.

F: You have to list them, don't you?

H.M.Jr: We have to announce it.

F: Well, I - you wouldn't have to make a separate announcement but you'd have to put them on your list.

H.M.Jr: That's right.

- 3 -

- F: "ell, immediately some sharp newspaperman would catch that and there you are - then you'd have to discuss the whole matter anyway.
- H.M.Jr: Well, I can't say that - what they want me to say is that the agreement is between - with the Bank of Belgium. And then I've got a secret letter from the Secretary of the Treasury addressed to Cochran saying that the Secretary of the Treasury of Belgium guaran- - of - the Secretary of the Treasury of Belgium guarantees the Bank of Belgium. It's silly.
- F: I wonder whether the - it's curious, too, with Van Zeeland there as Prime Minister -
- H.M.Jr: Well -
- F: He certainly must be for it.
- H.M.Jr: Well, he - he didn't get to the Prime Minister this time.
- F: No, but I'm wondering what there is - you can assume that there's something in their domestic situation - that it's not theory - there's something in their domestic situation.
- H.M.Jr: Right - and I told Cochran if he had picked up anything which - any gossip which would bear on the economic, to include it in his cable. Well, he said he hadn't picked up much.
- F: All right - now -
- H.M.Jr: And that cable - he'll file that tonight, we'll have it in the morning and then when it comes let's - come over and let's talk it over. See?
- F: All right, and of course he feels completely free - well, he did - on his first trip to Belgium he stopped in and saw the Legation, didn't he?
- H.M.Jr: Oh, he was phoning me from there.
- F: Yes, so he feels completely free to consult those fellows.
- H.M.Jr: Oh, he was phoning from there.

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F: All right, let's wait and see what we get, and -

H.M.Jr: And then we'll get the Swiss. But - but I - I - but he - I - you evidently feel the way I do.

F: I just - I just don't see what's on the other side.

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

F: I don't know that it's - and if we had time enough to hold the whole thing off and catch a perspective -

H.M.Jr: But we haven't -

F: I don't know that it's absolutely essential that it be a governmental commitment.

H.M.Jr: But we have - they're willing to make the governmental commitment but they want that held secret.

F: I know it. Well - there - I concede that there might be some reason for it, but let them tell us why.

H.M.Jr: Well, he -

F: The one reason they cite, that it'll be a sign of admission of weakness in the Bank -

H.M.Jr: Yes

F: - that's the bunk.

H.M.Jr: Well, I told Cochran to put down the arguments as he has them, received them, and his own arguments.

F: It comes to this, as I see it: When the other three governments signed this thing, they said towards each other responsibly, "We're going to try to keep these currencies stable, even though it's sometimes a little bit difficult for us and we have to risk a little bit of money." That's what they in substance said to each other. Now, Belgium has to accept an obligation of the same type and it's got to rest on the Belgian governmental authorities, not merely on the technical banking authorities -

H.M.Jr: Right.

- 5 -

F: - and it's got to be known as such.

H.M.Jr: I -

F: You don't want any secrets. You want to be in a position at any time to be able to say to Congress or anyone else: "You know everything there is to know."

H.M.Jr: Well, Herbert, if you - you and I are thinking eye-to-eye.

F: All right.

H.M.Jr: And I said there's one thing - I said to Cochran rather than a sign of weakness I consider it a sign of strength because it means that the Belgian Government is back of the Bank of Belgium.

F: I'd interpret it to mean, then, the other thing about - that they realize that if they give us something publicly known as a government commitment, it's a stronger commitment than if it were merely a banking commitment.

H.M.Jr: True.

F: I think they're using the reason in the wrong way. I mean -

H.M.Jr: That they're reversed.

F: That's right.

H.M.Jr: That's right.

F: It strikes me as the reverse, not - not as they put it.

H.M.Jr: Right. Well, I'm - I'm awfully glad that we feel the same, and we'll wait now until tomorrow morning and when the cable comes then we'll get together.

F: Right. Now, the Secretary - I don't believe he's in today, so I can't - I don't want to tell him this over the telephone.

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H.M.Jr: No, n- n- no. Well, it's -
F: I think we'll let it ride until tomorrow.
H.M.Jr: Wait until it comes in the cable; that's time
enough.
F: All right. Right, sir.
H.M.Jr: Thank you.

October 28, 1936
10:20 A.M.

H.M.Jr: Hello.
W.R.
Burgess: Good morning.

H.M.Jr: Hello, Burgess.

B: The market's about a thirty-second off this morning.

H.M.Jr: Uh huh.

B: Two thirty-seconds on one or two things, but not much. The new ones are one hundred and one one.

H.M.Jr: Pardon me.

B: The new ones are one hundred and one one.

H.M.Jr: I see.

B: We're in there at a hundred and one.

H.M.Jr: Yes.

B: Now, I think we ought to follow about the same procedure as yesterday, with perhaps a shade lighter touch, if we can. There was some comment yesterday about our buying.

H.M.Jr: Well - well, what about letting those bonds go below 101?

B: Well, I don't think it's any great disaster. I think we ought to hold it 101 fairly solid for - oh, up to ten million anyway, wouldn't you?

H.M.Jr: At 101.

B: Yes.

H.M.Jr: Be up to ten.

B: Yes.

H.M.Jr: Well, that would satisfy me.

- 2 -

B: Yes, I - I would think that would be about the right way -

H.M.Jr: Yes. I mean if - if we can't hold it at that with ten -

B: Yes

H.M.Jr: - then I - then I wish you'd call me.

B: All right.

H.M.Jr: On a drop of a thirty-second.

B: Yes, yes.

H.M.Jr: Well, that would be - I wouldn't complain on that.

B: No, I think that's about right, if we don't want to "strong-arm" it too much --

H.M.Jr: N- no.

B: - but I think we can do that much.

H.M.Jr: No, that's entirely agreeable.

B: Yes. Now, you were asking again last night about who was doing the selling.

H.M.Jr: Right.

B: It's very hard to find any concentrated selling. The - purchases yesterday were about a third up from dealers -

H.M.Jr: Yes

B: - and about a third up on the Board.

H.M.Jr: Yes

B: And about a third from out-of-town banks.

H.M.Jr: Uh huh.

B: Uh -

- 3 -

H.M.Jr: Well, that sounds all right, Burgess.

B: There was one insurance company selling a little something.

H.M.Jr: Well, that sounds all right.

B: There was a few banks. I think you can get it. The dealers like to load a little.

H.M.Jr: Right.

B: They were a little bit high.

H.M.Jr: Uh huh.

B: But it's - there's nothing very concentrated. Things are quiet this morning.

H.M.Jr: All right, I'll talk to you a little later.

B: First rate.

H.M.Jr: Thank you.

B: I'll call up if anything special happens.

H.M.Jr: Thank you.

B: Very good.

H.M.Jr: Goodbye.

TELEGRAM SENT

October 28, 1936

Noon

AMEMBASSY

MEXICO, D.F.

180

CONFIDENTIAL

Your telegram No. 183, October 23 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

- BY U P- 8.50

THE SOVIET GOVERNMENT LAST NIGHT REVALUED ITS CURRENCY WHICH WAS PEGGED TO THE FRENCH FRANC TO CORRESPOND WITH PARIS RECENT DEVALUATION - THE COUNCIL OF PEOPLES COMMISSARS ISSUED A DECREE FIXING THE VALUE OF THE ROUBLE AT 4 1-4 FRANCS - PREVIOUSLY THE RUSSIAN CURRENCY HAD BEEN PEGGED AT 3 GOLD FRANCS - THIS DECREE CARRIES OUT INTENTION ANNOUNCED AT THE TIME OF FRENCH DEVALUATION

OCT 28 1936
OCT 28 1936

FRENCH BUDGET

10:50

PARIS - IT IS OFFICIALLY CONFIRMED THAT THE 1937 EXPENDITURES ARE DIVIDED INTO ORDINARY AND EXTRAORDINARY THE BUDGETS FOR WHICH HAVE BEEN FORMED IN THE AMOUNT OF ABOUT THE 1936 TOTAL AND ARE ALMOST COVERED BY REVENUE BUT THE LATTER-S TOTAL IS NOT MENTIONED AND IS COVERED BY LOANS OR CREDITS THROUGH THE CENTRAL BANKS

Oct. 28, 1936

ADD FRENCH BUDGET

PARIS - AMONG FISCAL REFORMS PROJECTED IS ABROGATION OF LAVAL-S 10 PC LEVY ON COUPONS OF RENTES AND MUNICIPAL BONDS AND THE SUBSTITUTION FOR TURNOVER TAXES OF A 6 PC TAX LEVIED ONLY IN THE FINAL STAGE OF PRODUCTION BEFORE PRODUCTS REACH THE RETAILER - THIS MEASURE IS EXPECTED TO RAISE 6 000 000 000 FRANCS ANNUALLY EXCEEDING THE YIELD OF THE ACTUAL TURNOVER TAXES

OCT 28 1936

10.15

ADD FRENCH BUDGET

OCT 28 1936

10.20

PARIS - THE WEIGHT OF THE WAR PENSIONS IS REMOVED FROM THE BUDGET BY THE INTRODUCTION OF A SYSTEM WHICH WILL INVOLVE ANNUAL UNIFORM LOANS

WCNS96

MOSCOW.--THE SOVIET GOVERNMENT TONIGHT REVALUED ITS CURRENCY, PEGGED TO THE FRENCH FRANC, TO CORRESPOND WITH FRANCE'S RECENT DEVALUATION.

THE COUNCIL OF PEOPLE'S COMMISSARS ISSUED A DECREE FIXING THE VALUE OF THE ROUBLE AT FOUR AND ONE-QUARTER FRANCS. PREVIOUSLY, RUSSIAN CURRENCY HAD BEEN PEGGED AT THREE GOLD FRANCS.

10/28--E530P.

WCNS98

ADD ROUBLE, MOSCOW

THE ORDER DOES NOT CHANGE THE VALUE OF THE ROUBLE IN OTHER-COUNTRIES, BUT MERELY ADJUSTED THE ROUBLE TO THE CHANGE IN THE VALUE OF THE FRANC.

10/28--E537P.

October 28, 1936

On November 17, Cochran transmitted to the Secretary the original signed letter from Minister of Finance de Man with translation thereof, wherein the Minister confirmed that the Belgian Government would fully guarantee the obligations assumed by the National Bank of Belgium. The letter is dated November 9.

(Filed Stabilization Folder, under date of November 9.)

Minutes of meeting held at the home of Governor Marriner S. Eccles
at 7 o'clock P.M., October 28, 1936.

Present:

Marriner S. Eccles, Chairman, Board of Governors of
the Federal Reserve System.
Wayne C. Taylor, Assistant Secretary of the Treasury.
Ernest G. Draper, Assistant Secretary, Department of
Commerce.
Isador Lubin, Commissioner of Labor Statistics, Depart-
ment of Labor.
Otto T. Mallery, retired business man and student of
stabilization of industry and of public recreation.
E. A. Goldenweiser, Director, Division of Research and
Statistics, Board of Governors of the Federal Reserve
System.
Lauchlin Currie, Assistant Director of the Division of
Research and Statistics, Board of Governors of the
Federal Reserve System.
George C. Haas, Director of Research and Statistics,
Office of the Secretary of the Treasury.

Mr. Lubin opened the main discussion of the evening by saying
it was the belief of some economists that the present upturn of
the business cycle will have worked itself out by 1940, and that
we would then be faced with another depression. Mr. Lubin said
he thought it highly desirable that we begin immediately to work
out plans and procedure to have in readiness to use at the proper
time to prevent another crisis.

Mr. Eccles said he had given considerable thought to this
situation as he felt that the capitalistic system if it were to
survive would have to show a better record of performance. He
said he felt that the people would demand a change in some direc-
tion if the system did not so function so as not to have large

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numbers unemployed over long periods of time. The big fundamental waste, the national waste, as he saw it, is not in what people are calling waste, but the national loss which occurs when people are unemployed and are not producing and consuming goods.

He put out for consideration a proposal which would involve legislation setting up a board to be called the Employment Stabilization Board. This Board, as he visualized it, should be composed of men selected because of their professional capacities entirely dissociated from politics. In this way the Board, he felt, would continue from one administration to another. The main function of this Board would be to work out plans and procedure for public works or other expenditures which he thought at times would be necessary to maintain business stability. This Board would serve in a purely advisory capacity to the President, the actual operations entailed in the expenditures to be carried on by the various operating agencies.

The Board, as he pointed out, would proceed immediately to make a survey covering the whole of the United States to determine where public works, and the type of public projects which would serve the most useful purpose, could be initiated, and carry this survey out in great detail, including for example the credit position of the local governments, etcetera. The Board would then be in a

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position to recommend to the President that he ask for an appropriation of a certain amount and at the same time be in a position to tell him just how this money could be expended most effectively to maintain business stability.

He further pointed out that this would be a great improvement over the present situation in which each of the agencies have primarily only one thought in mind and that is to secure more funds for their particular activity. There is practically no correlation to fit the parts into a whole toward a certain objective. He pointed out further that this would be of great assistance to the Treasury Department and to the Budget Bureau which now has a continual struggle with the many agencies to keep them from overexpanding. He indicated that under the present set-up it would be natural for Mr. Ickes to be interested in expanding the public works in which he is engaged and that other people would want to expand the Resettlement Administration, etcetera.

Mr. Eccles said that the public more or less looked to the Federal Reserve Board to maintain business stability, and that he was convinced the Reserve Board did not have adequate power to do this. He said he was fearful that if it attempted to check a business boom it might initiate deflation, and that without some definite organization whose specific function was to recommend the spending of money to increase purchasing power, we might find ourselves

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in a difficult situation. He seemed to feel very strongly with regard to this, and indicated that he would not want to be around when the checks to a boom were applied unless provision had been made for a carefully planned procedure to govern expenditures to counteract in its early stages any deflation which might follow.

My impression of the discussion which followed was that the general principles underlying the idea were good and acceptable, but there was considerable skepticism regarding the type of machinery which could effectively carry out the general plan. The difficulties of handling this matter with congress, and other difficulties which arise in any form of democracy, were emphasized.

A handwritten signature in cursive script, likely reading "George H. ...", is written on the left side of the page.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 28, 1936, 10 p.m.

NO.: 1061

STRICTLY CONFIDENTIAL.

FROM COCHRAN FOR THE SECRETARY OF THE TREASURY.

I had a telephone call from you on Monday afternoon (Oct. 26) at 4:30 with regard to (1) the draft of a declaration by the monetary authorities of Switzerland - see my telegram No. 1021 of October 20 - and (2) the declaration of the monetary authorities of Belgium signed October 17 by the Belgian Minister of Finance representing the Government of Belgium and by the Governor of the National Bank of Belgium, which I incorporated in my telegram of October 18, No. 1018. At that time you told me that the Swiss statement was satisfactory to you, and if the Swiss authorities definitely gave their approval to the draft you would accept it. The question was expected to be determined by the Swiss authorities on Tuesday.

The Belgian statement, you said, was not satisfactory to you, since the Belgian arrangement involved arrangements with the Central Bank rather than with the Treasury. I mentioned that the Minister of Finance had signed the document in addition to the Governor of the National Bank of Belgium. I had furthermore made a

personal call on the Prime Minister of Belgium and he

gave

- 2 -

gave me his oral approval of the document in question.

You said that you could do business with treasuries only, and asked me to go to Brussels on Monday evening to get an arrangement with the Treasury of Belgium. It was too late, I said, to telephone Brussels for appointment and get the train which left at 6:10. I said however, that I would at once telephone to Brussels and ask for appointments for Wednesday, and if my contacts would be in Brussels I would leave Paris on Tuesday evening.

I believed that the Belgian declaration constituted an accurate exposition of the situation in Belgium, and of the willingness of the competent authorities to cede gold to the United States on a reciprocal basis. Then you said that a week was spent by your staff of experts in going over the document and it was found unacceptable by them; I asked whether the experts in that time had arrived at any idea as to what would constitute an acceptable arrangement. In answer you said that the arrangement must be between Treasuries, but that you would cable me if you found your experts had any ideas as to how the agreement should be worked out. No instructions with regard thereto had been received when I left Paris last night. I received a telephone message at nine o'clock this morning (Wednesday) in Brussels from the Paris Embassy code clerk
stating

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stating that nothing for me had been received.

I saw Franck and Baudewyns, Governor and Secretary, respectively, of the National Bank of Belgium at 9:30 this morning, and indicated your wishes as to the document. The Governor, who before he became a central banker was a distinguished lawyer, contended that the declaration of the seventeenth of October accurately portrayed the situation which permitted the assurance to be given you over the

END SECTIONS ONE AND TWO.

BULLITT.

EA:LWW

Paraphrase of Sections three and four of telegram No. 1061 of October 28, 1936, from the American Embassy, Paris.

signatures of the Minister of Finance and of him that they could and would concur in your gold arrangement. The Governor reminded me that gold which would be ceded to you would come not from the Treasury but from his Bank. The Government of Belgium itself owns no stock in the National Bank of Belgium, and under the statutes of the Central Bank it is authorized to make gold deals. In their country the obligation to buy gold at a stated price does not devolve on the state itself. Under the law the National Bank of Belgium is charged with redeeming its notes in gold or if it chooses in exchange. This choice rests in the bank alone; therefore, exercising this choice the Bank had pledged its willingness to cede gold to you reciprocally.

During my conversation with Governor Franck, he recalled that Belgium has already passed through the stabilization fund stage, that it is now on the gold standard definitely, and has been losing gold to New York very recently. They ^{Do Not} intend to reestablish a stabilization fund, which they considered merely a temporary and transitory organization. The Belgians furthermore do not want to take any action which might conceivably give the public the impression that there is the least bit uncertainty regarding the stability of the belga, or that the Government is making an attempt to contravene the

- 2 -

the laws and practices which fix the relations between the Central Bank and the Government.

I realized that it was not likely there would be a change made in the basic Belgian monetary set-up as given in the October 17 declaration. Therefore I sought some sort of additional statement by the Minister of Finance which might make matters satisfactory.

Toward this end the text of a letter was drafted, and the provisional approval of the Minister of Finance, Deman, was obtained for it. However it was requested that I find out from you, before asking Deman to sign, whether your requirements would be met by the draft.

Then I went to the American Embassy in Brussels where I explained the situation fully to Ambassador Morris, and put in a call to talk with you at 2:30 in the afternoon. I read to you over the telephone the English translation of the French text of the letter, which I quote below:

"With reference to the declaration of October 17, 1936, I have the honor to confirm to you that the Belgian Government fully guarantees with regard to the Government of the United States the obligations assumed in this declaration by the National Bank of Belgium which is moreover as you know the fiscal agent of the state.

It is understood that this declaration shall not be made ^{public} (possible) without the common consent of the two governments."

At

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At the time I talked to you, you could not give me an immediate answer as to whether the question would be acceptably solved by the above letter, and you asked me to cable the text together with any comments I had to make. Therefore the draft letter was not submitted to Minister Deman for signature at a 4 o'clock appointment made for the purpose of doing so.

Before I took the 4:11 train for Paris I had a final talk with Governor Franck. It was understood that if you desired that the letter be completed I would communicate further with Brussels. The Belgian authorities are agreeable that this letter be addressed to you and be sent to me for transmission to you; this procedure was approved by Ambassador Morris.

END SECTIONS THREE AND FOUR.

BULLITT.

EA:LWW

Paraphrase of Section five of No. 1061 of October 28, 1936, from the American Embassy, Paris.

During the telephone conversation you took exception to the second paragraph of the draft letter, saying that you did not want any secret arrangements regarding international gold dealings, and that you wanted liberty to make public anything done along this line.

In the telegram in which I reported the Swiss draft - No. 1021 of October 20 - I mentioned that the Swiss officials requested that the contents of their declaration be kept in strict confidence and be not published since reference to internal instructions is contained therein, as well as to the fixing of the purchase and sale prices for gold and to the exact nature of the resources of the exchange equalization fund which the public does not know. The Minister of Finance of Belgium insists that if the letter drafted today is sent to you it should be held in strict confidence. The Belgian officials believe, furthermore, that no publicity should be given their original declaration of the seventeenth of October. The Belgian officials understand that, under the terms of your October 12 statement, the names of such countries as may become eligible to enjoy your gold facilities will be publicly announced. It is the opinion of the Swiss and Belgian monetary authorities, however, that this fact should not require or involve your making public declarations or letters which contain information that their respective

publics

- 2 -

publics do not have. I feel that, as a faithful friend but cruel critic, I should let you know that the facetious remark is already circulating over here that one stabilization fund is working for publicity and four for profit.

You said in our conversation that we simply could not do business with the Belgians if they could not meet our requirements. I respectfully submit that if we are honestly working for stability in currencies, it would be unfair to penalize Belgium simply because the laws of Belgium, which itself is solidly on the gold standard and following

END SECTION FIVE.

BULLITT.

EA:LWW

PARAPHRASE of Section six of telegram No. 1061 of October 28, 1936, from Paris.

the rules thereof do not have provision for the actual existence of a treasury-controlled stabilization or equalization fund in the narrow sense prescribed in your October 12 statement. Should this basis of procedure be followed, what would become of our arrangements with France, Switzerland and perhaps other countries when they return to fixed gold parities after terminating their stabilization funds? Is it likely that, if we cannot accept the arrangement of Belgium, we will be able to make reciprocal gold arrangements with countries with independent central banks but no stabilization funds, no matter how stable their currencies may be or how generously and faithfully they are shipping gold to the United States when they reach their gold export points?

If, in the light of the explanation above, the original October 17 statement by the Belgians is not acceptable, I recommend that I be authorized to ask that they complete the draft letter. Should you however wish a more formal arrangement and one beyond that which I have been able to achieve - involving negotiations through the Belgian Minister of Foreign Affairs - this presumably would have to be carried out under the Department of State's specific instructions and through its accredited diplomatic officers in the country concerned in the matter.

After

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After my talk with you I discussed the Belgian problem with Ambassador Morris. I do not presume to quote Ambassador Morris (and he has not seen this telegram) but I gained the very definite impression that he thought I had not only gotten out of the Belgians everything to which I was entitled, but even more than that.

I talked with various Belgian officials at a directors' luncheon given at the National Bank of Belgium. These included the Governor-General of the Treasury, the Minister of Agriculture, the Governor of the Belgian Congo, the Dutch Minister to Belgium, and so on. I obtained no unfavorable impressions deprecating the Belgian outlook from these officials nor from Ambassador Morris.

END SECTION SIX.

END MESSAGE.

BULLITT.

EA:LWW

October 29, 1938

At 9:15 this morning the Secretary talked with Mr. Oliphant and Mr. McReynolds about Assistant General Counsel Harlan. Mr. Oliphant had informed the Secretary that Mr. Harlan had notified him of his intention to resign in February, next year, to enter private practice of the law in Washington in conjunction with Mr. Alvord, who already has an established practice.

Mr. Morgenthau recounted the fact that it seemed a coincidence that Mr. Harlan had decided to resign the next day after McReynolds had objected to Harlan's designation as a member of a committee to consider the report of an investigation recently made by Secret Service involving the Chief Clerk of the Department, and immediately following the disclosure that Mr. Morton was cognizant of an official investigation which is being conducted concerning Morton's conduct.

Mr. Oliphant stated that he has no reservations whatever with respect to Harlan's loyalty and integrity and that he does not attach any significance to the time when Harlan announced his intention to resign.

The Secretary told Mr. Oliphant that he felt if Harlan definitely decides to resign he should arrange to sever his connection with the Treasury on December 1, rather than waiting until February. Such leave as he was entitled to can be taken after that date, but the last day on which he has access to official matters in the Department should be November 30. The Secretary expressed the feeling that Harlan should not be permitted to remain, for a period of three months after his decision to resign, in a position where he could take advantage of official information which would be available to him as Assistant General Counsel. Mr. Oliphant stated he would carry out the Secretary's wishes in this matter.

Mr. Irely was then called into the conference. The Secretary inquired the status of the Morton investigation. Irely recounted the fact that last Monday, October 26, Morton came to him with the information

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that he had discovered that he was under investigation through inquiries made concerning his purchase of a Packard automobile.

Morton stated he hoped that this investigation would be handled discreetly so as not to interfere with negotiations he is carrying on looking to a contract for employment at a liberal salary by an outside firm.

Irey stated that, so far, no criminal acts by Morton had been disclosed by the investigation and that while he is still studying the information so far obtained in the Morton investigation, it is his opinion tentatively that Morton's resignation should be accepted. He promised a definite recommendation later, after further study of his records.

The Secretary told Mr. Oliphant that he felt Morton should not be permitted access to his office after Saturday of this week; that arrangements could be made that he could take leave so that no reflection on him would result, but in any event he should not have access to official records after Saturday.

The Secretary also directed Irey to prepare a full statement concerning the Morton case and bring it to his office at 11 o'clock tomorrow, at which time he would again confer with him and Oliphant and McReynolds.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 29, 1936.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnoteBANK OF FRANCE.

