

DIARY

Book 44

November 1 - November 10, 1936

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November 2, 1936.  
9:17 a.m.

Operator: Mr. Lochhead.

L: Hello.

H.M.Jr: Hello Archie.

L: Yes sir. Well there's no - no change so far.  
Sterling is holding between 8-15/16s to \$4.89.

H.M.Jr: Yes.

L: And on the stock purchases and sales on Saturday..

H.M.Jr: Yes.

L: ...there was a net purchase of 2,300,000...

H.M.Jr: Yes.

L: A little bit smaller but steady through the line  
all the way down the line.

H.M.Jr: Ah-ha.

L: And nothing - nothing new in the lines of cable or  
anything yet.

H.M.Jr: Well now Archie.

L: Yes.

H.M.Jr: If there's any drop in exchange be particularly  
interested to-day.

L: Right - we'll - there will - we'll make sure there's  
no deviation below this point at all.

H.M.Jr: Yes.

L: Very specially to-day.

H.M.Jr: What is the point now.

L: The point is 8 to 15/16s - \$4.88.....

H.M.Jr: .....I don't want it to drop below that.

L: O.K. we'll see that it doesn't.

H.M.Jr: Now I don't want any monkey-business to-day and the same goes for the bond market.

L: That same for the bond. All right I'll watch it carefully and we'll make absolutely sure there's nothing at all on it.

H.M.Jr: I mean you can watch that thing like a hawk.

L: Right.

H.M.Jr: I don't care what it costs.

L: Yes.

H.M.Jr: I don't want anything funny in the bond market or the exchange.

L: All right - well I'll - I'll watch particularly myself through all the day.

H.M.Jr: And if they don't come in and protect the franc - we step in.

L: Ah - oh yes, you mean if they don't protect the franc.

H.M.Jr: Yes.

L: Yes, well we'll get that rate tomorrow - I mean by the afternoon if they don't, we'll also do it.

H.M.Jr: Yes but be particularly interested to-day.

L: All right sir. I'll take special note and watch it myself.

H.M.Jr: For God's country and the Democratic party.

L: Righto. (Laughter)

H.M.Jr: Is Mrs. Klotz there?

L: I don't - just a second (aside to someone in the office - "Is Mrs. Klotz in)

K: Yes, I'm here.

H.M.Jr: All right.

L: Yes, Mrs. Klotz is here.

L: All right, sir.

H.M.Jr: All right.

L: Right.

H.M.Jr: All right.

L: Goodbye.

H.M.Jr: Goodbye.

\* \* \* \* \*

Operator: Hello

H.M.Jr: Yes.

Operator: Mr. Taylor.

Operator: Go ahead.

Taylor: Hello.

H.M.Jr: Hello Wayne.

T: Good morning Henry.

H.M.Jr: How are you?

T: I'm alive and you?

H.M.Jr: Very much alive.

T: Your mind all clear and made up is it.

H.M.Jr: Yes, it's made up. Hello.

T: Yes.

H.M.Jr: Anything you want to tell me?

T: No there's nothing new at all here.

H.M.Jr: Well very briefly I spoke to Cochran yesterday - he is going to Holland tonight. I spoke to Feis and told him to give him the authority, see?

T: Yes.

H.M.Jr: And I'd like to do one more thing. Please ask the State Department to send a cable to Cochran in Holland, you see, so he'll get it there tomorrow - hello

T: Yes.

H.M.Jr: Telling - no they better - better send it right away through to Paris and let Waite catch him at Holland - hello

T: What?

H.M.Jr: Tell them to send one to our Embassy in The Hague, see?

T: Yes.

H.M.Jr: For Cochran telling him - ordering him to file his cable there so that we'll get it Wednesday morning, see?

T: Yes.

H.M.Jr: I want him to file his cable - what he has done before he leaves Holland, see?

T: Right.

H.M.Jr: Get it?

T: Yes.

H.M.Jr: Ask them to do that.

T: I will.

H.M.Jr: Please.

T: I'll do it right away Henry.

H.M.Jr: That's all I got.

T: Right.

H.M.Jr: Now I've told Archie on the bond market and on the foreign exchange to be particularly interested to-day.

T: Correct.

H.M.Jr: I said, "For God's country and the Democratic party".  
(Laughter).

H.M.Jr: (