Mr. Cariguel called at 11 o'clock today to explain why he recently purchased dollars (which he needed) in the London market and did not use his gold here. His dollar requirements were due, it appears, not only to current transactions but also to a dollar debt he owed to Belgium. He was very anxious to save the gold which he had in New York for a rainy day, as he put it, when he ~~would~~^{might} not be able to buy dollars in Europe. In order to provide for such remote eventuality, he wanted to keep some gold in New York and had, therefore, asked the Bank of England to buy dollars for him in the London market. I inquired what the next step in their operations would be but he said he didn't know; their present desire was to keep the market stable as far as possible.

We discussed market conditions briefly; Cariguel remarked he hoped we did not mind his sending us orders. I told him, "No." I added that this of course did not give us an opportunity to operate in francs under the recent agreement, but that that was a bridge which we would cross when we got there.

LWK:KME

October 29, 1936
11:05 A.M.

Present: Mrs. Klotz
Mr. Taylor
Mr. Upham
Mr. Lochhead
Dr. Herbert Feis
Mr. Haas
Dr. Goldenweiser
Professor Williams
Mr. Gaston
Mr. Oliphant

H.M.Jr: We are a little bit at a disadvantage because the State Department only goes to work at 10 o'clock in the morning.

Now, I don't know whether it's all in here or not, but is it - will it come over?

Feis: I brought it.

H.M.Jr: Oh, you've got it. Well, may I read from that, or would you want to read it?

Feis: No, no.

H.M.Jr: Oh, you've got it. (Laughter) Honestly, these State Department people -

Feis: No, sir, that just came one minute before I came, just got these two copies, knowing that you only had a part of it - messenger just came with it.

H.M.Jr: Well, let me read it. Maybe it's all here, but it's a sort of disadvantage -

Feis: It's all here now.

Oliphant: May I ask has there been any interchange prior to this that all of us don't know about?

H.M.Jr: All right. I called up a few days ago on the

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phone - Monday - and told Mr. Cochran to go over to Brussels, because after meeting here with my own people I decided that it was not entirely clear that we were doing business with the Belgian Government and that the Belgian Government were the principals; and therefore, I asked him to go over and explain to the Belgian Government that the American Government's policy in the future is to only have relations in connection with reciprocal exchange of gold with governments and not with their central banks, and that this arrangement with Belgium would have to be done through diplomatic governmental channels, and that those of us here did not feel that the arrangement they offered was - was governmental - that it really was an arrangement with the Central Bank, and that he should go over there and try to explain that, make that arrangement.

I furthermore told him that, as I understood it, the arrangement with the Swiss was satisfactory because the Swiss government was going through with that. And I gave - asked him to go, and he went and he called me yesterday on the phone. We had a long discussion and Cochran felt that he had a satisfactory arrangement, which was a note addressed by the Secretary of the Treasury of Belgium to Cochran personally, telling him that they guaranteed whatever the Bank of Belgium did, and another paragraph in which it said this thing must be kept secret.

Well, I felt that was entirely unsatisfactory, wasn't what we wanted, and I told him he should put it all in a cable and then we'd look at it. But - I mean I can't take a note of the Secretary of the Treasury or Minister of Finance, whatever they call him, of Belgium to Cochran, and with a footnote - "This is secret." And I called - we checked here - and my own crowd agreed with me, and I called up Dr. Feis and what account I gave him over the phone - from what I told him over the phone he agreed with me. I told Cochran to go back and - Well, this is still warm, it still kind of burns a little bit.

So, with that introduction, Mr. Oliphant -

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Oliphant: Thank you. I've been out of touch for a day or two.

H.M.Jr: I appreciate your question, Mr. Bones. As interlocutor, I try to -

Oliphant: Well, I'm at the end. I'm the end man and Wayne's the other end man.

H.M.Jr: He looks more like a center to me. He may have played end twenty years ago, but -

(Hearty laughter)

All right. "Strictly confidential, for the Secretary of Treasury and guests - - -"

(Secretary reads cable from Cochran)

He's an excellent reporter on these things, Herbert. I mean he gets these things.

Feis: There's one point in this cable, as far as I could glance through it, that might for a moment lead you to believe that he reported something he shouldn't have. I think so.

(Secretary continues reading)

Feis: Complete damn fool. Nothing to be said at all for cabling that across the Atlantic. (About an uncomplimentary reference)

Oliphant: I'd rather know it than not know it.

Haas: He's trying to be helpful.

Oliphant: Trying to let him see everything.

Feis: No. You mean if you cable you are passing the wisecrack of some minor Central Bank official across the Atlantic.

Oliphant: That isn't what he said.

Feis: "Is already circulating." Circulating where? And

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what of it? What's your purpose? No, no.

H.M.Jr: What does he mean by four stabilization funds?
Only three.

Taylor: Switzerland.

(Secretary concludes
reading of cable)

Oliphant: Well, there's one distinction obviously that Cochran didn't get, and apparently Mr. Franck didn't - maybe he did, maybe he's a better lawyer than I think he is - and that is the distinction between the - that is, the phrase "doing business with the Belgian Government" is ambiguous. It means two things. Doing business with the Belgian Government for the purpose, or in the process, of setting up this arrangement is one meaning. The other is doing business from day to day with the Belgian Government.

Now, apparently Cochran is merely talking about these documents as being sufficient as constituting doing business with the Belgian Government for the purpose of setting up the arrangement. He doesn't at all see the problem that you want - that if you are going to operate as the United States Treasury from day to day, you want to be operating with the Treasury and not with the Central Bank.

H.M.Jr: What part did you say where he wasn't such a good reporter when I first began (to Feis)?

Feis: I had one particular passage in mind but not in connection with reporter. I have the one that you stopped at, about this remark about the four stabilization funds and the one stabilization fund. It is from an obscure source, unless the transmitter believes that by that wisecrack he is illuminating something that's escaped observation over here and, as I don't believe that wisecrack does, I don't think it should be in there. But I think it would be a mistake to assign any importance to that. Every human being - occasionally his tongue slips.

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Behind that, I want to say, first, that I don't feel I have had time enough really systematically to think over this problem. But that reservation - I get the sense that his conduct of the discussions on this matter hasn't been a clear distinction between the nature of the things that you feel required to make of public knowledge and the nature of the things that you would be perfectly willing to keep confidential.

Now, in our arrangements with Great Britain and France we have not yet - even until this day, as I understand it, have no intention of revealing a considerable amount of technical detail.

Oliphant: Day to day operations.

Feis: Yes, the technical details. But that the arrangement is one for the reciprocal exchange of gold on certain broad principles made public and resting upon a distinctly governmental commitment that we have made public. And that, I feel, is an essential of every arrangement and that, I also feel, is something that the Belgian Government would consent to if this thing became more clarified.

That is why, despite the appearance of grave difficulty on this situation, unless I am mistaken, this thing can be worked out.

H.M.Jr: Well, I think that Cochran is so intelligent - I think he's willfully mixed up this question of what we want here on publicity and what we don't. Now, he knows perfectly well that we don't announce what the price of gold is, what we will buy at, between France and England each day. And this information given us by Switzerland - we have no intention of giving it out. We have never announced what our arrangements are with China. But the fact - what the Belgians don't want to say - and that is the crux of the whole thing - is that this is an arrangement with the Belgian Treasury.

Taylor: I don't think it's clear. That is, I remember yesterday, whenever it was when we talked about it before, I got the same impression that Herbert Feis did.

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- H.M.Jr: What?
- Taylor: That what it was that they didn't wish made public were the details of this arrangement - that they were perfectly willing to indicate that the Belgian Government and the Belgian Treasury were cooperating with - and so on.
- Oliphant: No, no.
- H.M.Jr: They don't want to make public that the Treasury is guaranteeing the operations of the Central Bank. He says if it becomes known that the Belgian Government is guaranteeing a contract of the Bank of France - Bank of Belgium, that that is a sign of weakness on the part of the Bank of Belgium, and what they don't want known is that this is between governments.
- Haas: And another thing, Mr. Secretary, I think is clearly indicated there - that Cochran doesn't understand your problem with regard to publicity, that in developing monetary exchanges in a monetary system you are doing very well to keep the stabilization fund secrets, without keeping any of the other things; you have to feed that to the public. And I don't think he understands your problem. I think he tried to be helpful in making that comment, but, more important, it indicates he may not understand.
- H.M.Jr: Well, he may not understand some of the other. This is a democracy and we don't have dictators over here, and we have a public; and, with the exception of England it is the only press in the world here, the United States, that can write anything that it wants to, can say anything it wants to. And it makes England - even in England they can't print anything they want to that is derogatory to the King. And it is an entirely different problem. As a matter of fact, I have seen the criticism in English papers that why don't the English people tell their people as much as they do here. It is the other way around.
- Feis: You possibly have the problem of making it clear anew to Cochran as to way on certain aspects of

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this thing public knowledge is essential.

Then I think - I don't know, I can't tell from Cochran's report to what extent he carried through the discussion on the points the Belgians had in mind, which, as far as they arise from Governor Franck's summary, are:

First, they are finished with the stabilization fund, which - I suppose we can imply that in itself is no obstacle.

Secondly, that they do not desire to take any action which might conceivably give the impression to the public of instability of the belga - that it is the least bit in question. I should think it would be very easy to indicate to him that an arrangement between the two governments on the reciprocal exchange of gold would in no way give that impression. I mean it is perverse to hold the idea that it might.

And thirdly, that the government is seeking to contravene the laws and practices which fix the relations between the government and Central Bank. Well, that means that either under their laws the government has the authority to see that this arrangement with the American Treasury is carried out, or it hasn't. If it has, it can say so, and it says it without contravening any laws and practices; and if it hasn't, we don't want the agreement. I mean that is about the thing.

And those things, I think, are some of the things that might be spelled out to assist Cochran.

Lochhead: That's what I think.

Seis: He might be genuinely confused.

Oliphant: I have an impression - this day's discussion we had in there in watching it - we kept slipping back into this confusion that I am talking about a little bit ago, and I have the impression that Cochran, whatever else may be wrong with him, is a victim of that confusion, and I'd like now just

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to stop and clarify my own mind by asking you. There's two separate things.

I understand that your position is that in negotiations and in the process of setting up this arrangement, you want to do business with the Belgian Government as principal.

H.M.Jr: That's right.

Oliphant: Now that's clear.

Now, it's been set up that way and we move forward ten days, two weeks, and now, in those day to day operations two weeks from now, is it your position that you want to do business with the Belgian Government as principal?

H.M.Jr: I don't get the question.

Oliphant: After the thing is set up and you're operating - of course, you'd be operating through a fiscal agent over there and over here - but do you, as Secretary of the Treasury, in buying and selling gold, want to be buying and selling to and from the Belgian Government as the principal?

H.M.Jr: No. By that time we'd be doing business with the Bank of Belgium.

Oliphant: Well, they will be the fiscal agent, just as Harrison's bank is your fiscal agent. Now, Harrison is buying and selling your gold; you are the principal and he is the agent.

H.M.Jr: But the things aren't comparable.

Oliphant: But they say the -

H.M.Jr: The gold belongs to the Bank of Belgium and not the Government.

Oliphant: But the law is over there - by simply walking across the street and having the King sign an executive order the Secretary of the Treasury can be authorized to buy and sell gold, just as you are doing through Harrison.

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- H.M.Jr: But he hasn't got any gold in Belgium. The gold doesn't belong to the Treasury.
- Olipphant: But you can acquire the gold, just in the same way that you did.
- H.M.Jr: But they won't go through those motions. I mean the title to the gold, as I get it, belongs to the Bank of Belgium and does not belong to the Treasury.
- Olipphant: Until they buy it.
- H.M.Jr: But I wouldn't make - be so bold as to suggest to them that, in order to do business with us, the Government of Belgium take over their gold.

I can answer your question this way. What I am trying to do is to make a pattern which will fit the Belgian situation and at the same time fit ours. Now, what I want is an arrangement through our State Department and their Foreign Office to their Treasury in which we enter an agreement as to how and when, under what circumstances, we will exchange gold. I want it a formal agreement between governments.

Now, in our case I designate the Federal Reserve of New York to act as my agent. In their case the government will say, "Not only is the Bank of Belgium our fiscal agent but they actually have in possession the gold," so that the transactions between the Treasury of the United States, their fiscal agent, will be with the Bank of Belgium. But - which is all right and that is what I want known publicly. And that is what I want known.

But if we decide any day that we don't want to continue with it, we will notify the Belgian Government and break relations on this thing with the Belgian Government and not with the Bank of Belgium.

Now, that is the way I see it. I mean I would call up the State Department and say, "Please prepare a cable for me notifying the Belgian Government that as of tonight we have discontinued this

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arrangement." Now, isn't that about the thing?

Now, as to the publicity - at what point we will sell gold or how we will sell gold, anything else - that won't be any more made public than will our arrangements with England or France. But the fact that we have an arrangement with the government - I want to have that known publicly and I won't enter into anything unless we do.

Now, what do you think about my position (to Feis)?

Feis: Only in agreement. I would strengthen its logic by recalling that right after our simultaneous declaration - the next day the Belgian Charge was in here with a statement from his government, if you remember, supporting the same principles and going in the same direction. What we are doing now could be presented as just the logical development of that move.

As to whether we want it to go through the State Department, that is a matter for your determination.

H.M.Jr: But I meant this. After all, we've got a pattern and I want to stick to it. I do not and will not do business as Secretary of the Treasury with the Bank of Belgium.

Feis: You're right.

Oliphant: That's the reason I want to ask you another question. I think there is an ambiguity in it still and I'd like to point it out and be sure about it. In your dealings with the other countries, France and England, any transaction that Archie enters is a contract between two sovereigns and they are the parties to the contract.

Now, as you just outlined it, if ten days from now we entered into a transaction in the Belgian case, one party to that contract would be the United States Government and the other party to the contract would be a privately owned bank operated for profit in Belgium.

H.M.Jr: No.

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Oliphant: Well, the way you state it that's true.

H.M.Jr: Well, no; that is, the way I stated it our contract is with, our arrangements are with the Belgian Bank, and when it comes to breaking the contract you notify the Belgian Government. Now, if the Belgian Government considers it wise to designate and give the necessary authority to carry out this transaction in its behalf to the Bank of Belgium, I say that is Belgium's business.

Oliphant: And now you are saying that from - in the day to day transactions you want the Belgian Government as the principal.

Upham: Guaranteed.

Haas: Guaranteed.

Feis: Mr. Secretary, may I say as far as I have been able to understand Herman Oliphant's reason, I think the two statements you made appear to be somewhat in contradiction. The distinction that I thought might be created is another distinction. The responsibility for the arrangement would lie between the two governments. Legal questions surrounding any particular transaction might run to the Bank of Belgium as an entity rather than -

Oliphant: As principal.

Feis: - than to the Government of Belgium. That would have been the set-up according to your first summary as I understood it. The terms of this agreement between the two governments would be decided by the two governments, would be a governmental undertaking. The termination of the agreement would be something to be decided between the two governments. But, because apparently of the nature of the relationship between the Bank of Belgium and the Belgian Government, the legal responsibility on specific transactions would run towards that other entity, unless there was a change in their laws or statutes or regulations. Isn't that -

Oliphant: That is - that is, that the day to day contracts

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entered into would be contracts between the United States Government, on the one hand, and the privately owned Central Bank on the other; so that, for example, if something went wrong in a particular contract (I have to think of this as a lawyer) - a ship is sunk or somebody forgot to effectuate insurance, or something of that sort - I won't take time to work out what would be a practical case, but some such cases can arise; that is what happens always and likely to happen now, - and that thing had to go to arbitration, the parties to that would not be the Belgian Government and the United States Government, but it would be the United States Government and the Central Bank of Belgium, under the arrangement as you just outlined it (to Feis), unless you say that the principal in the day to day transactions, as well as the principal in setting up the arrangement, is to be the Belgian Government.

H.M.Jr: Now, may I make a suggestion about this. What I suggest is this: Let's set it up both ways, because evidently there's two ways that this thing can be set up from a legal standpoint.

Haas: Isn't there a third?

H.M.Jr: Is there?

Haas: I thought of this one - that the principal might be the Bank of France and the United States.

H.M.Jr: Bank of France?

Haas: I mean the Bank of Belgium and the United States Government. But, as the Minister of Finance over there said, he would guarantee that. That makes it just like you have a note, with the Bank of Belgium guaranteed by the government. They endorse the note. If he can do that legally and if you can make it public if you wanted to, you see, that makes a third way.

H.M.Jr: Well, I think the thing to do is to draw it up. If there are three ways, let's draw it up three ways and have them all, and then decide which is

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of the - first, our own advantage, and then which looks best from both sides - huh? - and would it be workable from the Belgian side, could they do it.

Williams: I'd like to make a suggestion, partly to clear my own mind. It seems to me that what the Belgians are trying to say through Cochran is that they have returned to the gold standard pretty much without change from the way they had it before, and that means to them that the Bank of Belgium gives up gold, not only to us but to other countries, at a fixed price, and buys gold at a fixed price, and they are asking us whether that is acceptable to us. And we are suggesting that the authority is insufficient. They feel it is an internal question with them; they feel that is the way they want to operate the gold standard.

Now, if there is any guarantee of gold - it's like the question we were debating prior to '32-'33 whether we should have guaranteed deposits, deposits guaranteed in gold, and our old answer used to be "We are on the gold standard and that's the guarantee." That's our conception of a guarantee, and the Belgians are replying in the same way. They say that any guarantee by the government, whether public or secret, would be unnecessary in their view, and it would lead the public to feel that there must be something the matter with the Bank of Belgium and it would be impossible to explain that, the Belgian tradition being what it is - impossible to explain that to them.

So they are offering us the gold standard as it was and as it is, and asking us if we can fit that into our pattern.

Now, I should think we can fit it in if we would be content with an exchange of views by diplomatic correspondence in which they express sufficient understanding. Now, they have already shown their accord with the statement of September 25 and their desire to enter into reciprocal gold dealings, do you see? - then adding that Belgium has returned

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to the gold standard and is willing to give up gold and buy and sell gold at a fixed price. And the only publicity that would be involved would be, perhaps, none on their side, since they feel that they have covered it all by returning to the gold standard and no special arrangement with anybody is necessary, and on our side the statement that we are now undertaking to sell gold to Belgium and buy gold from Belgium and a modification of our statement of October 13 to include "and fiscal agencies" - and something like that, showing that this involves this much modification of our statement. And no further publicity would be necessary except the simple announcement that we were dealing with Belgium and that one change in the formal statement. And the governmental agreement would be, whether they handled it through the Treasury or otherwise - would be an exchange of views on the statement of September 25, that they were in accord with it and wanted to adhere to it; that would be the nature of the agreement.

I think I see their point of view that in making an arrangement for reciprocal gold dealings they don't see what they can do; they are on the gold standard as they have always conceived it; they simply returned to that.

H.M.Jr: Then they are the only country in the world on such a standard.

Oliphant: That's all right; I think I can make it clear.

Williams: That's true, and the question is whether we feel that we ought to change their whole conception of it to fit into our pattern or whether we can take their pattern and fit it into ours, the difference being that over here we would have to have this diplomatic understanding that we were all in accord on the September 25 statement and that we would have to announce to our public that we were dealing with Belgium in gold, and then change, insert a couple of words in the October 13 statement, see? - "and fiscal agencies."

Oliphant: To match the pattern that they are putting up to

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you and asking you to fit into your pattern - to match it perfectly, what you would do, you would sell the Federal Reserve Bank of New York a supply of gold and then you would license the Federal Reserve Bank of New York to sell its gold to the Central Bank of Belgium, and transfer the operations from this room up into New York. That is in substance what they are putting up to you.

Williams: I agree with you except that it seems to me a matter of your choosing whether you will deal with the Central Bank; that is clearly involved, in my conception of it - that the general arrangement is with the Belgian Government but the gold dealings are between you as principal and the Bank of Belgium as principal.

Now, if you dissent from that I don't see how you can deal with Belgium at all, unless they will consent to change their arrangements from the ground up and to make over their whole system. Now, if you don't want to do that and want to deal with Belgium on their terms - but under your declaration of September 25 I think it could be done. It simply depends on whether you are willing to deal with a foreign central bank.

H.M.Jr: Have you got any ideas (to Goldenweiser)?

Goldenweiser:

I don't know that I have anything new to add to what's been said; I've been thinking about it. The question is simply one of buying and selling gold, is it not, Mr. Secretary, and buying and selling gold which on their side is at a fixed price. I can see no reason why - myself - why you couldn't agree with that Central Bank of Belgium to buy and sell gold with them - a reciprocal gold treaty and agreement - so long as you obtain a very clearcut arrangement with the Treasury about making the arrangements, and that you cancel it through the government. To have the government as a principal is, as Mr. Williams said - is apparently an impossibility under the Belgian set-up. Whether the government could guarantee it or not under their set-up, I

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don't know for sure.

H.M.Jr: But - pardon me - they have offered, the government has offered to guarantee it, but that is what they want to keep secret. Yes, they can offer to - they can guarantee, but they don't want to make it public.

Oliphant: I'd like to explore the reasons for that secrecy.

H.M.Jr: But they have offered to guarantee it, but they want to keep it secret.

Goldenweiser: That is - it seems to me - the way it looks to me, Mr. Secretary, is that your decision rests on whether or not you are willing to deal with them without a guarantee, because it is clear to me that you don't want to accept their guarantee unless you can make it public. They don't want to make it public and I should think that that would be decisive; I mean you'd accept it that they don't want to make it public. Your question is whether or not you are willing to deal with them without a guarantee. That's about the way it sizes up.

H.M.Jr: Well, I don't quite get that. I mean I agree with you that the interpretation we are giving of it should - they are willing to give a guarantee, but -

Golden.: As I get it, what they are not willing to do is to make that guarantee public.

H.M.Jr: Exactly.

Golden.: Well, you might explore that further, I suppose - whether they are willing to make it public.

H.M.Jr: Supposing I said to them - I put in a call early this morning for Cochran at 12 o'clock, to ask him whether they object to making public the fact that the Belgian Government is guaranteeing the Bank of Belgium - whether that is what they object to or whether they object to the daily working of the fund. Now, we went all through that

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with England and everything else.

Golden.: If they are willing to make their guarantee public, then it is acceptable to you, is it not?

H.M.Jr: Well, then I'd have to satisfy the legal. But from my standpoint, unless there is something legally, that would go a long way toward what we want - making public that the Belgian Government is accepting this thing.

Olliphant: That is, you are willing to have day to day operations over there in the hands of the Central Bank crowd, as opposed to being in the hands of the Treasury crowd?

H.M.Jr: Well, I can't - that is, their set-up - I can't tell Belgium how to run their business.

Olliphant: I don't think it is quite that way for this reason - they are coming to you and asking you to do something. Now, you're not trying to tell them what to do.

H.M.Jr: But Herman, I've thought this through and have followed these things long enough; I mean I've been through it with Mexico, went through it with China. Each time each person - they've all got their own systems. The way I feel is that, from our standpoint - I'm not going to say this to Cochran - but that if the Belgian Government would make a note public which would come through the regular channels - what Cochran omits to say is that this note originally was written to him and not to me. But I think that, from our standpoint, that we are doing business with the Belgian Government, because it would have been the Belgian Government that makes the note public. Now, if the Belgian Government wished to let the gold remain with the Bank of Belgium and let the Bank of Belgium do the day to day operations, I say that is their business.

Olliphant: Do the day to day operations as fiscal agent or as principal?

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H.M.Jr: I don't think - that, to me, is unimportant. I don't care.

Golden.: Did they make it perfectly clear that you are dealing with -

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

Golden.: It seems to me that it really comes down to do you want their guarantee or do you simply want the Belgian Government to make it clear -

H.M.Jr: Well, the Belgian Government has offered their guarantee of the Bank of Belgium.

Golden.: But only provided the guarantee is kept secret. Now, that is unacceptable; that is perfectly clear.

H.M.Jr: Yes, and I think everybody is in accord in this room, aren't they, that if we are doing business and the Belgian Government guarantees the Bank, that that guarantee should be made public.

Golden.: I agree with that absolutely.

Williams: I would like the question raised for consideration as to the wisdom of the guarantee, -

Golden.: That's the point I would like to -

Williams: - whether public or secret, because it seems it is not at all in accord with the Belgian idea. I can picture them over there, feeling that they have done everything, they have gone all out - back on the gold standard according to their ideas, and that means that the Bank of Belgium buys and sells gold, has title to the gold; that is their arrangement.

Now, if we ask for a guarantee we are saying "This is unacceptable to us" and that implies a criticism of their pattern. We don't like their pattern for our purposes.

H.M.Jr: Just a minute. May I answer that question?

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Now, I'm not a lawyer, but I can think of a lot of things. Let's say that we buy a million dollars worth of gold from the Bank of Belgium, and they have an upset in Belgium, and the Belgian King sends troops to take over the railroads. See? Which is perfectly possible. He takes over the railroads, and we say, "We bought this million dollars worth of gold from the Bank of Belgium and we'd like it to come through the port." The Belgian Government shrugs their shoulders and says, "We have no control over that; we are terribly sorry."

But we say, "But wait a minute. We have the guarantee of the Government of Belgium that this thing must come through." And then the King says, "Well, we'll put an extra company of troops on and see that it does go through."

There's all the difference in the world. Now when this question comes, they are willing to give us gold in advance and see that their trucks and soldiers saw that it got to the port.

Now, with conditions as they are, to enter into an agreement - why, there's no difference as far as I can see, doing business with the Bank of Belgium and with - I don't know the names of their other private banks. But I want to know that when I buy gold that the Belgian Government is saying to me, "Mr. Secretary, you can have it and it is up to us to see that you get it."

Oliphant: You don't know how the Belgian public, for instance, feels toward the Bank of Belgium. They may have a Father Coughlin over there.

Gaston: I think we're trying to make oil and water mix and I think they won't mix.

H.M.Jr: (On phone) Hello.

Operator: I'll call you back in a second.

Williams: Well, I agree, of course, that there is that risk. You might lose -

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H.M.Jr: Well, I mean I just think of that as an example. Or I mean there might suddenly a lot of gold go out and - - (On phone) Mr. Cochran. Hello, Mr. Cochran.

(Following is the record of the telephone conversation between the Secretary and Mr. Cochran:)

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- Feis: The only observation I've got to make is that I'm not, despite the fact that Cochran reaffirmed that he didn't think the Belgian Government would want to be publicly associated with this government in any way in this move - I am not convinced that that is so.
- Taylor: He didn't reaffirm. He said just the opposite. He said that they would be willing to. The last time, when the question was clarified, he said, "Of course."
- Feis: Well, I didn't get that.
- Oliphant: It's perfectly clear that he's confused.
- H.M.Jr: As soon as it is finished, send over to Dr. Feis the copy, which will be marked for Secretary Hull and Dr. Feis only. See? (To Mrs. Klotz) Extra confidential for Secretary Hull and Dr. Feis. What's the name of the man over in your office?
- Feis: That's all right. He'll see it.
- H.M.Jr: Now, let me just - May I suggest what you do is this, because I run down hill these days pretty fast. Can you people try to get together - in view of this conversation, in view of this cable, and try to put something down for me? Don't you think so? And I'd like to have, - I know the way Oliphant does it; I know what is motivating him. I don't know whether he's right or wrong. But I'd like to have this put down in the form of two or three alternative drafts. Then come in here at three o'clock and let's do it. If I'm not sure, I'll take it home and digest it and we'll do it again. But I'd like to have two or three alternative drafts on this. Is that possible?
- Feis: Mr. Secretary, may I suggest that I think it would be useful if you would give us more time than three o'clock.
- H.M.Jr: Would you like to let it go over to tomorrow?

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Feis: For my part, yes - for my part.

H.M.Jr: Can you stay over tomorrow (to Williams)?

Williams: I have classes tomorrow.

Feis: I'd hope to complete it this afternoon.

H.M.Jr: I'll be available at three and if you can't do it at three we can meet again tomorrow morning at ten, huh? What's the matter (to Lochhead)?

Lochhead: I certainly feel that we have to get down - we're trying to give instructions to Cochran and there is difference of opinion right here. As soon as we can -

H.M.Jr: Now, Dr. Williams has something definite and he can give us his draft. When does your train leave? Eight o'clock?

Williams: Nine.

H.M.Jr: Nine.

Is your boss in town (to Feis)? No speeches?

Feis: He won't be in town unless he's got one.

H.M.Jr: I mean are you free to do this?

Feis: Yes, I'd like to and I don't think that the differences are very great in this group myself.

Williams: I don't really think they are either.

Thursday
October 29, 1936
11:56 a.m.

Operator: I haven't had his voice yet, I'll call you back in a second.

HMJr: Thank you.

Operator: All right.

HMJr: Hello

Operator: Mr. Cochran
H. M.
Cochran: - Mr. Morgenthau

HMJr: Hello, Cochran?

C: Yes

HMJr: We have your cable number 1061.

C: Yes

HMJr: Now, let me clear up one point.

C: All right.

HMJr: This question about giving this note publicity -

C: Yes

HMJr: See whether we understand each other. We feel here that the fact that we have entered into an arrangement with the Belgian Government - that is what we want to give publicity to; not the day to day operations.

C: Yes

HMJr: Now, do they understand that? Or is it the fact that they object to any publicity if there's any arrangement between the Belgian Government and our Government?

C: They object to the idea of there being any necessity for a note to supplement that original declaration.

HMJr: Well, then - well, then, they object to any publicity that the Belgian Government is guaranteeing that the

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Bank of France will carry out their contract?
The Bank of Belgium I mean. Is that right?

- C: That - that's the idea.
- H.M.Jr: Yes. Well of course that's a fundamental difference that I don't think - I don't know that we can get together on.
- C: You see I tried to make the point that gold is not the gold of the government but of the Bank of France.
- H.M.Jr: Yes, well we got that all right. Now let me ask you another thing. From what source did you get the remark that I was more interested in publicity than I was in making the fund work?
- C: Well you know I'm always very frank Mr. Secretary.
- H.M.Jr: Yes.
- C: I didn't aim at any personal reflection at all. What they do think is you're giving too much publicity to all this.
- H.M.Jr: Well who is "they"?
- C: Well I mean I heard it from banks; I heard it from two or three people at Basel and yesterday in Belgium they said, "well we have so many declarations by Treasury, Central Bank people and so on we'd rather not put quite so much in Tripp."
- H.M.Jr: Well I mean this is all Central Bank people?
- C: Well yes it was. I'll have to check of course.
- H.M.Jr: I mean it was Central Bank people?
- C: Well the French Minister of Finance at one time and rather good-naturedly don't think there's any bitterness about it. The Minister did. They just smiled a little bit and probably decided here we make everything public.
- H.M.Jr: Well of course we happen to have a democracy over here and we have newspapers that can print anything that they want and we don't have dictatorship.
- C: Yes that is right.

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- H.M.Jr: And we don't have controlled press and there's quite a different situation over here than there is abroad. I like to get criticism but I think it's very unfortunate that you put it in a cable.
- C: I'm sorry if that was the wrong thing to do.
- H.M.Jr: Well I don't see what was to be gained. I mean if you have some criticism and was to write me a personal letter I'd be glad to get it but to put it in a cable like that I don't think shows very good judgment.
- C: Well I'm sorry.
- H.M.Jr: And it's difficult enough to do these things here and some of the Central Banks naturally don't like to see the Treasury doing this thing that they've been doing for years themselves and the Central Banks have had five years now to try to get together on stabilization and they haven't done it and as far as the publicity goes - the publicity that I give here is the publicity that I think the American public is entitled to.
- C: What?
- H.M.Jr: I say the publicity that I give here is the publicity that I believe the American public is entitled to.
- C: I see.
- H.M.Jr: As a matter of fact, I've seen in the English newspapers the statement that if the English would give their public a little bit more publicity they might be better satisfied.
- C: It just happens to be the difference in
- H.M.Jr: The difference in what?
- C: In practice. Over here they do not.
- H.M.Jr: Well - ah
- C: If it's set up you get the public sore.

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- H.M.Jr: Well also over here - I mean - well anyway - it's an entirely different practice and we've got an entirely different form of government over here.
- C: Surely.
- H.M.Jr: Well now just a minute. (Pause - short conversation in Secretary's office)
- H.M.Jr: Hello.
- C: Hello.
- H.M.Jr: Dr. Feis wants me to ask you this question.
- C: Yes.
(Pause)
- H.M.Jr: Is it your understanding that the Belgian government would not wish to be associated publicly with the United States in any such arrangement - in this particular arrangement?
- C: I - I didn't get part of the sentence.
- H.M.Jr: I'll repeat it again.
- C: All right.
- H.M.Jr: What Dr. Feis wants to know is this. Is it your understanding that the Belgian government does not wish to be associated with the United States government publicly in this arrangement?
- C: I couldn't say that but what they do not want to do is to have some arrangements announced and some letter disclosed which might be interpreted as involving in a statement that such are the rights of the Central Bank.
- H.M.Jr: I see. Now would you mind repeating that please.
- C: But what they do not want is the disclosure of this letter which we - which was drafted - a public declaration. (Rumbling noise)

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- H.M.Jr: I'm sorry Cochran, we have static. You'll have to say it again.
- C: I say, the Belgians - the Belgians do not want any document, such as that letter, or anything else revealed or disclosed which might lead to the belief or give the information that the Government of Belgium was in any way interfering with the prerogative of the National Bank of Belgium.
- H.M.Jr: Yes - well, that makes the point - and that's the fundamental difference and I don't know that we're going to be able to jump over it or not.
- C: Of course, the Minister of Finance, as you know, signed the original document -
- H.M.Jr: What?
- C: - as an explanation and so on.
- H.M.Jr: I know, but - -
- C: - when they designed this supplemental letter.
- H.M.Jr: Well, the point is this, that the reason, if I may say so, that the American public has got confidence in what we're doing here, that I have told them each time that we have no agreement, no secret agreements, no hidden agreements and no side agreements.
- C: Yes
- H.M.Jr: And they believed me.
- C: So of course that - that Swiss declaration, as I pointed out, is not to be made public either.
- H.M.Jr: Oh - well, now, just a moment. As to the Stabilization Fund workings - as to the price of the gold; we have no intention of making that public any more than we have our arrangement with England or France; we haven't told anybody how much we do each day or on what basis we do it.
- C: That's just it. They had the funds were operating secretly. that these

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H.M.Jr: Well, they are.

C: (Connection goes bad)

H.M.Jr: Hello?

C: - we're satisfied with the statement which they make that if they agree to ^{for} announcing publicly that to consider them eligible, that would be enough.

H.M.Jr: Well, but - but we've got to announce with whom we're doing business.

C: Well, let me put up one other question, because I telephoned Bachmann this afternoon -

H.M.Jr: Yes

C: - to see how he had gotten along with this Swiss arrangement since it was to have been finished the twenty-seventh, you know?

H.M.Jr: Yes

C: And I talked with him at three-fifteen.

H.M.Jr: Yes

C: And he said that their bank had altered the declaration slightly.

H.M.Jr: Yes

C: But is sending me the copy today; I should have it in the morning.

H.M.Jr: Yes

C: But the main quarter, the Federal Council of Switzerland, will also pass on this matter and then he'll phone me around noon as to whether it is completely approved by the two - - But in his revision of the declaration - they said it was principally that that editorial had the view-point to reserve the certain ^{on} twenty-four hours notice as we did.

H.M.Jr: Yes

C: And - hello?

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H.M.Jr: Hello - I don't hear very well.

C: I say, he is going to put in a twenty-four hour clause like we have.

H.M.Jr: Yes

C: And then under point four of his declaration he is going to make it plain that the Swiss currency - their exchange rates - be held here by the gold of the equalization account or by gold of the National Bank of Switzerland -

H.M.Jr: Yes

C: - itself. He said he thinks the latter would be the case, that is, the Bank of Switzerland - gold being -

H.M.Jr: Cochran - we -

C: - -ization fund

H.M.Jr: Cochran, we have a bad connection.

C: Yes

H.M.Jr: And, inasmuch as you're only going to get this tomorrow I think you might send me a cable telling me about your conversation with Bachmann, see?

C: Yes

H.M.Jr: And I've got a bad connection here and I can't hear it, but let me just - can you hear me?

C: Yes, I can hear very well.

H.M.Jr: Well, I hear you very poorly.

C: Yes

H.M.Jr: Now, what I want to say is, for instance, in the case of Switzerland, if we came to an agreement as to the price of gold and all that -

C: Yes

H.M.Jr: Of course I wouldn't make that public. But, as to the fact that the Swiss Council had entered into an agreement as the principal of the Swiss Govern-

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ment I certainly would want to make an announcement as to whom I was doing business with.

C: Oh, that's all right, I'm sure.

H.M.Jr: Well, that's all that we have in mind here.

C: Yes, and on that Belgian business, I don't think there'll be any objection to the stating that you had a statement from the Minister of Finance and the Governor of the Belgian Bank.

H.M.Jr: Well, that - that's what we're arguing about.

C: I see.

H.M.Jr: And we want - and when we do business with Switzerland we wish to say that we have an agreement with the Swiss Government and the Swiss Council and the various agencies have passed on it. What that agreement is or how we do it, or at what point gold moves, we have no intention of announcing that.

C: I see.

H.M.Jr: After all, we made our agreement with China six months ago and nobody still knows what that agreement is.

C: Oh, that - that's in my mind too, and your Mexican agreement the same way.

H.M.Jr: Well, of course, and as far as a record of being able to keep a thing secret, nobody has a better record than the Treasury has, because there has never been a leak from here.

C: No, I understand that.

H.M.Jr: But, as to -but as to with whom we're doing business, we've got to tell our American public who you're doing business with. Are you doing business with a private bank or are you doing business with a government.

C: Yes

H.M.Jr: And that's the point that I'm trying to establish.

C: Yes

- 9 -

- H.M.Jr: Now, you might be interested to know that in the room here, besides the Treasury people, we have people from the Federal Reserve Board here, the State Department, and the Federal Reserve Bank in New York.
- C: No, I know it --
- H.M.Jr: And so we've got everybody that when we do move here we're moving in complete accord and I have the backing of all the agencies involved.
- C: Yes
- H.M.Jr: And I haven't made a single move that everybody hasn't been unanimous. And we move very carefully here.
- C: Well, the people over here want - they don't want anything to come out which would give the impression that they are going to set up a new stabilization fund or that it's necessary for the action of this special bank to be supervised entirely by the Council.
- H.M.Jr: Yes, well, now what we'll do either today or tomorrow, but surely by tomorrow, we will get off a carefully drafted cable in which we will explain to you our exact position as to how we can do business with Belgium.
- C: How you what?
- H.M.Jr: On what basis we can do business with Belgium. I say, not later than Friday night we'll get off a cable.
- C: All right.
- H.M.Jr: But, I'm going to ask - -
- C: I'll cable you tomorrow the revision in the Swiss -
- H.M.Jr: That's right.
- C: - declaration.
- H.M.Jr: Yes

- 10 -

- C: And one other thing,- Doctor Tripp telephoned me this afternoon -
- HMJr: Yes
- C: - the President of the Bank of the Netherlands.
- H.M.Jr: Yes
- C: He said that he had not let us hear from him, because at first sight he did not see the practical benefit of this arrangement.
- H.M.Jr: Yes
- C: He said he's waiting to see what might develop. He said he had heard that the Americans didn't understand why he hadn't come forward -
- H.M.Jr: Yes
- C: I said there has been no curiosity on our part, that we had gone ahead with the two which had come forward, the Swiss and the Belgians. And he said he would like to talk this thing over with me.
- H.M.Jr: Yes
- C: - if I could speak in the affirmative and he said that he had procured the approval of Colijn, the Prime Minister, to his telephoning me.
- H.M.Jr: Right
- C: - to quote him that I would be talking with you this evening -
- H.M.Jr: Yes
- C: - and would let him know about getting together. He said that he could either meet at Basel on November 8th when I go there -
- H.M.Jr: Yes
- C: - or if I came up we could meet in Amsterdam.
- H.M.Jr: Yes

- 11 -

C: Hello?

H.M.Jr: Yes, I hear you.

C: I told him that the latter, going to Amsterdam, might be preferable since we must discuss the matter with Government officials.

H.M.Jr: Yes

C: - especially the Treasury.

H.M.Jr: Yes

C: And he told me to let him know if you wanted me to go up or not.

H.M.Jr: Well now, just a minute and let me ask Dr. Feis what he thinks, just a moment.

C: All right.

(Conversation in room)

H.M.Jr: Hello?

C: Yes

H.M.Jr: What I would say is this, that you appreciate very much his telephoning you; that you at present are more than fully occupied with some of the other countries.

C: Yes

H.M.Jr: That if you are free before the eighth you'll come up there; otherwise you'll look forward to seeing him at Basel.

C: Do nothing until I go to Basel?

H.M.Jr: No, I don't say that, but I mean if we can get over this Belgian hurdle, you see, and the Swiss hurdle, then you'd be free to go up to Amsterdam.

C: I see.

H.M.Jr: Personally, I'd a little bit rather have you go

- 12 -

to Amsterdam so you could see the - Mr. Colijn and the other people there, see?

C: He said he'll take me to see Colijn there.

H.M.Jr: But I think we ought to just - we've got about all we can digest right now.

C: Yes, yes - I mean you've got those basic points to settle.

H.M.Jr: Yes, but I would - to be - tell him that we appreciate it very much and we hope to get together with him but just now you've got about all you can handle for the moment.

C: All right, fine, I'll call him in the morning.

H.M.Jr: Just a moment, please, just a moment. Hello -

C: Hello -

H.M.Jr: Herbert Feis agrees that if you talk to him you should talk to him in Amsterdam and not Basel.

C: That I should talk in Amsterdam?

H.M.Jr: Yes - so I would tell them that when you are free, and the minute that you are free you will come to Amsterdam.

C: All right, fine.

H.M.Jr: Now, just a minute, I want to make sure.

C: All right.

H.M.Jr: Now, just let me say this in conclusion, after all, you're over there and you want to know what the pulse of your Government is, because you want to represent us to the best of your ability. Now, this is a new move in the monetary world and we're moving in the direction of doing business between Treasuries instead of between these Central banks.

C: Yes

H.M.Jr: And naturally the Central banks of the world resent this thing.

C: Yes

H.M.Jr: And naturally they will try to undermine me as one

- 13 -

of the prime movers in moving towards more, how shall I say, influence for Treasuries rather than Central banks, and I'm perfectly willing to leave my reputation and character in your hands to see that in this - all of these things that I don't suffer as a representative of the United States Government, you see?

C: Yes, surely.

H.M.Jr: Now, do I make myself plain?

C: Yes, absolutely -

H.M.Jr: All right. Now, you've done a fine job and I'm sure you're going to continue to represent us --

C: There are points that are not clear now -

H.M.Jr: Pardon me?

C: I say, there are certain points that are not easily gotten over.

H.M.Jr: And don't forget also, the final worry, that our Stabilization Fund expires in January and I have to get that extended.

C: Surely

H.M.Jr: And in order to do that I have to take our public into our confidence to a certain extent.

C: Surely

H.M.Jr: But I'm more than willing to leave my reputation abroad in your hands.

C: I'll do the best I can, don't -

H.M.Jr: I'm sure you will.

C: All right, sir.

H.M.Jr: Goodbye.

C: Goodbye.

OFFICE CORRESPONDENCE

DATE October 29, 1936. 76TO CONFIDENTIAL FILESSUBJECT TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

Mr. Bolton called at 2:04 today to explain, as he said, his recent gold transactions. The Bank of France had been short of dollars and had asked him to buy them. The easiest way for him, he continued, had of course been to take advantage of our bid for gold in terms of dollars and he wanted to know whether his action was satisfactory to us. I replied that I saw no objection; that as a matter of fact, it seemed to me a very satisfactory way of avoiding unusual activity in the dollar market.

He then referred to the situation in Spain and to the insistence of our banks to have the London banks settle by November 1 outstanding maturing contracts. He called, as he said, because being closer to the situation, he might give us a picture which was possibly more accurate than we could obtain at this distance: In London they considered it very dangerous to attempt at this time to force delivery as nobody knew what the state of affairs was in Spain. As a result all maturing forward contracts were being put in cold storage, as he put it. This procedure was being followed in London because nobody was in a position to assure prompt delivery in Madrid, particularly now, since that city was practically shut off from the rest of the world and could not be reached either by cable or letter. He had heard of the National City Bank's claim that they could make delivery of millions of pesetas in Spain. That was ~~an~~ amazing ~~statement~~ because in London nobody, since last August, had managed to get delivery except in insignificant amounts. Where payments of millions had been ordered in isolated cases, possibly as much as ten thousand had been effected. There was no desire on the part of any bank in London to get out of its contracts; the only thing the

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE _____

SUBJECT: _____

FROM _____

2.

London banks were anxious to avoid was to get more deeply involved. Would I please use my good offices and talk to some of the banks here, particularly the City Bank. I told Bolton that I would try my best.

He then referred very confidentially, and for my own ears only, to a report that Washington was very much annoyed with the Dutch for not trying to get into the new arrangement. The fact of the matter was, he said, that the Dutch Government, for political reasons, could not move at the present moment. How soon that might change, he did not know. As far as the British are concerned, they had made a temporary ad hoc arrangement to help the Dutch to get over the present uncertainty but nothing like a final agreement has yet been made.

LWE:KMC

LMS

GRAY

London

Dated October 29, 1936

Rec'd 4:25 p. m.

Secretary of State,
Washington.

499, October 29, 7 p. m.

Your letter of October 5, 1936.

FOR TREASURY.

British Treasury has arranged with Butterworth for first meeting to take place early next week. Following summary of recent discussion at Tuesday Club which he attended as a guest may be of interest: H. G. Henderson opened the discussion on the "financial and economic outlook after the devaluation of the gold bloc countries" by expounding the case that sterling would have a naturally weak tendency in terms of dollars due to (one) repatriation of capital by ex-gold bloc countries, (two) movement of British funds to Wall Street, (three) effect of rearmament expenditure on British balance of payments. Keynes disagreed with Henderson's view and took the line that America and England were in much the same position as regards balance of payments; that while there might be further British funds moving to Wall Street at the same time there would

be

LMS 2-No. 499, October 29, 7 p. m., from London.

be a tendency on the part of Swiss, Dutch, and perhaps French nationals to repatriate part of their American holdings; that in any case the present practical limits seemed to be between, say \$4.70 to \$5.00 and that it was impossible in the given circumstances to measure the future effect of the tug of forces sufficiently precisely to say, for example, 4.80 was too high or 4.90 too low. Given the large margin of the French devaluation limits it might resolve itself into a question of what policy the French equalization fund would adopt; and Keynes for his part, while doubting that an enormous amount of money would now go to Wall Street (the institutional money had already gone and the American tax plus the British income tax made fixed and preferred American investments not very attractive after important capital profits had been made), urged action by the British Treasury to control or limit any large movement of private funds.

N. F. Hall then suggested that his recent experience in the United States indicated that 4.86 was politically a minimum point for the pound irrespective of the factors; that if, for example, the rate should go to 4.80 the American administration would be under severe political pressure to act.

Francis

LMS 3-No. 499, October 29, 7 p. m., from London.

Francis Rodd expressed agreement with that view and said therefore one had two points of stability, (one) the fact that the American Treasury would sell gold at \$35 per ounce, plus charges, (two) that America could not accept a pound rate substantially lower than 4.86 while England could not accept one substantially higher; and certainly England was not prepared to make use of the bank rate for an exchange purpose. Therefore given the proper measure of cooperation between the three authorities practical stability should be able to be maintained at ascertainable levels.

At this point Rueff, who was also a guest, said that although the word had not been mentioned the tenor of the conversation was in terms of "overvalued" sterling. This, he maintained in extenso, was impossible of ascertainment at this time; he further queried why the bank rate should not be used as a temporary means of adaptation. As a permanent policy, he admitted it was useless and had proved, for example, ineffective in France; but as a temporary expedient it should not be neglected as an effective weapon of policy.

There followed a good deal of unenlightened discussion about how the equalization and stabilization funds could or could not cooperate and both Hopkins and Waley expressed

regret

LMS 4-No. 499, October 29, 7 p. m., from London.

regret that they could not take part.

O. T. Falck then suggested that there were other aspects to the problem in the commercial policy field and he then questioned Rueff with a view to making him admit that the French quota and tariff reductions had been motivated solely by the cost of living problem. Rueff at the same time emphasized that it was a gesture unilaterally made without compensation but with the hope that it would not be left alone in a cold world.

Dudley Ward, who had been in an obscure industrial continent when the monetary arrangement had been reached, asked what had caused the change of view and created the budding hope that the world would begin to grapple intelligently with its problems, and he suggested that it might be up to Great Britain to take advantage of its present favorable situation to give a lead. There followed some discussion on the possibility of reducing British tariff barriers on such products as steel, and the reaction to such a move had in general the quality of that metal.

I then suggested that aside from the quota and tariff situation in the United Kingdom, certain British bilateral arrangements offered a means by which Great Britain could give a lead; that a relaxation of certain of the payments,
purchase

LMS 5-No. 499, October 29, 7 p. m., from London.

purchase and license arrangements, to permit the other contracting party to United Kingdom agreements to behave in as enlightened a fashion as regards most-favored-nation treatment as Great Britain herself did, would be most helpful, et cetera. Waley then stated the familiar British case for these arrangements, to which the reply was made that if Dudley Ward's hope was to "bud", then perhaps the premises of procedure of 1931 had to be re-examined in the light of 1936 conditions.

Schuster, Brand, and Falck carried on this discussion in general terms but one could not but gather that there was no positive feeling in favor of forsaking present ills for those they knew not of, the most important of which lay in helping to strengthen a Germany with aggressive intentions, and Hopkins said in an aside to me that in his opinion it was up to the countries which had erected their economic and financial superstructures to make more than a beginning at tearing them down before others could move, especially since the loud impact of devaluation over so wide a field we ^(was?) unascertainable but would probably be considerable on this country.

BINGHAM

SMS:CSE

October 29, 1936.
3:22 p.m.

H.M.Jr: Hello Herbert.

Feis: Henry, what I've done is this. I've just finished a rather long - probably too full - exposition of what I conceive your leading ideas to be.....

H.M.Jr: Yes.

F:on the necessity for an inter-governmental understanding - necessity and limit...

H.M.Jr: Yes.

F:on this question of publicity.

H.M.Jr: Yes.

F: Now if I'm correct you're not going to have another discussion of this till ten tomorrow morning.

H.M.Jr: That's right.

F: Well suppose I send over to you, after I've finished it, a copy of this rough draft. Would you like to look it over?

H.M.Jr: Very much.. Would you mind sending it right up to the house.

F: Not at - no - it will be - I'll have my messenger here. I'll send it to the house. Now shouldn't I send copies - should I send another copy or two to.....

H.M.Jr: Taylor.

F:Wayne who might - they might be having their own meeting.

H.M.Jr: That's right.

F: Right?

H.M.Jr: That's right.

F: All right.

H.M.Jr: I'm awfully glad you're doing this separately because.....

F: Well my thought was this - to get an exposition of the background - pretty full exposition of the background which you undoubtedly will want to correct but which is my understanding of it.

H.M.Jr: Yes.

F: If I did that part I begun by saying that I'm transmitting to you below the text of such a statement as I believe the Belgian government might be willing to have publicly made. Not that I'm not trying to draft. That I'm leaving for the technicians.

H.M.Jr: Well...

F: And - for discussion tomorrow

H.M.Jr: Ah-ha.

F: But I then go on to say that for your discussion in further - for your guidance in further discussion with the Belgians I wanted to give you very fully my attitude on those two points and then I do. Now my purpose is first, I think, in the sense to instruct Cochran. I don't think he thoroughly comprehends it. Secondly, to make it a matter of record.....

H.M.Jr: All right.

F:in the light of this cable from him.

H.M.Jr: Fine.

F: All right, I'll shoot one copy to your house.

H.M.Jr: Yes.

F: And a couple of others to Taylor and the crowd to chew over.

H.M.Jr: Good.

- 3 -

F: Now I've no doubt in the world that you'll want to change - even if you want to use it at all you'll probably want to change it throughout but I just thought I'd take a first shot at it.

H.M.Jr: Thank you very much.

F: All right. Goodbye.

October 29, 1936

The attached memoranda were prepared by those working on the Belgium situation and represent the personal opinion of each of the men as to how the Belgium case should be handled.

Attached also is draft of communication to the President, which is referred to in Mr. Taylor's memorandum, also attached.

Oct 29/36

COMMENT: My own preference is for the first alternative. The third is clearly contrary to the pattern of the Belgian monetary organization. The second the Belgians do not want unless the guarantee is to be secret, which we do not want. In my opinion, such a guarantee, even if secret, is not in accordance with the Belgian pattern and is not essential.

What seems essential is public agreement between the governments upon the principles of the September 25th statement. This could be supplemented to any extent desired by diplomatic correspondence designed to give and obtain assurances of good faith and full participation in all arrangements made to carry out the declaration of principles.

If this view were taken, the following public announcement could be made by the Treasury:

The Government of Belgium subscribes to the declaration of principles issued by the Governments of the United States, France and Great Britain on September 25th. In pursuance thereof, the United States Government and the Belgian Government have concluded an arrangement for reciprocal gold purchase and sale between the two countries.

The Belgian Government, if it chose, could issue this statement supplemented by their proposed declaration of October 17th, which would be a satisfactory explanation to the Belgian people of the conditions of gold purchase and sale.

or, the U.S. govt and the Bank of Belgium, with the concurrence of the Belgian government, have concluded, etc...
J. H. Williams

Oct. 29, 1936⁸⁸

There appear to be three alternatives:

1. The Government of Belgium subscribes to the declaration of principles of September 25th.

(This should be included in all alternatives.)

2. (a) The United States Treasury will deal in gold with the Central Bank of Belgium.

(b) The United States Treasury will deal in gold with the Central Bank of Belgium provided that the Belgian Government guarantees the gold dealings.

(c) Gold dealings must be between the two treasuries as principals, with Central Banks as fiscal agencies.

J. H. Williams

October 29, 1936.

Memorandum for THE SECRETARY:

We submit the following:

1. There is no wholly satisfactory solution for the problem presented by the Belgian application, but we outline below the one we think to be best on the whole.
2. At the outset it is borne in mind that the Belgian application is not an attempt to extend the set-up you have sought to achieve by the documents of September 25, and October 13, but to a limitation thereon, namely, to make it certain that there is room in any such general plan for the operation of a central bank of a country on the old-fashioned gold standard.
3. This being so, it seems to us that the threshold question for your decision is whether you wish to continue to act under the declaration of January 31, 1934 (not yet revoked) which was that the Treasury would release gold to the central banks of gold standard countries when the dollar is at the export points in terms of the currencies of those countries.
4. It is our view that we should not continue this arrangement and that Belgium is unwilling publicly to affirm governmental responsibility for its central bank operations, although privately we are to be assured that the arrangement made by the central bank with the Federal Treasury would have the Government's approval.

- 2 -

5. Accordingly, we suggest that the question raised by the Belgian application be dealt with on this basis: the situations in five countries - United States, England, France, Switzerland and Holland - are ripe for an inter-governmental arrangement to handle exchange relations. Until conditions in other countries become ripe for moving forward on the general arrangement which you are ready to work out, their needs for gold should be met by our handling such day to day applications for gold as they may make. There is attached the type of letter for the President's approval which would give us the appropriate set-up for handling this application for gold in this fashion.

We are authorized to add that Lochhead sees no objection to the arrangement we suggest from an operating standpoint, but he points out that in his judgment it will raise all the hue and cry which will attend a formal abandonment on the part of this Government of the automatic arrangement for dealing with gold standard countries now set up in the Treasury statement of January 31, 1934.

It should be pointed out that if the method we propose, which would involve issuing a statement to cover all the countries other than those fitting into the more general pattern of the statement of October 13, were adopted, it would not then be necessary for Belgium or any other country/^{desiring} to take advantage of this arrangement to issue public statements of any sort.

October 29, 1936.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 29, 1936.

to The Secretary
FROM Mr. Taylor

Herman Oliphant, Herbert Gaston, George Haas and I had lunch together and evolved an alternate method for handling the Belgian and similar cases. Herman Oliphant, following this discussion, drafted the letter to the President, which is attached.

The Memorandum for the Secretary which starts with "We submit the following", represents the views of those who were at lunch plus Cy Upham. Archie Lochhead was present for part of the latter discussion which resulted in the memorandum.

We also had the benefit of Feis' suggested draft of a communication to Cochran and we wish to place this new suggestion before you so that you could have the benefit of it tonight when you are going over the Feis, Williams and Goldenweiser statements. Incidentally, the method outlined in our memorandum was discussed in broad outline with Goldenweiser and Williams. Williams did not agree one hundred per cent but did not raise any particular objections. Goldenweiser will probably comment on this possibility in his memorandum to you.

aeT.

October 29, 1936

For the Secretary:

1. There appears to be no possibility of arranging that the actual purchases and sales of gold which may take place between the United States and Belgium shall ~~take~~ be between the Governments.

2. There appears to be no possibility of getting the Belgian Treasury to guarantee the daily gold transactions of the Belgian central bank (except upon a basis of secrecy which is rightly unacceptable to us).

3. It does seem possible, however, to arrange a Gentleman's agreement between the Belgian Government and the Government of the United States, under which daily gold transactions between the Government of the United States and the Belgian central bank can take place, but with the operations of the Belgian bank unguaranteed.

Let us look for a moment at the only possibility of these three---- the third.

The chief objection which is made to it seems to me to be not economic or legal, but philosophical or social. It leaves the control of international gold operations, so far as Belgium is concerned, in the hands of private bankers. That is where they are now and will continue to be under any arrangement, unless we want to (and succeed in) force the Belgians to transfer gold ownership from the central bank

to the Government. If we feel strongly that we will not deal with the central bank, the third possibility is also out.

Suppose we do agree to deal with the Belgian bank as principal. Have we gained anything over the arrangement of January 31, 1934? The Belgians will have less freedom than they have under the 1934 arrangement. We will be able to cancel the 1934 agreement and definitely end our recognition of the old automatic gold standard. So it would seem that the Number 3 possibility is to be preferred to the present (more or less inactive) arrangement with Belgium (which at least has not been formally cancelled).

4. It is possible to ~~insert~~ treat Belgium just as we do China, and the other countries not on a gold standard. This would doubtless be something of a let down to Belgium, and would probably cause more public comment about moving away from the old style gold standard than action under Number 3. I am not certain whether negotiations with countries in the Chinese classification are with central banks or Governments. If not with Governments, perhaps nothing would be gained for the philosophers by resort to that method.

5. I have some idea that there might be value to leaving the arrangement of January 31, 1934 in effect, and making no new deal at all. It is not operative and there seems little likelihood of it becoming so soon. It could be

cancelled promptly at any time in the future, if occasion made it seem desirable.

In any event, I favor moving slowly and giving some more serious thought to possible results of each action.

Upm

October 29, 1936

Memorandum for Secretary Morgenthau:

The alternative courses of action in connection with the Belgian negotiations are outlined in John Williams' memorandum, and the exact form of the announcement and of the changes in regulations that need to be made can be easily worked out after the general policy has been determined.

It has occurred to me that one thing that I may possibly add to the discussion is my general view on the question what kind of a monetary standard we would like to see in the world. While I realize that it is not up to us to dictate to other countries the way they should do business, it will nevertheless be easier to decide upon a course of action if we clarify in our own minds the character of monetary arrangements that we would consider desirable. If, for example, we consider it desirable to have the management of gold in the hands of treasuries in all countries, then it may be wise for us to throw obstacles in the way of an agreement with Belgium, which relies upon a central bank, because by doing so we would exert an influence in the direction of treasury control of monetary matters in foreign countries.

Before stating my own views on this matter, I should like to say that I am not in favor of a return of the world to an automatic gold standard. I feel strongly that the power to change the gold content of currencies should be in the hands of an executive body, so that legislation would not be required for making a change. The reason is that legislation is too protracted and clumsy a proceeding to use in an emergency. At the same time I think that it would be desirable to

have such economic conditions in the world that exchange stability could prevail and gold could move freely from one country to the other in settlement of temporarily unfavorable balances.

Since I am not looking forward to a return of the automatic gold standard, I am not interested in preserving Belgium as a nucleus of gold standard from which it could spread to other countries. I am inclined to look at this matter from a practical, realistic point of view. I ask myself the question, what would be to the advantage of this country and to the advantage of world trade in the immediate future? Beyond the immediate future it is difficult to look at the present time. It would seem to me that the desirable thing is for the three great trading countries to be on the basis which has now been established, namely, a basis of mutual cooperation between treasury-controlled stabilization funds used for the purpose of maintaining exchange stability so long as it is not inconsistent with national prosperity. I feel that at present there is a better chance of revival of world trade under this arrangement than under any other that can be visualized.

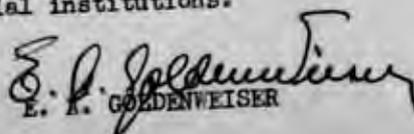
The immediate question is whether it would be to our advantage to have the smaller countries handle their affairs in the same way as the three great countries in the agreement. My feeling is that it would not be to our advantage and that it would be better for world trade and for our own recovery if the little countries had a fixed price for gold. These countries are not very important to the world from the point of view of trade, but the world is very important to them because they depend largely on foreign trade. While they cannot upset the general world

Page 3

equilibrium materially, wide fluctuations in their exchanges add a hazard to the business of many individual firms and to many lines of trade. One could feel more secure about world trade if these little countries had firmly fixed currency values.

To come to the point under immediate consideration, since I believe that it is to our advantage to have Belgium continue on the gold standard, and since I am convinced, as I believe you are, that it is not desirable for us to exert pressure on her in any direction, I think that it would serve our purposes best to accept the agreement of the Belgian Government that Belgian monetary relations with this country will be conducted in accordance with the agreement of September 25 and to be willing to trade from day to day with the Bank of Belgium, which is designated by the Belgian Government for this purpose. I think that we have nothing to lose by this agreement and that we have something to gain.

The gain would arise partly from the fact stated above that it is advantageous to us to have Belgium have a currency with a fixed gold value. Another gain would be that such a procedure would help to maintain the prestige of monetary leadership which we have recently acquired. The tri-partite agreement concluded in September has raised American prestige abroad enormously, and I think that it would be helpful in maintaining this prestige to proceed further in the direction of extending the agreement to other countries. For these reasons it would be regrettable to become too technical or to adopt an attitude that could be interpreted as trying to take a hand in influencing foreign countries to adopt the pattern of our financial institutions.


E. A. GOLDENWEISER

My dear Mr. President:

Heretofore, with your approval, licenses have been issued by the Secretary of the Treasury to the central banks of a number of foreign countries, authorizing the acquisition of gold from the United States, pursuant to applications therefor stating out that such gold was needed for monetary reserves. It may be anticipated that reasonable amounts of gold will from time to time be required by these and other countries for this and other appropriate purposes, such countries not complying with the conditions for the sale of gold prescribed in the Treasury Statement of October 13, 1936, which set up a general arrangement for the release of gold to foreign countries.

To meet such special situations not covered by this general arrangement, and with your approval, I propose, on application therefor, to sell gold in reasonable amounts to any foreign country or foreign central bank (including the Bank for International Settlements) to meet monetary reserve requirements and for other appropriate purposes, whenever such sales are deemed most advantageous to the public interest and are not inconsistent with the purposes of the Gold Reserve Act of 1934.

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I propose, with your approval, to make such sales, until further notice, at \$35 per fine ounce, plus one-quarter per cent handling charge. They will be governed by the regulations issued under the Gold Reserve Act of 1934.

Such arrangement for the handling of special cases, together with the general arrangement set up in the Treasury Statement of October 13, 1936, will cover the entire matter of sales of gold abroad and will thus make unnecessary further use of the arrangement set out in the Treasury Statement of January 31, 1934. Accordingly, I shall, upon your approval of the arrangement herein proposed, give notice of the withdrawal of all arrangements except this arrangement for special cases and the general arrangement of October 13, 1936.

October 29, 1936.

October 29, 1936

After the group left the Secretary's office, for the purpose of each putting down on paper his own suggestion as to how to decide on the Belgium request, HM, Jr. dictated the following to Mrs. Klotz:

I am going to sit tight and do nothing about Belgium and go ahead with Switzerland. Then, when we do announce the arrangement with Switzerland, at the same time we will cancel all outstanding arrangements prior to October 13 (which, of course, means Belgium) and then sit tight and wait until Belgium makes another move and even possibly take up the gold question with Holland, who has a stabilization fund. I am quite sure that after we have come to an agreement with Switzerland and possibly Holland, Belgium will see the light.

October 29, 1936
(DJ 12:03 pm)

Dutch Exchange Control Intervenes

Amsterdam - After a further rally in guilder exchange the Dutch stabilization fund intervened in the foreign exchange market by buying sterling, thus halting the rise in guilders.

(DJ 12:15 p.m.)

Based on the fact that the official control has sold guilders at this level the inference is drawn here that the control will not allow the guilder to strengthen above a minimum depreciation of 20%.

American issues were offered in a dull stock market, the feature of which was strength in Dutch rubber and tin shares.

SUCCESSFUL

10:45

WASHN - SECY OF TREASURY MORGENTHAU SAID
 TODAY THAT THE MONTH OLD MONETARY AGREEMENT
 HAD BEEN VERY SUCCESSFUL FROM THE STANDPOINT
 OF THE U S - REMARKING THAT THE ORIGINAL
 AGREEMENT WAS NOW A MONTH OLD THE SECY SAID
 THAT HE THOUGHT IT HAD BEEN VERY SATISFACTORY
 TO THIS COUNTRY BECAUSE FRANCE HAD DEVALUED
 AND THERE HAD BEEN NO REPRECUSIONS HERE -
 THIS SITUATION CONTRASTS WITH WHAT HAPPENED
 HERE FIVE YEARS AGO AFTER GREAT BRITAIN LEFT
 GOLD HE SAID

ADD MORGENTHAU

OCT 29 1936

WASHN -

OCT 29 1936

THE SECY DECLINED TO COMMENT ON REPORTS
 THAT RUSSIA HAD ALLIGNED HER CURRENCY WITH
THE FRANC SAYING THAT HE KNEW NOTHING OF THE
MOVE EXCEPT WHAT HE HAD READ IN THE PAPERS-
 HE REMARKED THAT THE FOREIGN EXCHANGE
 MARKETS HAD BEEN EXTREMELY QUIET FOR THE PAST WEEK
 THE SECY IS LEAVING TOMORROW FOR HIS
 NEW YORK FARM AND WILL NOT RETURN TO THE
 TREASURY UNTIL WEDNESDAY

IN 6TH LINE MAKE OVERLINE READ -PAST WEEK-

-0-

WCNS35

SECRETARY MORGENTHAU SAID TODAY THAT THE FIRST MONTH'S OPERATION OF THE TRI-NATION MONETARY AGREEMENT HAD BEEN "VERY SUCCESSFUL FROM THE VIEWPOINT OF THE UNITED STATES."

COMMENTING ON THE AGREEMENT AMONG THE U.S., GREAT BRITAIN AND FRANCE UNDER WHICH EACH NATION PLEDGED USE OF ITS STABILIZATION FUNDS TO PREVENT WILD FLUCTUATIONS IN CURRENCIES, MORGENTHAU SAID THERE HAD BEEN NO UNFAVORABLE REPERCUSSIONS IN THIS COUNTRY.

"FRANCE DEVALUED HER CURRENCY UNDER THE AGREEMENT," MORGENTHAU SAID. "THERE WERE NO UNFAVORABLE DISTURBANCES IN THIS COUNTRY AS A RESULT."

"YOU NEED ONLY TO GO BACK FIVE YEARS WHEN GREAT BRITAIN WENT OFF THE GOLD STANDARD TO SEE THE TRADE REPERCUSSIONS."

HE SAID THAT LACK OF THESE REPERCUSSIONS WAS A GOOD BEGINNING FOR THE AGREEMENT.

MORGENTHAU SAID HE PLANNED TO LEAVE WASHINGTON TOMORROW TO VOTE AT HIS DUCHESS COUNTY, N.Y., HOME AND WOULD RETURN HERE NEXT WEDNESDAY.

10/29--R1054A

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October 29, 1936

EXCERPT FROM MR. TAYLOR'S "MEMORANDUM OF DAY'S
ACTIVITIES" DATED OCTOBER 29, 1936.

Last night I attended the dinner given by Marriner Eccles, at which Ernest Draper, Goldenweiser, Currie, Lubin, George Haas and a man by the name of Otto Mallery, were present. Mr. Mallery is apparently a student of, and authority on planning to broaden recreational possibilities for adults, and to use Government planning to take up seasonal and cyclical unemployment. Marriner Eccles feels that the Government should start planning at this time a set-up which should take the form of legislation to provide for Government spending for approved projects whenever various factors appear which indicate that such expenditures are desirable. To sum up, he stated that when, as, and if, it appeared necessary for the F. R. Board to take action which would correct inflationary tendencies that there should be in existence some other body which could advise the President and Congress that Governmental expenditures were desirable and to submit an approved list of such expenditures. He was very frank in saying that he hoped that such a Board with adequate powers would be created so that when the action of the Federal Reserve Board checked certain tendencies that there would be a cushion to take up the slack which might be induced by the action of his Board. The whole tone of the evening's discussion was along the usual lines, namely that we should be intelligent enough to plan adequately so that when the business cycle turned downward we would have carefully approved public works to fall back on to iron out the recession. There was nothing particularly new in either the ideas or the methods of approach but it is always interesting to listen to a certain amount of it.

October 30, 1936
9:20 A.M.

Present: Mrs. Klotz
Mr. Seltzer
Mr. Murphy
Several other Treasury people

Seltzer: Briefly, there is no reason to suspect that the delay in the Ford production is due to any other than the usual Ford causes. They have an awful time making any kind of changes because everything depends on Henry Ford's final O.K.

Well, Henry Ford and Sorenson and Edsel were away a good part of the summer - Henry looking at antiques - and they neglected, the people in charge neglected to build up a bank of cars and parts to supply the 1936 model while retooling and so on went on for the '37 model. So, while the other companies were able to supply a '36 model while they were building '37's, Ford had to continue to produce '36's because the demand was so strong.

They did get a final decision on such things as the brake - whether it had hydraulic or mechanical brakes.

H.M.Jr: What did they decide?

Seltzer: They decided on mechanicals. And then, too, there is talk of Ford running two engines; that is, he is building up banks of a big engine and a small engine to be used in the same chassis. That too would delay things because he'd have to have double banks, you see, and it also requires changes with the connections.

They are getting into production now, expect to be running about a thousand a day by Tuesday. None of the other motor car companies, of course, had any delay in getting their production - Chevrolet never did a smoother change-over - and it would be, oh, very doubtful whether Ford by himself would voluntarily give away the first rush of business to these other companies in

order to accomplish a political end. It's just his hard luck so far.

H.M.Jr: Well, he's always had that difficulty when he changed.

Seltzer: That's right.

H.M.Jr: Now, what's he going to do - get out the same V-8 that he has now, and the four cylinder that he makes in England? Is that the idea?

Seltzer: No, nobody's very clear on that. He has a very good "secret service."

Murphy: Mr. Court, the statistician for the Automobile Manufacturers Association, tells me he understands - of course, Ford is not a member of the Association - he just understands such things, that both of the motors will be eights, one about the same horsepower as the present motor, the other substantially smaller; that they will both come in the same chassis, and that on the smaller motor he is using a radically different method of casting the block, with which he had some difficulty. He understands that that has been cleared up now and that he's been assembling motors of both horsepowers for about a month, but that he's had difficulties in making proper adjustments for the chassis, but that, as Dr. Seltzer says, he is probably just getting going now.

H.M.Jr: Well, as they say, that's that.

Seltzer: O.K.

H.M.Jr: How's the tone in Detroit? How did it look?

Seltzer: Oh, very good; very good, that is, except politically. Politically, all the people we saw were very much anti-Administration, very much pro-Landon.

H.M.Jr: Well, what do they say about the State of Michigan?

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Seltzer: Well, they are all willing to bet on Landon's election, generally in the country as a whole.

H.M.Jr: Really?

Seltzer: Boasting they are willing to put up money for it and so on.

H.M.Jr: But they are not.

Seltzer: They are raising a lot of money and sending it to New York.

H.M.Jr: To bet?

Seltzer: Yes

H.M.Jr: But they want odds.

Seltzer: Well, they are not insisting; they will take whatever odds are offered.

October 30, 1936

Mr. Hall came in to see the Secretary this morning at 9:45 to discuss the attached memorandum which had been prepared by Mr. Hall and furnished to the Secretary.

Hall not being able to get together with the Post Office on the issuance of a Government catalogue illustrating the United States postage stamps, the Secretary telephoned Mr. North, Deputy Third Assistant Postmaster General, and the following is a record of their conversation:

TREASURY DEPARTMENT
BUREAU OF ENGRAVING AND PRINTING
OFFICE OF THE DIRECTOR
MEMORANDUM

~~205~~

October 29, 1956.

For The Secretary of the Treasury:

Representatives of the Treasury Department met in my office to-day with representatives of the Post Office Department to consider the proposition of issuing a government catalogue illustrating United States postage stamps. In the absence of the Third Assistant Postmaster General, who is ill, the Deputy Third Assistant Postmaster General headed the Post Office Department delegation.

Under the present law, the Public Printer is under a duty to sell Government publications and the plates from which they are made to any person who offers to pay the cost of them. The office of the Public Printer advises that no sales have been made in the past, and that when requests are received they are not fulfilled.

In order that no reproductions of the illustrations appearing in the catalogue will be made by newspapers or periodicals, it will be necessary to consider such reproduction as a violation of the counterfeiting law. The representative of the General Counsel's office is preparing a paragraph to be printed on the frontispiece of the booklet setting forth this prohibition.

It was agreed by all who attended the conference that the catalogue bearing illustrations of the postage stamps could, and should, be printed, and that no new legislation would be required to accomplish it.

Representatives of the Post Office Department expressed reluctance in having the catalogue issued as a Post Office Department document. While they are willing to cooperate in every respect, they expressed a wish that the matter be handled by the Treasury Department. On this point representatives of the Treasury Department could not agree.

The Post Office Department is now revising the text for the booklet on postage stamps which is to be issued as of December 31, 1956. It will be a very simple matter to add the illustrations to this text, and the Post Office Department officials have agreed to cooperate in this respect.

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Since there is nothing to prohibit the Government from issuing a catalogue bearing impressions of United States postage stamps, I respectfully recommend that the work be undertaken at once. If the Treasury Department is to undertake the issuance of this document, it will require a deficiency appropriation for the current fiscal year as there are no funds available for the project in the printing and binding appropriation.

I am of the opinion, however, that the document should be issued by the Post Office Department, in which case the Postmaster General should be directed to proceed with the work.



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October 30, 1936.
9:48 a.m.

Operator: Operator.

H.M.Jr: See if Mr. Howes, Acting Postmaster General, is in and if he's not in find out who is Acting Postmaster General.

Operator: All right.

H.M.Jr: Please.

Operator: Operator.

H.M.Jr: Well who is.

Operator: Mr. Branch is Acting but he hasn't come in yet.

H.M.Jr: He hasn't.

Operator: No they expect him most anytime.

H.M.Jr: Well get me Mr. North then.

Operator: Mr. North. All right.

H.M.Jr: Please.

H.M.Jr: Hello.

Operator: Mr. North.

H.M.Jr: Hello.

Roy M.

North: Hello Mr. Secretary.

H.M.Jr: How are you?

North: I'm fine, how are you sir?

H.M.Jr: Fine. * Mr. North, I called up Mr. Branch - he hasn't come in yet but I wish you'd tell him about my conversation with you so he'll know about it please.

N: I'll be glad to.

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- H.M.Jr: Now on this question of illustrating this catalogue which is coming out.
- N: Yes.
- H.M.Jr: The President is quite urgent on that, see?
- N: Yes.
- H.M.Jr: And I've gone over it myself and I can't see why this catalogue, which you're working on now, shouldn't be illustrated.
- N: Yes.
- H.M.Jr: And it seems to me that the Post Office has always gotten it out.....
- N: Yes.
- H.M.Jr:and you're getting one out now.
- N: Yes.
- H.M.Jr: And it will be distributed I suppose through the Philatelic Agency.
- N: Why no that's distributed, Mr. Secretary, by the Superintendent of Public Documents.
- H.M.Jr: Oh.
- N: Now he has that printed at his own expense.
- H.M.Jr: Oh.
- N: And that is sent out at a fee - similar to the Department of Agriculture publications.
- H.M.Jr: Oh.
- N: Now we had a conference yesterday, Mr. Secretary, with Mr. Hall....
- H.M.Jr: Yes.
- N:and some of your legal folks and we - we are in perfect agreement to go ahead with illustrating that book and I believe as a result of our conference we can go right ahead.

H.M.Jr: Yes.

N: And to protect this situation, Mr. Secretary, we over here - we put up the text for the books.

H.M.Jr: Yes.

N: Now the Bureau of Engraving has the stamps and the Secret Service has administration of the - of the law against reproduction of the postage stamps.

H.M.Jr: Yes.

N: And we told Mr. Hall now - we - we won't - we're in perfect agreement - you folks just go ahead and put in the cuts here and then we'll just bring down the books and put them in and get it out.

H.M.Jr: Well Mr. Hall is here with me now.

N: Yes.

H.M.Jr: As I understand it, the thing will go ahead?

N: Yes - yes go right ahead with it. Mr. Hall - our understanding was with him that he could go ahead and put in the cuts and we'd supply the text for the book and it would be gotten out as it's gotten out now.

H.M.Jr: But I mean who assumes responsibility for getting the book out?

N: Well we furnish the text, Mr. Secretary, but under the law of course you folks are responsible for the reproductions.

H.M.Jr: Well that - well I - well now just a minute. Let me ask Mr. Hall a question please will you? Will you hold on just a minute?

N: Yes sir, that's all right Mr. Secretary.

(Pause - conversation aside with Mr. Hall)

H.M.Jr: Hello.

N: Hello Mr. Secretary.

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- H.M.Jr: We're - as I understand it - we're perfectly willing to assume responsibility for the illustrations.
- N: Yes.
- H.M.Jr: But the publication will be a Post Office publication, is that right.
- N: Well it will be. We have our symbol on it now. We have our seal, Mr. Secretary.
- H.M.Jr: On - on the front.
- N: On the front. And we'll go ahead just as we have gone ahead.
- H.M.Jr: Fine.
- N: And now there'll be no change.
- H.M.Jr: I mean it will be just the same except, as I understand it, we'll furnish the illustrations.....
- N: That's right.
- H.M.Jr:we'll be responsible and we'll - and will it say that we're responsible - anything in the front - anything like that.
- N: Well it was thought that it might be well to have a little inscription in front on behalf of the Treasury to the effect that these stamps could not be reproduced.
- H.M.Jr: That's all right.
- N: And now that wouldn't hurt anything.
- H.M.Jr: No, that's all right.
- N: Yes.
- H.M.Jr: Well then can I tell the President this next catalogue you get out will be illustrated?
- N: Yes - yes we're ready to go right ahead and I think Mr. Hall is ready to go ahead with the cuts.

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- H.M.Jr: Now just let me see - let me clear with him.
(Pause).
- H.M.Jr: He says he's ready.
- N: All right, fine, Mr. Secretary.
- H.M.Jr: Well that - I know that will please the President very much and I'll tell him of your cooperation.
- N: Fine, Mr. Secretary, you know I want to go further than that but that's outside the question at this time. We're all in favor of going a little bit further in - the boys know it's conference work - that is to say if we can do something for the columnists....
- H.M.Jr: Yes.
- N:it would be very helpful to us.
- H.M.Jr: Well could we cross that bridge after we get this done?
- N: That's right - that's right - it will involve a change in law, Mr. Secretary.
- H.M.Jr: Yes, but this does not.
- N: All right.
- H.M.Jr: Thank you very much.
- N: Fine, thank you sir.

October 30, 1936
10:05 A.M.

Present: Mrs. Klotz
Mr. Upham
Mr. Haas
Mr. White
Dr. Feis
Mr. Taylor
Mr. Lochhead
Mr. Gaston
Mr. Oliphant

H.M.Jr: Now, what I've done is this. I've got memorandums here from Williams; I've got a memorandum here from Dr. Goldenweiser; I've got a draft here from Mr. Feis; I got one here from Taylor, and I got one here from Oliphant.

Now, I read all of these over very carefully, and I walked down with Dr. Feis and I gave him some additional thoughts this morning, and he's been kind enough to rewrite this draft with a couple of suggestions I made. I haven't seen it and I'll read it out loud now.

"For Cochran from the Secretary of the Treasury.
For your guidance in further"

(Secretary reads Dr. Feis'
tentative draft of message
to Cochran)

Feis: The phraseology is obviously rotten.

H.M.Jr: I thought you said at the beginning - there was some place you said, you referred to a subsequent note.

Feis: That was in the original draft, but I took that out now.

H.M.Jr: Let me tell you why I like to send this note. In the first place, I think it is important that we make a record of our position. In the second place, I come to the conclusion that I don't think Mr. Cochran really knows what we have in

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our mind, how we feel about this thing. In the third place, I think that this Switzerland is so near being ready to go that we might move, and then if Holland is ready we might move, and that would let Belgium - give her time to think it over. She may think a little differently about it ten days, two weeks from now. And there is nothing particular to gain; I want to play, frankly, a little poker. I've been maybe pushing this thing a little too hard. I think it would be wise to give it a rest. As far as I can tell, I think this here is done extremely well, and I'd be glad to go over the thing; but as far as I can see - I read it last night about three times; this is about the fourth time - it sounds pretty good to me. And I think that we can just let the Belgian thing rest; I think it would be wise. If, on the other hand, Mr. Cochran feels that he's got to go back, all right, he can go back and leave this cable in his pocket, and re-present the thing.

Now, let's go around, and I take it that you have all seen this. Cy?

- Upham: Well, I agree thoroughly; it sounds pretty good to me, but there were one or two sentences I didn't like.
- H.M.Jr: It isn't fair to ask you because you haven't had a chance (to White).
- White: No, the general idea, it is generally good.
- H.M.Jr: Pardon me.
- White: I say I am quite sympathetic with the general idea.
- Haas: There's two things besides the principle, which I agree with - the technical part of how to do it; but you are holding that in abeyance, so I'm in agreement.
- H.M.Jr: Wayne?
- Taylor: It suits me.

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- Lochhead: Suits me. I think it is very necessary that you state your general principles and get an agreement with general principles on Belgium before we settle on details.
- Gaston: I agree that we ought to - that it is probably the best tactics to stall so far as Belgium is concerned, and go ahead with the others. I think this note, though, is susceptible of an interpretation that what we are offering them is a confirmation of the declaration of January 31, 1934, of the automatic transfers of gold at the gold point, and I think that possible interpretation ought to be eliminated, because they might quickly accept that and we probably wouldn't want that. I think that ought to be safeguarded further in the note.
- H.M.Jr: I think that's been -
- Feis: I'm not sure I understand.
- H.M.Jr: We've given Cochran instructions telling him that if we - we were going to cancel that of January 31.
- Gaston: I thought, as this note read, it left it open for Belgium to assume - all right, we declare as a government that we are willing to continue to act under the declaration of January 31, 1934, and I think that is a result we shouldn't want.
- Taylor: Well, there's a place at the bottom of page 2 there, which I think is the place you referred to, where if you insert "its" - See, it reads "if the Belgian Government believes that present arrangements for gold movements" - to insert "its present arrangements," that would clear that up. I wanted to get -
- H.M.Jr: What I'm going to do - let me just - Herman?
- Oliphant: I agree that Cochran does not understand the problem. I believe that it is highly desirable that you wait and proceed with Belgium - I mean

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Switzerland and Holland - first.

I also agree with Gaston that, as this note reads, it says to Cochran, "Our position is that if they subscribe to the principles of that tripartite statement, then the arrangement of January 31 is satisfactory," because it says this: "If the Belgian Government believes that present arrangements for gold movements would satisfy the underlying idea of the simultaneous declaration, and its responsibilities under the gold agreement now under discussion, I regard that as a matter for their decision."

Feis: That was a slip. You see, I didn't even have the January thing in mind. I mean it is Belgium's -

H.M.Jr: Let's do this thing now. There's no use having any other meeting. Let's just do it through.

Feis: I fully agree with the last point. I wasn't aware enough of this January '34 agreement.

Gaston: Yes, that's what they're really asking for; they're asking us to confirm that January '34 agreement.

(Secretary again goes over draft and revises, with suggestions and discussion from the group)

H.M.Jr: I really think that, if you don't mind, the best thing is for you people to get together on this and then the minute you've got the thing straightened out to come back again. Can you stick (to Feis)?

Feis: Yes, I will. I think there is still one obscurity that is a matter of important substance. We can phrase this in such a way as to still continue to say that if the Belgian - if the Belgian Government believes that its own existing arrangements in Belgium governing gold movements fulfill the purposes of the declaration and also they accept responsibility, that we, for our part, will let them carry on with their own arrangements; however, bear in mind that at our end we plan at an appropriate time to withdraw the declaration of January,

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1934, as earlier explained to you, and our system will be different.

Now, that's one thing. I think Oliphant has the idea that they in Belgium must also give up their arrangements. Now, it is certainly a point that you would like to get clear.

H.M.Jr: You'll have to state that again, Herbert.

Feis: I think there are two suggestions for change under consideration. The first would be to revise that sentence so that it would read something as follows: "If the Belgian authorities - if the Belgian Government believes that its existing - its own existing arrangements governing the purchase and sale of gold satisfactorily carry out the purposes of the declaration, and accept responsibility that they should carry them out, we do not object to those arrangements; we think that is a matter for their decision."

Then would come in parentheses: "Bear in mind that at our end we plan at an appropriate time to withdraw the declaration of January, 1934, as already explained to you." That is, one suggested revision would take that form. I'm not sure -

H.M.Jr: May I give you my idea. I don't know what Oliphant has in mind. The way I'd like to put it is this - we want the crux of the whole thing as I see it and, as I see the thing, it is this: We wish to point out to the Belgian Government that at an appropriate time we expect to withdraw the January 30, 1934, statement. We expect to do business with the Belgian Government and hold them responsible, as we are responsible, for this reciprocal exchange of gold. If the Belgian Government has a formula which they feel will live up to the spirit of our most recent declaration, always keeping in mind that we are going to withdraw the January, 1934, statement, we are ready to accept the Belgian Government's word and guarantee for the method which they propose which will fit in with their own internal economy.

Now does that - do I make it clear?

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- Feis: Yes, that's the first revision. That is, in substance, the first revision.
- Oliphant: At the risk of being annoying, I don't want to let this pass as being over-simplified, because it might turn out that if we agree that they could continue to operate their automatic gold standard on Central Bank operations between gold points, that after we revoked January 31 and I came to drafting the thing that was to take its place, it would be exactly like January 31.
- H.M.Jr: What do you mean?
- Oliphant: That that is just what January 31 is. That if the Belgian Government - I don't know, I haven't thought it through - that if the Belgian Government is to continue to operate on an automatic gold standard between points, ordinary Central Bank operations between points, the necessary counterpart of that in this country becomes the January 31.
- H.M.Jr: Now Herman, let's get this straight. This is the principle we are going to work on. I don't care what kind of a method that they use, as long as - the principle that I want established is that I'm going to do business with the Belgian Government. Now we'll go back on the British thing, and if we had stood here and insisted that we must have a guarantee from the British Government that they will keep between 490 and five dollars, we wouldn't have any arrangement. Now, the British had a definite home proposition that they had to live up to. But in order to get this thing through I recognized the fact that they weren't ready to say at what price the pound should be, and therefore we went ahead and did business with them and they are not attached to anything.
- Now, we do business with France on a different basis. We give up gold to China on a different basis. And if Belgium wants to have - to do business between fixed points but live up to our principle - I mean if they want to do the thing I'm willing to do that. I think it is unimportant; that's their problem. The important problem to establish is that our relationship between Belgium and ourselves is between governments.

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Now, how they work out their own internal economy is their business. The day that Brazil, the Argentine, comes in, I don't know how they're going to do. But I'm not afraid of having Belgium on the old gold standard, because she isn't important enough to swing the whole world her way. She just isn't important enough.

White: Mr. Secretary, may I object to your last position?

H.M.Jr: You may.

White: Granted Belgium is not important; it doesn't matter what Belgium is as far as the effect on us in the foreign market. Nevertheless, she is important in a very different way, and an importance which I think must be taken consideration of now in the light of ultimate goals which you may have established. And that is, this is the first opportunity in which a decision has been necessary as to what you will do with a country that is on the old gold standard.

You are making a plea for an emphasis on dealing between governments, which is all to the good, very necessary. Then, in addition to that, you are making a statement to the effect that you don't care how she implements her arrangements so long as the understanding is within governments, which is all right, with this condition, which I think is important: You state that as long as she agrees to the spirit - Well, she will come back and say, "Yes, we agree with the spirit and in carrying out the spirit we go back to the old gold standard, because we envisage that as a goal to which all governments want to return." Then you are placing yourself in this position of admitting, the first time when there was a choice of making them stick, that a return to the old gold standard is in line with the spirit of the goal which you are trying to achieve, and to that extent are you making - the next case will be equally simple, and each time will be a very slight step and each time the divergence will be -

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- H.M.Jr: Now wait a minute, White; you've made your point, I know what you're driving at. How would you handle this Belgian thing?
- White: Just as you are handling it, but I would be very careful of the phraseology and one of the things I would not put in - that last statement, I wouldn't put it in that if they feel that method is in spirit in accord, it is all right. In other words, I thoroughly agree with your approach, with your general idea. It is merely in the execution of that; it is falling in certain statements which later will put you in a position where you will have to go along with them, whether you wish or not.
- H.M.Jr: All right, they sent us a note on September 28. Shall I say the note isn't any good?
- White: No, no. I am saying the approach is all right. It is merely a question of the way in which you made certain phrases in which - made certain statements which will give them the opening door to defeat the very purpose for which you are standing out in the first place.
- H.M.Jr: Now just a minute. Now let me just get this. You know that the Belgian Government itself doesn't own any gold; all the gold is in the Central Bank. Shall I simply say: all right, unless they take over the gold, have a stabilization fund, I won't do business?
- White: No, I wouldn't think so. And I don't think you are interfering with their domestic affairs when you establish the condition that you will only deal with Treasuries.
- H.M.Jr: Well, the only thing you don't want me to say is about their conducting their internal affairs in any way so as to -
- White: No, I don't think that should go in.
- H.M.Jr: Well, if you don't mind, I don't think this is important.

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Feis: Well, just to clarify, there's two other sentences in there saying that the responsibility for having these arrangements serve the purposes of the declaration rests on the Belgian Government; but further in this case of -

H.M. Jr: May I refresh your minds? Let's take Mexico. If we had stood on the letter of the law - not the letter but the spirit of the thing. They had a hundred thousand - two hundred thousand silver pesos out and a hundred thousand silver in coinage, and when we talked to them we said, "Well now, we don't like you getting out paper currency; we think you should keep all of your currency in silver coins," they explained to us the contrary to what had been said that you couldn't get a Mexican peon to handle paper money. Naturally - well - but we couldn't tell them how to handle that proposition, any more than we could China. And all I say is this: That, as a guidance, that if the Belgian Government says to us, which they have in a formal note, that they are for the spirit of the tripartite agreement and they want to help us carry it out, I say at this stage I consider it to be a major block for us to tell them that the Belgian Government should take back their gold and create a stabilization fund; I say that is none of our business. If we are going to do that, it would be much better to do nothing, and I - my whole thing that I have been doing here is taking chances, relying on these people, that they mean what they say, in order to keep these things moving. I don't like it; it isn't perfect. It isn't what I like, but - I much prefer what Switzerland has, I much prefer what Holland has - but I don't know what their proposition - I don't know what their internal finance - I mean I don't know whether the King of Belgium is strong, or whether Van Zeeland is going to fall, or whether Franck is the big power in Belgium. But we have laid down this thing and we have laid down this principle.

White: Mr. Secretary, at the risk of incurring your displeasure and annoyance, I insist that the thing is important enough.

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- H.M.Jr: Well look, why don't you try it on these other fellows?
- White: It's all right with me, as long as your mind is not made up.
- H.M.Jr: No, it's not made up.
- Oliphant: I'd like very much to go in there and discuss it. I am perfectly sure that Feis - Henry, that Feis thinks that you can have a gold standard at one end and not a gold standard at the other; that the coin - you can have a coin that is one way on one side and not on the other, it is not all one side. I'd like to go into that.
- H.M.Jr: I haven't heard Feis say that.
- Oliphant: I say that the mistake which you have made, Henry, will necessitate leaving the order of January 31 in force. I'd like to work on that. Do you see what I mean? It's just unavoidable.
- H.M.Jr: The purpose of asking you to go out is to try, if you can - Incidentally, Mr. Bewley is coming in here at 11:30; he may throw some light on this thing. Now, the reason I always ask you people to come in is to get together, and if you can't get together at 12 o'clock let the thing go until Monday.
- Oliphant: Well, there is a fundamental point.
- Gaston: I think the question under discussion hasn't been made clear. It isn't a question of the stabilization fund, it is a question of under what conditions the gold moves - to make it clear whether or not gold moves in the first place out of Belgium automatically when the belga drops below the gold point, and that we might perhaps agree to; and then the other question is under what conditions gold moves out of the United States. Does it move automatically in free trading when the dollar drops below the gold point in terms of the Belgian currency? That is the question involved and is vital to the whole proposition.

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- H.M.Jr: No, I don't think - I don't think that that is -
- Taylor: That was cleared up some time ago.
- Oliphant: It hasn't been cleared up, and it's the problem that I'll be up against when I come to draw that contract.
- H.M.Jr: All right -
- Feis: Mr. Secretary, again at the risk of making trouble, I really think that -
- H.M.Jr: I'd love to go in and listen at the door when you - you go in there with them, will you (to reporter).
- Feis: There is a question to be cleared up here and not - I don't believe it's a difficult question. I feel that I am taking too leading, I may say, a part in this discussion. It is a technical - this is really a technical monetary question on which I'd really prefer to be silent until I know what decision the Treasury reached. I'll just say this in the hope I can shut up afterwards: that certainly the draft was prepared in the judgment that, though they might operate the automatic gold standard - that if your stabilization fund got belgas to be sure of getting gold under their laws without any question at the gold point; over here, certainly that the terms for releasing gold to Belgium be decided by you in the same type of independent decision as you have made in regard to France and Great Britain. Certainly the draft was made on that supposition.
- Haas: Well, that ought to be made clear to Cochran.
- Gaston: Yes, and that isn't clear here at all.
- Feis: I think that is the very thing on which he is foggy.
- H.M.Jr: Go in there for a half hour and see what you can do.

October 30, 1936
11:15 A.M.

(SECRETARY NOT PRESENT)

Present: Mr. Upham
Mr. Oliphant
Mr. White
Mr. Haas
Mr. Taylor
Mr. Gaston
Mr. Lochhead
Dr. Feis

Oliphant: So we're now going to describe a marriage between John and Mary and John's married but Mary isn't.

Taylor: That's very easy.

Oliphant: The thing you're talking about here is a relation and it's an organic thing and you can't take it into separate parts like that.

Taylor: Let's save a little time and have Archie describe what he contemplates doing about Belgium.

Lochhead: It's not a question of contemplating, it's a question of differentiating between the January 31, 1934, statement and what would be drawn up now. Now, in the 1934 declaration we automatically give up gold whenever the Belgian exchange goes over the gold export point and we give up gold to any -

Gaston: - gold standard country.

Lochhead: No, no - to anybody who is going to export; I mean any commercial bank is - can get gold as long as they show -

Gaston: You mean when it is at that point.

Lochhead: Yes, that's right.

Now then, I understood that if you are going to cancel that, that even if gold went up, the belga went up above the gold export point, under this new arrangement we would only give gold direct

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to the agents selected by the Belgian Treasury.

Gaston: That's right, and further than that -

Oliphant: Now wait a minute; let me read something to you: "He will also sell gold for export to foreign central banks." That's January 31.

Taylor: That's right.

Lochhead: I'll agree, but there's a change in it that -

Haas: If you analyze it, the change -

Lochhead: If you direct it on through, I admit that ultimately it's the same. But I mean from the practical viewpoint you are eliminating the commercial banks.

Taylor: You are doing one other thing, as I understand it. You are only extending that privilege for the balances which they have on that - that have been created on that particular day. In other words, you are doing it exactly as you are treating the British and the French and the Swiss; they have to convert or not and say so. Isn't that correct?

Lochhead: I'll admit that under the present arrangement we only give banks gold for the balance that they acquire on that particular day, even right now. That is also right.

Taylor: Yes, but that isn't implicit.

Lochhead: Well, I tell you, that's one thing to be cleared up - that in any case of giving gold we will only give it for transactions entered into in it for the particular day in which gold is asked for; we will not give gold just because they have balances. That is my idea of it in whatever they do.

White: May I set forth the basis for my objection, because I think it is both different and I think more fundamental than what is at stake, and at

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the same time more subtle and therefore more difficult to explain; therefore, I need a little more time.

As I see it, our interest in what we do, what arrangements we make with Belgium, rests on two grounds: first and foremost, by virtue of its effect on our own policies, our own monetary policies - I would put that as paramount, the most important of the two; and the second is, we are interested in the arrangement insofar as it furthers the policy as stated by the various governments toward - for want of a more exact word at the moment, let's say toward stabilization, realignment of currencies.

Now, with regard to the first point, we cannot approach the problem with Belgium, it seems to me, intelligibly or intelligently unless we know where are we headed for ourselves, what do we want as a monetary standard?

Now, I'm assuming this; I'm not stating that this is the goal that we ought to approach. I'm merely assuming that there is an acceptance of the idea, first, that we will deal only with Treasuries, and secondly, that we want to adopt, pursue, promote, and further a policy of managed currency as distinct from the opposite goal of the gold standard.

Why I want to make those two goals clear is this simple fact: If we are uncertain which way we want to go, then I hold it doesn't matter what we do about Belgium. If we don't know which goal we want to promote, then I hold that the distinction between any of the possible courses of action is a matter of no moment. If, on the other hand, we do know that we want to pursue a goal, then the question is: Which goal?

I assume that the Secretary wants to pursue the path toward managed currency and not toward the reestablishment of the old gold standard. Assuming that - and incidentally and also by virtue of my readiness to read that assumption, approving of that - I further assume that any step taken way back here,

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which is a long distance from that, must either be pointed toward that goal or away from that goal, and any step that we take now must be evaluated to the extent that it does one or the other. If it does neither, it is of no importance except on minor issues which may and which have already been discussed in considerable detail. If it does one or the other, then I hold that is the criterion upon which the whole thing may rest.

Therefore, the question in my mind becomes this: Is any action that we can take with regard to this Belgian issue, which is of no importance in and by itself because of the unimportance of Belgium in our general international financial arrangements - but does the arrangement tend toward the direction of the gold standard or does it tend toward the direction of managed currency?

Now, let me pause there for a moment and say: What difference does it make to us whether Belgium adopts a gold standard or adopts any other standard? We may be interested in a particular standard for ourselves; why should we go a step further and say we want to impose our particular system on a third country? For this reason, which I think is important: The United States could not and would not stand out alone on a managed currency if other currencies went back to a gold standard; it would be only a short space of time before the forces who favor gold, the gold standard - and they are very powerful and many - would say, "Why, that was all right for an interim, but every other country has returned to the gold standard. There is no longer any use for your stabilization fund; there is no longer any need for those arrangements." They will say exactly what Belgium is saying right now: that the stabilization fund was an instrument needed for a particular occasion, and is no longer needed. They will say what England says right now, although it doesn't act in that direction; namely, that "we will return to a gold standard" when, if, and as; and they will say what Netherlands are saying. And so you will find that the United States

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in five years or more, depending upon how quiet the situation is, will be pushed back on the gold standard, something very close to the old one.

Now, assuming further that you don't want that to be done - why? Because the test of a gold standard is not during periods of quiet, smooth operation, in which there are no severe cyclical movements one way or the other. The test of a gold standard is at a time of strain and stress; and therefore, the danger of going back before a time of stress and strain appears, I think, is to be strenuously avoided; and therefore, I would wish to do whatever is possible or desirable to do now to avoid going back when things are smooth, in order to avoid going off when things are bad.

Now then, what significance has this particular step? Are we making a mountain of a mole here? *hills* I think not. I think that if we are to say to Belgium, "We want to do business with the Treasury," that's all to the good; I think at least that much should be said. But if we further say to her, "Now, how you may do it is your business, and if you find that any arrangements you make are in accord with the spirit of our pronouncement of such and such a date, then that is all right with us," that is equivalent to giving our endorsement of the fact that we recognize its gold standard may be a legitimate instrument for achieving the kind of stability that we would wish to achieve; and I hold that we are not ready to make any such recognition.

Gaston: There's a short way to say that - would be just to say: they ask us, "Are we eligible to receive gold under the proclamation of January 31?" and the short answer, if you want to say it, is "Yes, you are." That's all there is to it.

White: I'd like to finish this if you think it is important.

Oliphant: I think it is very important that we spend a little

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time in articulating some of our major premises - I mean in our thinking around here.

Taylor: I would like to know why Harry thinks that telling Belgium, "Well, that's your business and that's your opinion" means that we say that that is possibly satisfactory to us at some future time.

White: Well, before I answer that, can we agree so far, so we'll know where our point of departure is?

Oliphant: Let me interrupt once more and say this: Let's assume we don't know whether our ultimate objective is the old gold standard or the managed currency. On that assumption, we should refrain from action which predetermines one development or the other.

White: Refrain completely - not prejudiced.

Taylor: All right, check.

Oliphant: We don't have to say - take action which leads only this way or that way.

Taylor: Check. We assume we don't know.

Oliphant: I'll even go further; unless we are prepared to say that we want to go back to the gold standard, then we should refrain from action leading in that direction.

Taylor: All right, do you think that doing business with Belgium on a day to day basis, which says that the best method of handling its monetary affairs and transfers and so and so happens to be the gold standard, does agree in any way or indicate a direction?

White: Now, I think the question you are asking is a difficult one to answer, and I will further admit to the staff that the case we are considering, I would say, isn't a strong one, that the importance is small.

Let me pursue that by a roundabout way, if I may.

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I hold that, in the determination, in the pursuit of any policy of government, there rarely comes an occasion when you can say, "Here's a clearcut decision between this point, this path and this path," that usually the difference becomes, the difference appears very slight at first, like a crack in the ice. We can take as an example Great Britain's political policy, if I may intrude on your field superficially; there have been occasions when she has said, "Oh, this isn't very important, whether we do this or that," and a few times like that and the first thing you know she has developed a line of policy; the first thing you know, each step provides the basis for and leads in the direction of the next.

I hold that such is the situation with us now. The distance between the two, I'll admit, is very slight. If the distance were very noticeable, we would have no difficulty in coming to an obvious decision. We would say, "Well, it's the gold standard or managed currency; there is no choice."

Oliphant: And the fact must be realized that most governmental policies in western civilization are created by a process of accretion.

White: And precedent, which is a part of accretion. Therefore, I would say that the importance of this lies not so much in the difference, but if we can demonstrate to your satisfaction that there is some difference, you see - some difference; and if the difference lies on this side rather than the other, then I should say we should be very careful from taking any such step which would be other than - which might be interpreted as being in the direction which we don't want to go. Rather, the alternative course would be to refrain completely.

And with that preliminary, we will attempt to answer -

Taylor: Can I interject something at this point? It reminds me of a position which we might take. In other words, we happen to think that our form of

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government is a democracy and that it is the only thing that is good for the world. See? Therefore, having that in mind, why, any weakening of that point of view - in other words, if we believe in a democracy, why, if we recognize that there is such a thing in the world as a monarchy, why, we can't talk to them because that ties our hands; that ties our hands so that we are gradually working towards a monarchy.

Oliphant: While we have White off the floor, let me answer that. That overlooks the thing which, if I may be permitted to say, Feis was overlooking; that is, whether there is a democracy here and a monarchy over there are disparate and disjointed things, but an exchange relation is a unitary thing. It is one thing, it is not two things. It's a coin; it just has two sides, there are not two coins there. And you can't, from the very nature of it -

Taylor: I don't think it is just as precise as that.

Oliphant: I think it is; you can't deal with me if I can't deal with you.

Taylor: Let's just assume that you are a Chinaman for the minute, and I am an Armenian. Now, you happen to - for a long period you have had certain types of silver tokens, you see, which were pretty good; and now you could, by turning them in at a certain point, turn a profit. You do business with an Armenian that didn't like those silver tokens. There was a bridge that had to be crossed. I, an Armenian - I had square money, whatever the hell it is they used for money. And there are not two sides to the one coin.

Oliphant: Well, when you come to translate one into the other, the mechanism by which you do it is an organic, unitary thing.

Haas: Well, Wayne, how do you suggest - I mean what mechanism do you have in mind on this thing in case they come back and say that? Would it be a censor like the January 31 arrangement?

Taylor: No, I think that may -

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Lochhead: Mr. Haas, may I say here - Mr. White was bringing out the question as to when something comes up there is a small crack, there is some little line in one direction taken which determines the direction of policy.

Now, as I understand it just now, some feel that if we deal with the Belgian Government the way they say we are dealing with her - they say that we have simply set up again the January 31, 1934, declaration - of dealing with a gold standard country.

Now, my feeling from the technical viewpoint was that we were going to cancel that and we were going to change it slightly, I will admit on the basis that we will still be dealing somewhat with a central bank; but we are not doing the same, the accepted way of the gold standard. Now, in my mind, I thought that that was the point, that's where we were showing what direction. In other words, I feel that that possibly is as far as we can go on it at the moment.

I mean I am looking at it from the practical viewpoint. What can we do with the least disturbance now and still keep on the right path? Now, to my mind I thought that was moving in the direction we wanted plainly enough. Now, to my mind I thought that was plain, when we cancelled that January 31, 1934, declaration and made them deal direct with us instead of allowing the old commercial banks to draw out gold under the old gold standard, that we were making a distinction between the -

Haas: In other words, when you channelized the flow of gold - that was the main distinction.

Taylor: You could do it on a day to day channelized basis, absolutely contrary to the principles of the automatic gold standard.

Lochhead: In other words, I feel that any of these things - you can only, no matter what direction we are going or want to go - from a practical viewpoint, you can only go so far at a certain time, and I think that maybe this is as far, from my viewpoint,

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as we can go at this time. And yet, I don't think that it commits us to the gold standard. You see, I'm just simply speaking from my viewpoint of the exchange man that's handling it. Now, I think to an exchange man that does make a break when you call out here and say that the banks here are not allowed to ship gold over. Of course, you are dealing with business men and others who don't see it so clearly, but it is recognized as a change in international monetary circles.

Haas: Well, I think Harry makes a very good point on this thing, that regardless of how we work this thing out, the fundamental force always is the line of least resistance, and when things get back to normal, the line of least resistance will be to go back to the old gold standard, which will mean that out of the depression we practically learned nothing, accomplished nothing, made no improvement in our system.

Cassel told me that when I was over in Sweden; that's what he was fearful about: when times become good, they are liable to just revert back to it; then a new depression and the same thing over again. He wasn't too sure that might not happen, and that it would take another catastrophe of these proportions to finally educate the world along monetary lines.

But I'd like to hear Harry say -

Lochhead: I'm agreeing, but it's just a question of distinction about how sharp your digression has to be from the angle, the way you start there - how far it has to be and how far it is practical to be.

Haas: Well, I think we can get down there if we hear what Harry says.

Taylor: Well, also I'd like to have Harry state again, after these various remarks I have made and other people have made, why this particular thing looks so important to him. I mean why does he recognize that as a serious objection any more than the

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recognition of the Chinese silver agreement?
And we are doing business with them.

White:

I'd have to premise that with what I have said before, because I maintain that the plane of discussion has arrived at a plane of subtleties and we are dealing with subtleties here, we are not dealing with a clearcut issue. And I must make my case on the strength of these narrow differences.

I am saying that as a preliminary because I admit at once that the difficulty between what was suggested originally before any of this discussion came up, which is being suggested now, and which I have in mind only slightly modified - I hold that the difference is very slight.

You will remember, if I can carry back the conversation to what was said earlier, there were those who held that it made no difference whether you dealt with central banks or with Treasuries. The position that some of us took then was that it makes a profound difference that we insist upon the dealings being stated as between Treasuries, with the central banks as their fiscal agents. Why? Because it makes any difference in actual operation? No. Archie will tell you that any time. Anyone knows how these operations proceed; it doesn't make any difference.

But we were establishing a principle. We were fighting for a principle which we wanted to lay down because of its importance in the direction it took. And I am gratified to note that that has become the plane of discussion, that the discussion no longer is between central banks and Treasuries.

But the question now is whether we are achieving our end as between Treasuries by a particular form of statement rather than possibly by a somewhat modified form. In other words, we have moved over in the direction of away from, shall we say, the old gold standard. Now we come to a difference which is less subtle - I mean less important - than that was, and one which certainly I wouldn't feel so keenly about as that with regard to dealing with

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Treasuries and not central banks.

And the distinction is this: Do we want to say by a statement to the Belgian Government in effect that "we want to deal with your government and we are ready to deal with your government, so long as you agree to abide by the spirit of these arrangements as set forth - these principles as set forth in that September 26 statement, and how you permit the particular mechanism to operate is a matter about which we have no concern"? We very definitely have a concern. Suppose that they said - I am saying suppose - they said, "We'll permit private commercial banks to snip gold." Immediately we would step in and say no. Would we by that fact be interfering with their domestic situation? We most assuredly would, as we always interfere with their domestic situation whenever there is any agreement of any kind relating to political or economic factors; only in that I think everybody would agree that the interference had been justifiable, because we did not want to see the monetary system take that direction.

Let's come down to brass tacks. Does this acceptance of the Belgian position up to now lead us toward a further strengthening of the position of the gold standard? I definitely feel that it does. And I feel that if we can make it a little less weaker by making it clear in our statement, as I think most of the statement did - I like that statement very much; there were only a few phrases and only the addition that the Secretary made that I had some objections to - if we can make it clear in that statement that we are still dealing with Treasuries and that the Treasury can designate any agency it sees fit as its fiscal agency, and that if it doesn't see fit to designate any fiscal agency, then I would go further and say I don't see why there is any need for any of this; we don't need any agreement.

I say that what is at stake here is solely the direction we give monetary policy - nothing else. Belgium can continue to operate with gold between third countries. She either buys and sells gold on our terms, which are very reasonable, or she

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can continue just as though we were off the gold standard completely and had no gold. So I would say that the opportunity exists for making a positive step - no, let me rephrase that - that the opportunity exists for avoiding a positive step toward the gold standard, and we ought to take that opportunity rather than make of it a positive step toward the gold standard, because I hold that the whole thing is not important except insofar as it does that.

Gaston:

See if this is on the line of what we want to say. It may not be at all: "We are not concerned with the mechanics of the day to day transactions on the Belgian end. We do not regard a stabilization fund as a necessary requisite to an agreement, nor do we object to dealing with the Belgian State Bank. But we do regard it as necessary that the governing arrangement and all transactions have the approval of the Belgian Government and are desired by it for the purposes of safeguarding its currency. Further transactions are not to be on the basis of the January 31, 1934, declaration with respect to sales of gold by the United States, but gold will be released by the United States in exchange for dollar credit only in settlement of current transactions at a price presently fixed at \$35 per fine ounce plus one quarter of one percent, but subject to change on 24 hours' notice. Reciprocally, it is proposed that the United States stabilization fund be permitted to acquire gold for belgas for similar purposes and under similar circumstances at the price currently established by Belgium."

Lochhead:

One thing that you said, about getting gold from us - I think we have to narrow that down "through direct operations of the fiscal agent of the Treasury."

Gaston:

Well, is that in general concretely what we want to tell them?

Lochhead:

I think we will come to an agreement that we want to deal with Treasuries instead of banks. But now we are going to a second point there and we are trying to say that what they have to do with

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it should be on a no gold standard or managed basis; we are now starting in one step further, and that is where we are splitting on it. Now, I agree with Harry right here now that I don't think that the Belgian case itself is important enough that we should have to be rushed into anything, and certainly if we don't understand each other clearly I'd hate to see us enter into any arrangement which we are not entirely in agreement with.

Feis:

I want to give you my impression of the discussion up to the present time, particularly as regards White's statements.

As far as I am acquainted with any official statement of American monetary policy in this field, it is contained in the tripartite declaration. The Belgian Government has voluntarily said it joined in those purposes and principles therein embodied. As a natural development, means for the reciprocal purchase of gold and sale of gold are being worked out. The arrangement suggested in that first draft was that the Belgian Government now assume full responsibility for the way in which such gold arrangements work in order that they might serve the purposes and policies of the tripartite declaration and not operate contrary to them, and they are put on notice that if contrary is the case we will take it up with the Belgian Government and not with the Bank of Belgium.

If the Belgian Government holds the opinion that an important government commitment, in accord with American policies as far as it has ever been officially formulated, is carried out by its existing laws, we accept that fact.

At that point, White seems to me to step in and say, "We'll punish you for carrying out the operation of these policies and principles through a central bank under the gold standard. We won't permit you to do it. You may profess complete identity of purpose with us, you may join with us for the objects that we said were at the base of our policy; but if you want to do it without a

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stabilization fund, by leaving the conversion of gold in Belgium and in Belgium solely, to be carried out under your gold standard arrangements, we will punish you, because that might work contrary some time in the remote future upon the development of monetary policy here or elsewhere."

I think that is formulating an independent policy, a personal policy, and one that goes far beyond anything I knew was under consideration in these discussions.

White:

That certainly requires an answer, because I think that is a very profound, devastating criticism. One can select one's words and use "punish," but it doesn't fit because it is not a punishment to Belgium. I pointed this out. I'm sure Archie would agree it's not punishment to Belgium of any significance - whether she deals with us.

Lochhead:

As I get it, it is no punishment on the mechanical operation. What I am afraid of in this whole thing is that you are going to drive this right out into a public discussion. Now, I don't think we need to fool ourselves - that most people, when they reacted to this question of the tripartite arrangement, they reacted to the question of stability.

Now, stability means different things to different people. To the main mass of people stability still means the old gold standard. You know that if you go down and talk to the average man - I mean financial man - that has any ideas at all - you've got another group there, that is, students - but your main class are not students; they just pick up their ideas about it. If we drive this out in the open just now, you are going to have your whole thing just dripping right out - I mean, Are we going to have stability or are we going to have managed currency? In other words, they're not going to let you stand on stability; they're going to say managed currency.

It's all right; that isn't up to me to decide what should be done. I think we should recognize

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what it is going to look like. As far as we are concerned, I mean as far as mechanically changing gold, we can do it through any one of these operations. The idea is: What is the public and the world going to think on that? I think - I feel that you are going to drive it right out.

Now, if we are ready for that, all right; but I think you have to recognize that. That's why I was saying why can't we work along, that is, wait. By breaking that of January 31 and changing, we are still saving our line of direction. But yet, you were -

White:

Well, there is very little difference in our positions. I am concentrating on that little difference. And I want to answer that - for want of better words, let's say criticism or accusation. In the first place, my incentive, such as it is, is due to a personal predilection for a particular stated policy, which I think is wholly beside the point, because I started out with the assumption that the Secretary did not know either which of the two he wanted or was not certain that he wanted a managed currency but was certain that he did not want to return to the gold standard as things looked now. I am assuming that or would go even further, that it doesn't matter which he has in mind. My position here is merely to point out that this step which is being taken leads in this direction rather than that direction. Which direction the Administration wants to go is not a matter that will be decided here, and there is no pretense upon any part that such decision will be made here.

But it is necessary not to let the Secretary be taken in by slight changes and smooth statements so that he is driven into a position where he has no longer the choice that he has at this moment. That is why I insist - not insist, but I said and say that he should understand that if this step is being taken he is to that extent moving a little closer toward that part which makes it easier to follow this goal rather than another.

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So I say that your statement that I am taking this position because as a personal matter I feel that this is the case rather than the other - I think is besides the point.

Now, secondly you say we are punishing Belgium because she doesn't want to follow the kind of system we do. But I don't see it in that light. I see it merely in the light where a country comes to us and says, "We want to make certain arrangements. We have read your statement and we subscribe. We are ready to take certain action." And we answer: "Good. We are glad you will join us. The conditions under which we entered this arrangement with others were that it should be among Treasuries. We will enter the same arrangements with you, and you can designate any agency to act for you that you like. If you don't wish to abide by what we consider to be the conditions under which we wish to operate, that is your affair. There's no pressure against you; there's no punishment. You can easily operate through third markets. Your desire to operate in the American market is not one upon which depends any great degree of prosperity or where there is any great monetary loss involved. You merely want to join this agreement. Good, we'll let you join this agreement; but in our statement in which we finally come to some conclusion, we want to make certain that in accepting you as one of those who are subject, who are given certain privileges here in our gold market - we want to make certain that by that act we do not commit ourselves to an endorsement of the kind of system which we are not ready as yet to approve of."

Now, in other words, putting it as you put it puts a very different phase on it, because you remember that I said that the statement as you read it I thought was excellent, with certain slight modifications, and among those modifications I would not wish to put it in that anything they select or any way they wish to engage in gold operations is all right with us. That's where the difference appears. Again I say the difference is not great in length, it is merely a question of

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emphasis; and I think that easily the phrases could be worked out so that it would not have the kind of emphasis which I think leads in that direction.

Olliphant: I move we merely omit the sentence.

Hoas: Herbert had something written out.

Taylor: There's one point I'd like to make, Harry, which I made last night when you weren't here, because I think it is well worth bringing out this point. When we made this declaration with the British and the French, the only question about returning to any kind of a standard which was raised was raised by the French, and every time in those discussions the French put in phraseology about the return to the international gold standard - we didn't get any agreement with the French at all that that wasn't the ultimate desire; we simply stated that at this point it was not desirable to include that. We had exactly the same experience with the British. And all we got in those negotiations was an omission of certain ultimate desires which may still be present as far as we know on the part of both the British and the French.

Now we come to another country who says, "We have a certain opinion." There is nothing in the public statement and there is nothing in anything else that alters the position which we took vis-a-vis the British and vis-a-vis the French; nor does it alter the position of Belgium at this time or what may be the position of France at this time, or what may be the position of England at this time. I think it is very well to emphasize it at this point.

White: I agree with you, and again I say that I think that, as I remember from - as I remember from reading there was nothing in there that I didn't think fitted in from my point of view.

Taylor: In other words, we eliminated that statement from the public declaration, but we did not get an agreement on it.

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Oliphant: May I hear what Gaston wrote.

Gaston: I was just trying to get over the simple idea. Probably technically it has some holes in it. Here it is: "We are not concerned with the mechanics of the day to day transactions (etc., as on p. 13)"

Oliphant: I don't know. That's not very much different, because it is less than 24 hours' notice; now it is on one hour notice, under this January 31 thing.

Gaston: Well, I thought the essential thing is to make it plain that we are not going to - we are not proposing to operate under the January 31. I think it probably needs to be spelled out more accurately. What we are proposing is an agreement which is in some sense broader and some sense narrower than the January 31.

White: You can't avoid the statement that you are going to give up gold under reciprocal conditions, and that one of her conditions that she may set will be that when gold reaches this point she will sell gold and when it reaches this point she will buy gold, and those points may be a quarter percent or a half percent or two percent separated. That's something we can't take issue with; I don't think we can avoid that. All it seems to me we ought to do is have the clear understanding that it is between Treasuries and that there are two alternatives: either that the Central Bank is their fiscal agent, or if we don't wish to take that position then we can take some such position as is indicated in this; namely, that we still feel we are dealing with the central government and she can, if she wish, permit the Central Bank to engage in those operations, providing she has a check on whether or not operations are in accord with the principles as stated in September 26.

Oliphant: All right now, supposing your statement is just that, I don't need to change January 31 one iota. And you can't revoke it unless you produce something to take its place.

White: Where is the pertinent part of the January 31?

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Olipphant: I'll read it to you.

Haas: Leave out the export point in your statement. Maybe the effect of how it operated would be very similar, Herman, but have it spelled out; and the principles on which they operate are different and they are in accordance with the arrangements we now have with England and France.

Olipphant: They aren't, and they can't be in accordance. "He will sell gold for export to foreign central banks whenever our exchange rates with gold standard currencies reach the gold export point."

White: The same spelling, the same terminology, as with England and France, and take away that export point stuff.

Haas: That brings out this little split that Harry's talking about. I mean it's small, but it puts it in terms and organization of the other type of currencies.

White: You can't avoid the statement that you will buy and sell gold at a price set from day to day, and I don't know as you wish to avoid it. What you do wish to avoid is what George points out, that those are export-import points, and that does make a distinction. I mean no matter what your statement would be, it would be a declaration of an intention to buy and sell gold at certain prices, with the further provision that that price may change from time to time without notice.

Haas: Furthermore, it has to come through one channel, and -

Olipphant: It now has to come through one channel.

Haas: Yes, but you could spell it out in this thing. The public thinks it is a regular gold standard which they are not aware of but we are, even on the old declaration. Do you see?

White: Yes, I think so. I don't see how you can avoid such a statement.

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- Oliphant: As it says now, "will sell gold for export to foreign central banks." That would be all right.
- White: To sell gold. No, you're not going to have that statement, all of it, in this statement.
- Oliphant: Now, wait a minute.
- White: You are withdrawing this statement.
- Oliphant: Now, wait a minute. The Secretary is an ordinary human until he is clothed with an authority which he gets by virtue of presidential approval, and his cloak of that authority has to be fixed in language. Otherwise, he has no authority to do this.
- White: Well, what authority has he to buy and sell gold with England?
- Oliphant: It is represented by the press release of October 13, 1936, no more, no less - because the President has approved it. The Secretary will sell gold to the exchange, equalization, or stabilization funds of those countries whose funds likewise are offering to sell gold to the United States. Now, the authority of the Secretary to sell gold will have to spell out to whom he is going to sell gold.
- White: Well then, couldn't we phrase the statement exactly similar to that, substituting the words "governments or their fiscal agents, or their central banks"?
- Oliphant: That wouldn't be true, because under this arrangement, the Bank of Belgium is not the fiscal agent, it's the principal.
- White: But it seems, if they were to designate someone, that -
- Oliphant: If they abandon their position, if they completely abandon their position and say the purchases and sales shall be for the account of and at the risk of the Treasury, the Central Bank being the fiscal agent, then that would be true.

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Haas:

Well, here's another suggestion, that you can say, instead of using the technical phrase "fiscal agent" you could say "with governments or such agencies as the governments may designate and whose actions the government assumes full responsibility for."

Oliphant:

Well, listen. You can make anything you want to say to the public just as weasel-worded as you want. But when we come to go to the President to get the authority for Morgenthau to act, it's not going to be weasel-worded; it's going to be exactly defined. One of the necessary points is that he can sell gold. First, to whom? Now, that won't be weasel-worded. He will either sell it to the Belgian Government or to the Central Bank.

October 30, 1938

At 11:15 this morning, Mr. Irey, Mr. Oliphant and Mr. McReynolds discussed with the Secretary the investigation of Harry F. Morton and Clarence F. Pollock.

HM, Jr. read the memorandum prepared by Irey on this investigation. (Copy of report is attached.)

It was decided that Pollock should be suspended from the service and HM, Jr. suggested that Morton be given a leave of absence without pay, which he feels will accomplish his objective and take Morton away from his desk.

Mr. Oliphant inquired if Morton while on a leave of absence without pay status could sign any papers since he still had the title of

Inasmuch as the conferees could not come to a decision, HM, Jr. asked Mr. Oliphant whether he would be satisfied to leave it entirely to the judgment of Mr. McReynolds and Mr. Irey to decide what disposition to make of Morton. Oliphant agreed to leave it entirely to these two men. Irey will send the Secretary a memorandum outlining the decision they come to.

BUREAU OF INTERNAL REVENUE
OFFICE OF
CHIEF, INTELLIGENCE UNIT

October 29, 1936.

MEMORANDUM FOR THE SECRETARY:

The facts and circumstances recited herein relating particularly to Harry F. Morton were not disclosed through investigation of specific charges against him. They came to light through inquiries which agents of this Unit were making of certain alleged unethical practices by Bank and Pollard, attorneys practicing before the Treasury Department.

We find that Mr. Morton first laid himself open to suspicion among a few of his official associates during the fall of 1935. At that time he occupied the position of Special Attorney in the office of the Assistant General Counsel and was detailed to assist in the prosecution of a number of customs fraud cases in New York City. While there he resided for a time at the Barbizon-Plaza Hotel and was intimately associated with Harry W. Bank, the enrolled agent.

In August, 1935, while in a conference with approximately fifteen other representatives of the Department, held in the Customhouse at New York, Morton openly expressed his disapproval of the Technical Staff of the Internal Revenue as a departmental agency to negotiate for the settlement of tax cases. This information came to us from one of the parties present, but, for obvious reasons, has not yet been verified. These remarks of Mr. Morton's became known to several members of the Technical Staff, and great concern was felt in that organization when, in January, 1936, he was appointed Acting Head of the Appeals Division.

The association of Bank and Morton continued to be very close, and their actions were such as to give good reason to believe they were quietly endeavoring to bring about the abolishment of the Technical Staff, so that the Appeals Division alone would have authority to dispose of tax cases before the Board without the hampering influences which they felt were exercised by the Technical Staff. Bank created the impression throughout the Bureau that he was having considerable to do with bringing about these changes, and his statements were such as to leave an impression that he was

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high in councils of the Treasury Department. He even went so far as to indicate to certain employees that they would be taken care of in the event of the changes proposed. He let it be known that he was on very intimate terms with Emil Hurja. This is supported by sworn testimony of members of the Technical Staff.

An examination of the records covering long distance toll charges against the telephone registered in the name of Bank and Pollard at New York City indicates that Morton and Bank were in close contact during the month of December, 1935. It was during that period that Morton was seeking the promotion to Head of the Appeals Division, which he received the following month. On December 6, 1935, Bank telephoned Morton from New York, and again on December 12, 13, 14, 17 and 21 calls were made by Bank to Morton. On December 14 and 17 Morton called Bank in New York, and in these two instances he had the charges reversed.

Sometime in 1935 there was a question about the activities of James K. Polk, Jr., an attorney of the General Counsel's office located in New York, and, following the inquiries with respect to this officer, he resigned from the Service. Morton, Bank and Pollard were intimately associated, and at the time of the separation of Polk Morton made the statement, which is attested in an affidavit of a member of the Technical Staff, that "Bank showed himself to be a pretty decent fellow by offering J. K. Polk, Jr. a job at \$15,000 a year when Polk found it necessary to resign from his position as Special Attorney."

Soon after Morton entered upon his new duties as Acting Head of the Appeals Division he made several short trips to New York City. On these occasions Bank gave parties in honor of Morton and invited various representatives of the Treasury Department to attend. He expressed himself as being very much pleased with what had been accomplished in the way of promoting Morton and indicated that the firm of Bank and Pollard was much encouraged. At one of these parties he made the statement to a

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member of the Technical Staff, which is confirmed by sworn affidavit, that Morton would not stop in his present position but would become Assistant General Counsel or General Counsel of the Treasury Department; that the Technical Staff member need not worry about his position, and that he, Bank, would see to it that affiant would be taken care of, in the event of the abolishment of the Technical Staff. He suggested that it might be well for the different members of the Technical Staff to be "friendly" in official matters with the firm of Bank and Pollard.

The point which it is desired to convey is that the definite impression which Bank attempted to make on various representatives of the Treasury Department was that he was in a large measure responsible for the promotion of Morton, and that it would be to their personal interests to extend favors to the firm of Bank and Pollard.

During January and February, 1936, Bank staged liquor parties at the Barbizon-Plaza Hotel, Lincoln Hotel, Edison Hotel, Dempsey's Night Club, and in Bank's former residence in New York City. These parties were attended by from eight to twenty employees of the Treasury Department engaged in the settlement of cases pending before the Board of Tax Appeals. At such parties Bank invariably designated Mr. Morton as the guest of honor. At least one of the parties was held in an apartment occupied at the time by Harry Morton at the Barbizon-Plaza Hotel. Mr. Bank, in responding to a compliment about the fine appearance of this particular apartment, stated to a member of the Technical Staff, "this is the kind of a place that I secure for my friends."

We already have information that either all or a portion of Morton's bill at this particular hotel was paid by Harry Bank. An agent is at present in New York checking over the records to verify this information.

Involved with Harry Morton is Clarence F. Pollock, an Auditor of the Income Tax Unit detailed to assist him. This man has been almost daily conducting himself in such a manner as to warrant his

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removal from the Service. Pollock, at the request of Harry Bank, was the one who induced other employees to attend the liquor parties; he was chairman of arrangements and the one who aided in providing all the facilities of entertainment, including certain women of doubtful morals, whenever the guests became irresponsible enough to offer no objection.

We have started today an investigation to determine who paid numerous bills of large amounts in entertaining the friends of Bank employed in the Treasury Department. Because of the nature of our investigation, we have necessarily refrained from such open inquiries. A superficial investigation which was made of a bill rendered to Bank and Pollard on account of miscellaneous charges incurred by Bank at the Hotel Lincoln in New York during the period between January 6 and February 18, 1936, in the amount of \$837.00, shows that \$17.00 represented a charge against Morton and \$62.00 a charge against Pollock. We have also been informed that the account of Morton at the Barbizon-Plaza Hotel was paid by Bank, and our further information is that various other bills at different hotels in New York incurred by Morton and Pollock were paid by the firm of Bank and Pollard.

There are several tax cases involving very large sums of money with which Morton has been directly connected and concerning which it is our purpose to question him. Particularly do we have in mind the so-called Six Company cases. These companies have been engaged on the construction of the Boulder Dam, and Morton's relations with Henry J. Kaiser, who controls one of the Six Companies, has been very questionable. Recently, in fact on Sunday, October 18, 1936, Paul Marris, representing the Henry J. Kaiser Company, telephoned Morton at his home in Virginia and told him that Kaiser was in his room at the Shoreham Hotel, together with other employees of Kaiser, and requested him to come to the hotel to discuss with them the "104" case pending against the Kaiser Company. Morton did go to the hotel on that Sunday afternoon in response to this request. On Monday, October 23d, on the occasion of his visit to my office to discuss the investigation which is being made of him, he stated that he had been offered a contract with one of the Six Companies. Here we have a situation wherein Morton was visiting the taxpayer

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in his hotel room on a Sunday afternoon to discuss a case pending before the Technical Staff, and shortly thereafter he informs me that he is considering employment by either the taxpayer or one of his associates. Furthermore, it is of interest to know that on October 19th, the day immediately following the conference in the hotel room, the taxpayer filed his petition before the Board of Tax Appeals, thereby transferring supervision of the case from the Technical Staff, over which Morton had no jurisdiction, to the Appeals Division headed by Morton.

At the time of his visit to my office Mr. Morton informed me that he had heard through an automobile concern in New York that inquiries were being made with respect to him by Secret Service agents. He stated he assumed the investigation was actually being made by agents of the Intelligence Unit, and he then told me of his proposed contract for employment, and added further that he had no criticism to make of any investigation we might be making; that he realized we had our duty to perform and that he would be glad to answer questions or give information that might be desired in the course of our investigation. He did, however, express himself with concern over the possibility of publicity being given the investigation and thereby affecting his chances for employment.

Another one of the questionable cases about which it is desired to interview Mr. Morton is the J. F. Shea Company, of Portland, Oregon. This is one of the Six Company cases and is represented by Paul Marrin, the same tax representative who was with Kaiser at the Shoreham Hotel in the conference with Morton on the Kaiser Company case. There was asserted in this case a deficiency of \$443,000, and recommendation was made by the Technical Staff for defense of the case before the Board. It was settled, on or about June 29, 1936, by the acceptance of an offer of \$37,500.

Major Pollard is the junior partner of Bank. Telephone records disclose that since the appointment of Morton to his present position he and his wife have had frequent conversations with Major and Mrs. Pollard. The two families have maintained close social relations, and as late as Sunday, October 18th,

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the Mortons visited the Pollards in their apartment at the Kennedy-Warren in this city. Other long distance telephone records are of interest. On Sunday, May 10th, last, Bank while at the Palace Hotel in San Francisco, telephoned Morton at his private residence at Falls Church, Virginia. Immediately following this telephone call Bank telephoned Louis Ferrare, Chief Counsel of the Trans-America Corporation. This is of particular significance because of the fact that Harry Bank was at that time trying to "chisel in" on the Bancitaly (Trans-America) case. On or about April 7, 1936, Bank had contacted Ferrare, solicited employment on behalf of his firm, and astonished the taxpayer's representative with his apparent knowledge of the facts and advance information which he had of the Board's decision, which was not published until April 30th, but which was just as Bank had represented it would be.

While some of the information contained in this memorandum is supported by sworn statements, yet the greater portion has simply come to us without an opportunity to this date for verification. We have reason to believe that a great portion of it can be verified and that other facts and information of value in determining the disposition of Mr. Morton's case can be secured, and it is our purpose to forthwith begin the investigation to this end.

It is obvious to the investigators and to myself, however, that we have sufficient information of improper associations and activities of Morton to indicate the wisdom of relieving him from further employment in the position which he holds. Cases involving vast sums of money are passed on in that particular division daily, and there should be directing the activities of the Organization a person in whom the Secretary can have absolute confidence. I recommend that steps be taken to relieve Mr. Morton of his assignment pending completion of the investigation.

Clarence Pollock, the Auditor of the Income Tax Unit who is assigned to assist Mr. Morton and is engaged on duty in New York at the present time, has been guilty of gross improprieties. It is he who has had contact with taxpayers in the discussion of cases pending

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before the Board, with which cases he is not presumed to be officially connected. He has shown every desire to favor the taxpayer in his discussions with officers of the Department charged with the settlement of such cases. He is the one who has arranged the parties for Bank and invited the officers of the Treasury Department. I feel that his conduct has been such as to justify relieving him of duty, and I recommend that he be suspended at once.

With such action taken in the cases of Morton and Pollock, it is our purpose to proceed aggressively with an open investigation to determine all the facts available about these two officers, or any other officers of the Treasury Department who may be involved, and further to take steps looking to the disbarment of Bank and Pollard and other tax practitioners against whom evidence is now being obtained.



October 30, 1936

Mr. Bewley and Mr. Mallet met with the Secretary at 11:45 today. Also present were Dr. Feis, Mr. Taylor and Mr. Lochhead.

Mr. Mallet said to the Secretary, "We have got an answer for you, Mr. Secretary, to the question you put to the Chancellor. The Chancellor wishes to thank you for the further information regarding the present position and he says that when you make the announcement about any countries named acceding to the reciprocal arrangement about sales of gold, he would certainly consider making simultaneous declaration in London, but the wording of the declaration will require consideration in the light of the actual circumstances.

"The Chancellor thinks he would be in position to say, if you so desire, that he welcomes the extension by the United States Treasury of their arrangements to the countries named, which is in harmony with the arrangements already made between United States and Great Britain and United States and France. The extension of this arrangement is also in harmony with the general basis of mutual cooperation which exists between British monetary authorities and the monetary authorities named in the United States announcement. Perhaps you may need an amplification of this and I will ask Mr. Bewley to amplify certain technical points."

Mr. Bewley remarked, "It really isn't very technical. I think the Chancellor wants to explain that the arrangements which Great Britain would make, for Switzerland, for instance, would probably not be exactly duplicated by the arrangements you make here, because circumstances are somewhat different. In the first place, the London market is open at exactly the same hours as the Swiss; Switzerland is only just across the way, and the two markets are open at the same time, so that it is possible for them to act much more often by telephone and, if necessary, to alter the price of gold several times a day. That's the same question that arose in the case of France, and, further, in the British case the arrangements are more made through central banks than in the case of America. I mean more is left in the Central Bank in other countries than here. Our two

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arrangements would not be exactly parallel, but the announcement which the Chancellor suggests would, of course, cover both."

The Secretary inquired of Mr. Bewley, "Is there any significance that you mention Switzerland rather than Belgium?" Mr. Bewley replied, "I don't think so; not any particular significance; any of these countries."

The Secretary then said, "The other question which I asked, which I take it this is an answer to, whether Switzerland and Belgium also talked to England, and I take it they have." Mr. Bewley's answer was, "As I understand it, the position is they are already selling and buying gold in England." The Secretary added, "We put that question quite directly and they have'nt..." Interrupting him, Mr. Bewley said, "It says they do already vary the price of gold if necessary several times a day according to the state of exchange, so very clearly they are already buying and selling gold in London." The Secretary remarked, "But evidently they had not informed you of this. We asked whether they had the information. Have I the answer?" Bewley replied, "I think this is the answer -- they are already buying and selling. That constitutes an approach."

HM, Jr. said to the British, "In the first place, may I say 'Thank you for the information' and I am glad that the Chancellor wishes to make a simultaneous announcement because it is all helpful even though the wording may be different due to circumstances. We have not made very much progress with Belgium and the Switzerland thing, as I understand, is through and it's in a cable now. We will either get it today or tomorrow. Isn't that right, Herbert?" Dr. Feis answered, "Yes, sir."

Continuing his remarks to the British, the Secretary said, "And you will also be interested to know that we have now heard from Holland -- a sort of feeler." Bewley said, "Yes?". The Secretary added, "Yes, we have had a feeler from Holland and just as soon as we get the time to get around to it, we are going to follow it up. It may be a few days until we can follow it up."

"I think that's about all. We are trying to work

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it out with Belgium and I think we will, but the question which seems to be worrying the Belgians is that we insist on doing business with the Government. They would like us to do business with the Bank of Belgium, but they then turn around and are willing to give us a secret guarantee on the part of the Belgium Government which is not acceptable to us. I don't want any secret things. I don't want any secret things. I have said there have not been any secret agreements. I don't want any. Possibly they just don't quite understand how we feel about it and we are trying to fix up a cable to explain it to them why we wish to do business through the Government and then if they wish to appoint the Bank of Belgium as their fiscal agent, that's their business. That's their business." Mr. Bewley and Mr. Mallet both agreed, saying, "Yes. Yes."

The Secretary then said, "With Switzerland we won't have any trouble and I don't think we will have any trouble with Holland, but the Belgians seem to be -- after all, we have time."

Mr. Bewley inquired, "Am I right in thinking you are waiting on Switzerland?" HM, Jr. replied, "It is through. It went through on the 27th, but being Switzerland they mailed the information to Paris instead of telegraphing it and so I guess they only got it today and until it is decoded, I suppose we will get it tomorrow. But Switzerland mailed the whole thing down to Paris."

Mr. Mallet then asked, "There is nothing about timing of the announcement? That's not important?" HM, Jr.'s answer was, "No; no; no. We will get together, as between Switzerland and Belgium. The two have no connections, but when we get the Swiss cable we will show it to you." Mr. Mallet said, "Thank you." The Secretary then added, "And again, as I understand it, France wants four days' time, so if we decide what Switzerland offered us is acceptable then we would say so and we would say four days from that day we will announce it. We will give you plenty of time. We wouldn't count a week-end!" There was much laughter over this. Continuing the Secretary said, "We stopped counting on Friday noon and begin counting Monday noon. So the chances are if this comes in tomorrow, we most likely won't disturb you until Monday."

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To the British the Secretary then said, "I am very glad that you people, even though you are already doing it, want to go along. What I said was, if we announce separately for Sweden, the thing I was afraid of was that some other country would say, 'See! America has already broke loose.'" Bewley remarked, "I don't think there is the least intention of that." HM, Jr. answered, "You just reaffirm the position I take."

Mr. Lochhead expressed his opinion as follows: "I can see it would be very practical that the Bank of England would change its rates from day to day with Switzerland. Of course they don't mention anything of what the Swiss are offering them in the Swiss market. Maybe nothing. It may be one-sided. But I can see certainly that they would probably reserve the right to change the rate from time to time, because Switzerland is a heavy trader." Mr. Mallet's comment was, "Probably several times a day." Mr. Lochhead added, "At least they reserve the right to do that."

"One other suggestion," the Secretary said, "and I don't know how to say it in the diplomatic phraseology -- 'informal' we call it or 'off the record' -- the pound-dollar relationship has settled down beautifully this week, but there is continued weakness of the franc. If you people could give me a little background on that, I would appreciate it." Bewley inquired, "You mean why it is weak?" The Secretary explained, "Why, in your opinion; or is it going to continue to be weak. We sense that here -- the continued weakness of the franc, and if you could throw a little light on it and if you can't I will understand that, but if you can it might be helpful to us." Mr. Mallet said, "We will see what we can find out about it." The Secretary then added, "But the continuance of the dollar-pound relationship -- we do practically nothing; haven't all week. Isn't that right, Archie?" Mr. Lochhead answered, "Very small."

The Secretary then said, "I am leaving this afternoon and will be back Wednesday morning, but I will be in touch with the Treasury. I am taking a week-end." There was much laughter over this remark.

FEDERAL RESERVE BANK
OF NEW YORK

M. L. ... 163

OFFICE CORRESPONDENCE

DATE October 30, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 11:08 today in what he called a very confidential matter, that is the repayment to the British of the £40,000,000 maturing in November - December, originally ~~granted~~ ^{approved} a year ago for three months and then three times renewed. They were going to pay this loan off, he said, and for that purpose he intended to accumulate sterling if possible. Under the circumstances it would help him greatly if the dollar-sterling rate could be kept steady at the present level. Since this rate was under our control, he wanted to ask me whether I thought the rate could be prevented from going above 4.89. I interrupted Cariguel to say that his statement, that the rate was under our control, was correct as far as it went but that the matter did not lie exclusively with us because, as he knew, the whole recent arrangement rested upon the daily ~~gold~~ price for gold in terms of sterling. Cariguel agreed. I continued that it was of course impossible for me to answer his question offhand but that I felt safe in saying that there was a very definite desire here to keep the sterling rate upon an even keel. I inquired guardedly whether 4.89 was the top price for his calculations and suggested that for domestic reasons it might be much easier to comply with his request if the rate were, ^{a little higher} say 4.90. Cariguel took his pencil and paper, did some figuring and replied that "Over 4.89 it would throw my calculations out of gear," adding that he gave me this information very confidentially and privately. I continued to talk about a somewhat higher level but Cariguel repeated that that would not be in line with what he wanted to do. I suggested that, considering how sterling

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 20, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERATION WITHL. W. KnokeBANK OF FRANCE.

- 2 -

had acted during the last few weeks, there might be no cause for him to worry about the rate running up. He agreed but pointed out that if the market learned that he intended to pay off the £40,000,000 it was likely to speculate on the rise and try to push the rate higher. This, he did not want to happen because it would collide with all of his calculations. I inquired what he would do if he found that the rate, as a result of his operations, went up, also whether it was his preference to operate in sterling rather than pay in gold. Cariguel replied that he would operate in sterling if the market permitted, that probably the chance of his being able to do so was small and that quite possibly the bulk of the operation would have to be done in gold. I asked him whether he had discussed the question with Bolton and he replied he had not as yet because he was anxious to get my reaction before he went to London next Tuesday. I assured Cariguel that I would not fail to discuss the matter here (very confidentially to be sure), that he would have to give me a little time and that I might revert to it after the weekend was over.

LWE:KMC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 30, 1936, noon.

NO.: 1063

STRICTLY CONFIDENTIAL.

FROM COCHRAN FOR SECRETARY OF THE TREASURY.

Yesterday afternoon I had a telephone call from Amsterdam from President Trip of the Netherlands Bank, who said that he desired, with Premier Colijn's approval, to inquire regarding the formalities with respect to entering a reciprocal gold arrangement with our country. Trip said he had been fully occupied and before now had not gotten in touch with us because of recent monetary developments in his country; he had not yet had time or opportunity to determine what practical benefits such an arrangement with the United States would give to the Netherlands. As to this point his people had reached no decision but would be glad of the opportunity to discuss the question. Trip wanted to assure us of the genuine desire of his people to cooperate on the matter.

I reported the message of Trip in my telephone conversation with you at 5 o'clock yesterday.

BULLITT.

EA:LWW

END SECTION ONE.

- 2 -

Section two.

I telephoned Trip at ten o'clock this morning in accordance with the oral instructions which you gave me. I told him that we appreciated his inquiry, and that as soon as negotiations with the Swiss and Belgians would permit me to leave Paris it could probably be arranged for me to visit him. It was his opinion that it would be better for us to discuss the matter in the Netherlands rather than at the BIS in Basle. Trip said that he had a telephone conversation with Premier Colijn after talking with me yesterday evening. The Premier said that he would be glad to receive me if I might proceed to Amsterdam and then go to The Hague with Dr. Trip to meet Premier Colijn. Dr. Trip told me that a definite declaration by the Netherlands could probably be obtained by seeing the Premier and perhaps the Minister of Finance at the same time I visited his Bank.

On Friday evening, November 6, Trip plans to leave Amsterdam at about six o'clock in order to be in Basel for the BIS directors' meeting. He expressed the hope that before we make any announcement regarding Belgium or Switzerland we may give the Dutch an opportunity to decide upon submitting their terms for a reciprocal arrangement with us. At 10:45 this morning I had a telephone call from Yoi (2) of the Frency Ministry of Finance. He inquired about the present status of our negotiations, and I told him that I hoped to have word from the Swiss today of a final decision.

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ion. In addition I told him of my two conversations with Dr. Trip of the Netherlands. The opinion was strongly advanced by Baumgartner that no announcement should be made with respect to Switzerland or Belgium until we see whether the Netherlands can also be brought into the agreement and until time is then given for Great Britain and France to agree upon announcements to be made at the same time that the American announcement is made.

Bullitt.

EA:LWW

October 30, 1936.
1:01 p.m.

H.M.Jr: I'll tell you what I deny.....

Kiplinger: Ah-ha.

H.M.Jr:without even consulting you.

K: That's fine. You're a good newspaperman.

H.M.Jr: They called me up from headquarters in New York.

K: Yep.

H.M.Jr: That a stock exchange firm had received a telegram....

K: Yep - I've heard it a hundred times.

H.M.Jr: And without even talking to you I denied it.

K: Much obliged.

H.M.Jr: See?

K: You're correct.

H.M.Jr: I said personally I didn't believe you did business that way and so forth and so on.

K: Yeah. Well here are the facts.

H.M.Jr: Yes.

K: I did gossip with a friend. I told him I just did Literary Digest.

H.M.Jr: Yes.

K: Everyone does that.

H.M.Jr: Sure.

K: He probably told a friend and it got on the wire.

H.M.Jr: Ah-ha.

K: And we've had it all day yesterday and all day to-day.

- 2 -

H.M.Jr: Well I just.....

K: And I guess I'm going to issue a statement saying that I have issued no statement.

H.M.Jr: Well.....

K: I'm much obliged to you.

H.M.Jr:that's that anyway.

K: I - I don't know how the election is going to come out - this is just between us.

H.M.Jr: Yes.

K: I'm working on it - spent all day in New York yesterday trying to find out...

H.M.Jr: Yes.

K:still don't know, do you?

H.M.Jr: Do I know?

K: Ah-ha.

H.M.Jr: Sure.

K: I see, all right.

(Laughter by both)

K: I'll not ask you to make a statement then.

H.M.Jr: No that's the easiest thing I ever forecast in my life.

K: I see.

H.M.Jr: Yes.

K: Well I'd like you after - I'd like to hold a post mortem with you after the election.

H.M.Jr: Well I expect to have several.

Yeah.

H.M.Jr: Can't do it in one. (Laughter)

K: Sure I know - and - all right well we'll do that.

H.M.Jr: All right.

K: Much obliged.

H.M.Jr: Goodbye.

K: Goodbye.

October 30, 1936.
1:05 p.m.

H.M.Jr: Yes.

Mayor
Haig: Haig.

H.M.Jr: Morgenthau speaking.

H: Yes, Haig- Jersey City.

H.M.Jr: Hello Mr. Mayor.

H: How are you?

H.M.Jr: I'm fine.

H: What I called you about is this - that article that appeared in the American the other morning.....

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

H: Did you see that?

H.M.Jr: No.

H: It was the most disgraceful, despicable thing I ever read about anybody.

H.M.Jr: I don't know even who it was about.

H: Why the American published a dirty article on you.

H.M.Jr: On me?

H: Yes - you ought to - I don't know - I'd rather you not read it.

H.M.Jr: Yes. What morning was that?

H: Yesterday morning.

H.M.Jr: No.

H: That's what I called you about. I simply wanted to tell you how dirty and lousy that article was.

H.M.Jr: What was it about?

H: About how you were offset to be a member of the Cabinet and how you were incompetent and you were just a farmer and that was a disgrace to the American public to have a man like you head of the Treasury Department. Oh it was the most despicable thing - that's why I'm calling you.

H.M.Jr: What was it - an editorial?

H: No - no it was this fellow Forbes - is that his name?

H.M.Jr: The financial writer.

H: Yes that financial writer.

H.M.Jr: Oh yes.

H: Yes, he's the fellow signs it.

H.M.Jr: No, I didn't see it.

H: You ought to see that.

H.M.Jr: (Laughter)

H: I don't think you ought to let him get away with that.

H.M.Jr: Oh I guess I'll feel better if I don't.

H: No - don't - don't see it - no I wanted to call you and tell you that I thought it was the dirtiest thing that I ever read on anybody, knowing you as I know you.

H.M.Jr: Well...

H: And I want you to know one thing.....

H.M.Jr: Yes.

H:that you get ready to celebrate because we're going to kick hell out of them. Now you take my tip.

H.M.Jr: O.K.

H: You get ready and you'll have one of the God damndest finest celebrations you ever had in your life.

- 3 -

H.M.Jr: Fine. I've been ready now for about a month.

H: All right but you go out because you'll get more satisfaction out of this thing. Don't read that thing.....

H.M.Jr: I won't.

H:It's - it's too despicable for you.

H.M.Jr: All right.

H: It burned me up.

H.M.Jr: Well I'm sorry. I guess I'm just a little thick-skinned but I hadn't seen it.

H: Well I know - but I know you're not mixed up in that kind of a game and you mind your own business and I don't know how they selected you out - you haven't interfered and you haven't bothered - no justification for it - no reason for it.

H.M.Jr: Well it's very nice of you to call me.

H: That's all right. I only wanted you to know that I was burned up about it and, knowing you as I do, it's an outrage but I want to assure you that you get ready for your celebration and we'll take a helluva lot of kinks out of it for you.

H.M.Jr: Fine.

H: All right now - good luck - I'm sorry for it - I only just wanted to tell you that I wanted to encourage you to say, "don't pay any attention to that kind of stuff".

H.M.Jr: Thank you very much.

H: All right now Secretary - keep your chin up.

H.M.Jr: I will - I never let it down yet.

H: All right now you're going to have cause to celebrate - you watch.

H.M.Jr: All right.

H: Goobye.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 30, 1936, 3 p.m.

NO.: 1064

STRICTLY CONFIDENTIAL.

FROM COCHRAN FOR THE SECRETARY OF THE TREASURY.

On Thursday afternoon when I was speaking with you by telephone I told you that I had just had a telephone conversation with Bachmann, President of the Swiss National Bank, at Zurich, Switzerland. He told me he had mailed to me a slightly revised text of their draft declaration which it is observed had been approved by the Board of Delegates of the Swiss National Bank on the twenty-eighth of October. The Federal Council he said would pass upon the revised text at their October 30 session.

I received by mail this forenoon the revised text in German and in French. Bachmann in his transmitting letter pointed out that there had been changes on two points; i.e., Article Three has been completed by a paragraph according to which the Swiss National Bank reserves also the right to retire from the agreement upon notice of twenty-four hours. Bachmann also said in his letter that "Furthermore, the provisions of Article Four concerning the equalization fund have been chosen in more general terms".

The text of the Swiss declaration is the same as the original text which I incorporated in my telegram of October 20, No. 1021, up to and including the two paragraphs of numbered Article Three; below I quote a translation

- 2 -

which I made into English of the balance of the revised text; that is, the part which completes the text following after the two paragraphs of Article Three and replaces everything after those two paragraphs ~~which~~ which appeared in the text originally sent you.

"In the above-mentioned statement the United States has reserved the right to annul its declaration on twenty-four hours' notice; the bank has the right to annul that of it in the same conditions.

Four. The bank carries out the operations covering for its own account or for the account of an equalization (omission) intended for maintaining the rate of compensation within the new limits through buying or selling gold or exchange. Only that bank has the right to dispose of this fund.

To testify which the present declaration has been signed in order to be transmitted to the Secretary of the Treasury at Washington.

Bern, October 28, 1936.

Federal Department of Finances and Customs.

Swiss National Bank."

Bachmann explained to me in his telephone conversation yesterday afternoon that the revision of Article Four was made to take care of the situation after the Swiss equalization fund is suppressed and bank proceeds to protect the Swiss franc with its own resources as Belgium is now doing since it is on the gold standard.

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I received the following telegram at twelve noon today. It was dated Zurich, October 30.

"Federal Council has authorized Finance Department to sign declaration of October 28. Bachmann."

END MESSAGE.

BULLITT.

EA:LWW

(What one solution of the problem would look like.)

PRESS RELEASE _____

TREASURY DEPARTMENT

For Immediate Release

October __, 1936

Modifying the announcement made by him on January 31, 1934, and relating to the sale of gold, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered) the United States will sell gold to those foreign central banks (of any and all countries including France and England?) which daily offer to sell gold to the United States, providing such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. All such sales of gold will be made through the Federal Reserve Bank of New York as the fiscal agent of the United States upon the following terms and conditions which the Secretary deems most advantageous to the public interest:

Sales of gold will be made at such prices and upon such terms and conditions as the Secretary may, with the approval of the President, fix from day to day. To any such price will be added one-quarter per cent handling charge. All such sales and earmarkings will be governed by the regulations issued under the Gold Reserve Act of 1934.

*Mailed to
Secretary in person
to Farm
Oct 31.*

(THIS AND SOLUTION OF THE PROBLEM WOULD LOOK LIKE.)

TREASURY DEPARTMENT

PRESS RELEASE _____

For Immediate Release

October __, 1936

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CC: Mr. Herbert E. Gaston
 Mr. Archie Leachwood
 Mr. Wayne C. Taylor
 Mr. George C. Haas
 Mr. Harry D. White
 Mr. Cyril B. Uphan
 Dr. Herbert Feis
 Mr. Herman Oliphant

out Oct 30

*Original
 mailed in
 pouch to
 Scig on farm
 Oct 30*

J 1936

September 30, 1936

DUTCH CONTROL IN GUILDER MARKET

AMSTERDAM - THE BANK OF THE NETHERLANDS ACTING ON BEHALF OF THE DUTCH EQUALIZATION FUND TODAY PURCHASED LARGE AMOUNTS OF STERLING WHICH WERE BEING OFFERED IN THE EXCHANGE MARKET OWING TO LIQUIDATION OF LARGE BEAR POSITIONS IN THE GUILDER

11:35

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Monday - November 2, 1968
DUTCH MONEY RATES EASIER

AN EASIER TONE HAS DEVELOPED IN THE ^{W/2.13} AMSTERDAM MONEY MARKET ACCORDING TO LOCAL PRIVATE CABLE ADVICES WITH RATES REACHING THE LOWEST LEVELS TO BE QUOTED SINCE DEVALUATION OF THE GUILDER MADE POSSIBLE A NEW ATTEMPT TOWARD AN EASY MONEY PROGRAM - PRIVATE DISCOUNT RATE IS NOW QUOTED AT 15-16 PC OF 1 PC WHILE THE BUYING RATE ON PRIME GUILDER ACCEPTANCE IS 1 PC /

FRIDAY, OCTOBER 30, 1936
FRENCH GOLD DELIVERY DATE EXTENDED

12:55

12:55

PARIS- BANK OF FRANCE HAS ANNOUNCED EXTENSION OF THE LIMIT FOR DELIVERY OF GOLD UNTIL NOV 15 WHICH REMAINS THE DATE LIMIT FOR DECLARATION BY THOSE WHO CHOOSE TO RETAIN THE METAL ORIGINALLY THE REGULATIONS CALLED FOR THE DELIVERY BY NOV 1 OF ALL GOLD BARS OR COIN HELD ON SEPT 26- COMPENSATION FOR THIS GOLD IS TO BE MADE IN FRANCS AT THE OLD PRICE PREVAILING BEFORE DEVALUATION

OCT 30 1936

-0-

3.05

ADD FRENCH GOLD DELIVERY

OCT 30 1936

PARIS- ALL INDIVIDUALS AND COMPANIES
DOMICILED IN FRANCE WHO CHOOSE TO HOLD GOLD
EITHER AT HOME OR ABROAD MUST DECLARE THEIR
HOLDINGS BY NOV 15 AND BE TAXED FOR SUMS EQUAL
IN AMOUNT TO THE APPRECIATION IN THE FRANC VALUE
OF THE METAL- ONLY EXCEPTIONS TO THIS RULE ARE
CASES WHERE THE AMOUNTS HELD ARE LESS THAN 200
GRAMS OR WHEN IT IS PROVED NECESSARY TO HAVE
GOLD FOR THE CONDUCT OF BUSINESS- FAILURE TO
DECLARE THE GOLD HELD INVOLVES SEIZURE OF AN
EQUIVALENT AMOUNT OF PROPERTY

IT IS LEARNED FROM AN AUTHORITATIVE
SOURCE THAT THE AMOUNT OF GOLD FLOWING INTO
THE BANK OF FRANCE SINCE DEVALUATION, REPRESENTING
EITHER REPATRIATION OF CAPITAL OR
SURRENDER OF GOLD IS VERY CONSIDERABLE
RUNNING INTO THE BILLIONS OF FRANCS, AN EXTRA-
ORDINARY ASSORTMENT OF BARS OF ALL WEIGHTS
ALSO IS BEING RECEIVED FROM INDIVIDUALS AT THE
HEADQUARTERS OF THE BANK OF FRANCE

TO WHAT EXTENT THE GOLD WHICH WAS HELD
ABROAD ON SEPT 26 ESPECIALLY IN LONDON HAS
BEEN CONVERTED INTO CURRENCY IS GUESSWORK BUT

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IT IS POINTED OUT THAT IN CASE OF LARGE CORPORATIONS THE CONVERSION IS RISKY SINCE IT IS DIFFICULT TO ELIMINATE TRACES OF THE OPERATION FROM THE BOOKS OF CORPORATIONS

ON OTHER HAND WHILE IT IS CERTAIN THAT THERE HAS BEEN A BRISK TRAFFIC IN SMUGGLING OF GOLD ACROSS THE FRONTIERS IT IS INEVITABLE THAT THE PROCEEDS OF THE SALE OF THIS METAL ABROAD WILL BE REPATRIATED SINCE OTHERWISE THERE WOULD BE NO PROFIT- CONSEQUENTLY EVEN THIS TRAFFIC AUGMENTS THE INFLOW OF CAPITAL INTO FRANCE

TO DATE INFLOW OF CAPITAL INTO FRANCE HAS PRODUCED A GREAT ABUNDANCE OF FUNDS IN PARIS MONEY MARKET WHERE OVERNIGHT RATE HAS DIPPED TO 1 PC- HENCE THERE HAS BEEN A REVIVAL IN MARKET FOR TREASURY BILLS- BECAUSE OF THIS TREASURY HAS BEEN ABLE TO INCREASE ITS BALANCE WITH BANK OF FRANCE TO 2 400 000 000 FRANCS COMPARED WITH 150 000 000 FRANCS A MONTH EARLIER DESPITE REDUCTION IN TREASURY BILL RATE
FUG TV

ADD FRENCH GOLD DELIVERY
DESPITE REDUCTION IN TREASURY BILL RATE 3:10
FROM 3 PC TO 1 7-8 PC- THE BETTER MARKET
FOR TREASURY PAPER ALSO HAS FOUND REFLECTION
IN DECLINE IN 30- DAY ADVANCES BY BANK OF FRANCE
AGAINST TREASURY PAPER TO 270 000 000 FRANCS
FROM 1 627 000 000 FRANCS ON THE MORROW OF
DEVALUATION

A FURTHER INDICATION OF ABUNDANCE OF MONEY
IN PARIS MARKET IS FOUND IN PRIVATE DEPOSITS
AT BANK OF FRANCE WHICH ARE UP ALMOST 45 PC
SINCE OCT 2- INASMUCH AS THE RETURNING CAPITAL
IS NOT WILLING TO INVEST IN MEDIUM OR LONG-
TERM ISSUES IT IS EXPECTED MONEY MARKET WILL
REMAIN FLUSH OVER THE WEEK-END UNTIL WHEN THE
TREASURY-S POSITION ALSO IS SAFE ESPECIALLY
AS TAX COLLECTIONS NORMALLY ARE HEAVY AT THIS
SEASON OF YEAR

THE PROBLEM REMAINS HOWEVER OF INDUCING
CAPITAL TO GO INTO REAL INVESTMENTS BOTH
PUBLIC AND PRIVATE- GOVERNMENT-S BUDGET PRO-
POSALS ARE HOPED TO SPUR THIS BY ABOLISHING
THE 10 PC LAVAL LEVY ON COUPONS OF STATE AND

MUNICIPAL BONDS AND REDUCING DIVIDEND TAX ON DOMESTIC STOCKS FROM 24 PC TO 18 PC- TAX ON FOREIGN DIVIDENDS HOWEVER REMAINS AT 25 PC IN ORDER TO MAKE INVESTMENT IN DOMESTIC STOCKS RELATIVELY MORE ATTRACTIVE THAN IN FOREIGN

THE BOURSE HOWEVER HAS NOT YET REACTED FAVORABLY SINCE IT IS DISCOURAGED BY ANNOUNCEMENT OF INTRODUCTION OF THE COMPULSORY FISCAL IDENTITY CARD AT THE BEGINNING OF THE NEW YEAR-

3:30 ADD FRENCH GOLD DELIVERY

PARIS- LEGISLATION FOR THIS CARD WAS VOTED THREE YEARS AGO BUT IT WAS NEVER ENFORCED BECAUSE IT WAS BELIEVED IT WOULD BE INEFFECTIVE AS A MEANS OF TAXATION CONTROL OWING TO THE HUGE NUMBER OF TRANSACTIONS EMANATING FROM PROBABLY 8 000 000 HOLDERS OF BONDS AND SHARES

THE SYSTEM IMPLIES THE INSCRIPTION ON THE CARD OF ALL COUPONS PAID AND THE DELIVERY OF THE CARD ANNUALLY TO THE TAX CONTROLLERS FOR COMPARISON WITH INCOME TAX DECLARATIONS- THE CARD HOWEVER FAILS OF ITS PURPOSE WHERE TAX COUPONS ARE CASHED ABROAD

A FURTHER INNOVATION WHICH IS DISCONCERTING
TO FRENCH CAPITALISTS IS THE TAX ON COMPANY
RESERVES WHICH HAS BEEN BORROWED FROM PRESIDENT
ROOSEVELT- THIS WILL BE NORMALLY 2 PC BUT IN
CERTAIN CASES WILL GO AS HIGH AS 4 PC OF THE
1937 RESERVES ANTICIPATING PROFITS FROM
DEVALUATION

Friday October 30, 1936

Secretary Morgenthau

OCT 30 1936

1226

FRENCH AND BRITISH REPRESENTATIVES CALL ON
MORGENTHAU

WASHN - REPRESENTATIVES OF FRENCH AND
BRITISH GOVERNMENTS WHO WERE ACTIVE IN
ARRANGING PREVIOUS MONETARY AGREEMENT
CONFERRED WITH SECY MORGENTHAU AND A GROUP OF
TREASURY AND STATE DEPT ADVISERS
THIS MORNING

NO STEP OF MAJOR IMPORTANCE WAS UNDER
DISCUSSION IT WAS LEARNED AUTHORITATIVELY
- THE BRITISH WERE REPRESENTED BY V A L MALLET
COUNSELOR OF THE EMBASSY AND THE FRENCH WERE
REPRESENTED BY JEAN APPERT FINANCIAL ATTACHE-
BESIDES SECRETARY MORGENTHAU THE AMERICAN RE-
PRESENTATIVES INCLUDED
ASSISTANT SECY TAYLOR AND DR HERBERT FEIS
ECONOMIC ADVISER TO THE STATE DEPT

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October 30, 1936
(DJ 12:26 p.m.)

French and British Representatives Call on Morgenthau

Washn. - Representatives of French and British Governments who were active arranging previous monetary agreement conferred with Secy. Morgenthau and a group of Treasury and State Dept. advisers this morning.

No step of major importance was under discussion, it was learned authoritatively. The British were represented by V. A. L. Mallett, Counselor of the Embassy, and the French were represented by Jean Appert, Financial Attachee. Besides Mr. Morgenthau, the American representatives included Asst. Secretary Taylor and Dr. Herbert Feis, Economic Adviser to the State Department.

October 30

The attached draft of cable to Cochran was prepared by Dr. Feis, but it was decided not to send it in this form, the group having come to an impasse when discussing it. It was decided to give more thought and study.

DRAFT

AMEMBASSY

PARIS (FRANCE)

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

I am forwarding to you below the text of the type of public declaration regarding a gold arrangement between the American and Belgian ^{Government} ~~authorities~~ which would be acceptable to us and which I hope and trust will likewise be acceptable to the Belgian Government.

In drafting it I have taken into full account the fact that Belgium has returned to the gold standard and under its existing arrangements gold movements in and out of Belgium are permitted, and also the explanations you have given me in regard to the attitude of the Belgian Government and its desire to avoid changes in its present arrangements.

For your guidance in further discussion ~~with the Belgian authorities~~ I wish to again make clear to you what my guiding ideas in the matter are.

First, as regards the character of the arrangement. Any arrangement now entered into between the American and Belgian authorities I regard as primarily the natural supplementation of the tripartite declaration in regard to stability made by the American, British and French Governments, in which the Belgian Government joined in its note to the American Treasury of September 26. This declaration of monetary policy pledged the governments concerned to direct their monetary policy for the purposes expressed in

Disregard 190

- 2 -

*the matter comes
by*

the public declaration. Arrangements for the purchase and sale of gold I regard as a means of further making effective these purposes. In view of the fact that ~~monetary policy has thus been made by~~ public declarations a direct concern of governments, I consider it both completely logical and necessary that connected arrangements dealing with the purchase and sale of gold are likewise a matter of concern for governments, and that the ultimate responsibility for the execution of any arrangements entered into in that field must rest upon governments. That has been my guiding thought during the recent discussion with the Belgian authorities.

It should be clearly understood and should so appear in the public presentation of the arrangement, that the American Government and the Belgian Government accept responsibility for the operation of gold arrangements, and the responsibility of seeing that they serve to assist in making successful the principles embodied in the simultaneous declaration, and in no way work against such principles. It is in this sense that I believe it necessary that the Belgian Government clearly appear as a principal in the American-Belgian agreement now under discussion.

On the other hand, I have no wish to insist upon the adaptation by Belgium of any particular set of arrangements or laws for carrying out the agreement. If the Belgian Government believes that present arrangements for gold movements would satisfy the underlying idea of the

the

- 3 -

the simultaneous declaration, and its responsibilities under the gold agreement now under discussion between us, I regard that as a matter for their decision. The whole work of executing the gold arrangements may be left to the Bank of Belgium; the gold that moves in and out may be the Bank of Belgium's gold; and the Belgian Government may not participate in any way in the day to day operation of the arrangements. However, the ultimate responsibility for the execution of the arrangement in conformity with the spirit of the joint declaration would be the responsibility of the Belgian Government and in the event of difficulty or misunderstanding, we should expect to discuss the matter with the Belgian Government and not the Bank of Belgium.

Second, and closely connected with the preceding analysis, is the problem of publication. I feel it essential that if an agreement be reached between the American and Belgian Treasuries regarding reciprocal purchase and sale of gold there be full public knowledge of the fact of agreement.

Beyond that I see no necessity for public statement or for the publication of the detailed arrangements. Such details have not been published as regards the arrangements now in existence between the American Treasury and the Treasuries of Great Britain and France.

I believe that full public knowledge of the existence of an inter-governmental arrangement is both essential and desirable.

- 4 -

desirable. The American Treasury cannot enter into any arrangements for the purchase and sale of gold without publication of the fact, and in such publication it must be clear that the arrangement is with another government. Further, I am of the opinion that such public knowledge is desirable and helpful and not the contrary. Such a statement of the type I am suggesting would appear to me in no way to justify Governor Franck's fears as transmitted in your 1061. It should serve to indicate that the Belgian authorities are acting in every way to make effective the stability of the belga; I cannot see how the governmental responsibility of arrangements for reciprocal purchase and sale of gold, based on and in accord with existing Belgian law, can conceivably be construed by the public as bringing the stability of the belga into question. Furthermore, I do not see how it can similarly be construed as contravening the laws which fix the relations between the Government and the Central Bank.

I have, to repeat, no desire for useless publicity regarding the operations of the stabilization fund or of any arrangements the American Treasury may enter into regarding exchange of gold. But on the other hand I have the fullest desire and intention of keeping the American public fully informed of the underlying principles and nature of any commitments which we accept, and if such

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action is incompatible with prevailing practices in Belgium, I shall reluctantly have to give up the idea of effecting an agreement with them in this field.

In summary, my views are:

(1) That the arrangements for the purchase and sale of gold between Belgium and the United States must rest on an agreement directly entered into between the two Governments, and placing ultimate responsibility upon them.

(2) The fact of the existence of this agreement must be publicly known.

(3) That if the Belgian Government wishes to leave the execution of this arrangement completely to the Bank of Belgium I regard that as a matter for their decision.

(4) That as to the precise terms and details of the arrangements for the reciprocal purchase and sale of gold and similar technical matters I see no necessity for publication.

EA:HF:LWW

OFFICE CORRESPONDENCE

DATE October 31, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF FRANCE.

Mr. Cariguel called at 11:44 today and stated that inasmuch as the Paris market would be closed on Monday he was going to send us a cable this afternoon, repeating today's order, good for Monday. I made reference to yesterday's telephone conversation and mentioned that inasmuch as the Secretary had left Washington yesterday afternoon and would not be back until Wednesday morning, there was not much that I could do in the meantime. I would, however, like, I continued, to raise a few points, discussion of which would enable me to understand the situation a little better. It seemed to me that, no matter what happened, he would very likely ultimately lose gold. Cariguel replied that that was sure. I pointed out that this seemed to me the inevitable result unless he wanted to depress the franc rate considerably in terms of the dollar and sterling. Cariguel replied that that was not their intention. There were also a few comments which I was in a position to make now and these were the following:

- (1) There was of course a strong desire here to cooperate to the fullest extent possible and most certainly no desire to collide with his plans in any way, nor (and this of course went without saying) to take advantage of the information given us.
- (2) I was a little uncertain whether we could be expected to give a definite assurance that any rate would be held at any given level. Cariguel interrupted to say that he fully understood that.
- (3) We were facing a real difficulty because we had no sterling to sell unless it was against gold. As mentioned to him yes-

OFFICE CORRESPONDENCE

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TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

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terday, our whole arrangement was based upon the London gold price. That being so, it was quite conceivable that at times the London gold price would be fixed at a level that would cause us an actual loss if we sold sterling against it at 4.89. I took it for granted, I continued, that it was not his intention to suggest that we should ever sell sterling at a loss. Cariguel replied that he would not think of it.

- (4) Could he give me an indication as to how he planned to operate? Cariguel replied that he would be in London next Monday in order officially to tell the British that they were going to pay off. The instalments would run from November 20 until December 26 - fairly well spread, one instalment a week, the first of £8,000,000 and the other of £6,000,000 - and to get the reaction of the British. He thought the British would quite understand that the French should be anxious to pay off; he was sure that they would do all they could to make the matter easy for the French. This trip would give him a chance to find out what the British views were. When he returned from London he would call me again. The real object of his call yesterday was to acquaint me with the decision they had taken (very confidentially of course) and to enable us to understand the reasons for strength of sterling if such strength should develop. If, during the period of their purchases, sterling was to shoot up as it did some time ago to, say 5.10, the planned transaction would of course result in a very grievous loss for the French. He shared

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SUBJECT: TELEPHONE CONVERSATION WITH

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our interest in having the market as steady as possible. I inquired whether he intended primarily to operate in London. Cariguel replied that that was his intention because he needed sterling; if he could not get the sterling in the market at present rates he would have to sell gold in London in order to get sterling. Such sale would be made privately to the Bank of England. I pointed to his recent operations which had been in the direction of supporting francs rather than keeping francs from going up and asked whether, under the circumstances, he expected to get much sterling in the market unless he wanted to depress the franc rate. He repeated that he had no intention to depress the franc rate and added that personally he did not think he could buy much sterling. He added that, in France, the political situation had a very important influence on the trend of the franc and, therefore, nobody knew what the future had in store. If political events moved smoothly, he thought, they should be able to purchase a fair amount of sterling. I mentioned that if he wanted to give us sterling orders for execution in this market we should naturally be very happy to do the best possible. Cariguel did not think he would give us sterling orders because he did not have the dollars to pay for the sterling. He again emphasized the necessity of treating the whole matter in strictest confidence and I assured him that he need not worry on that score.

LWK:KMG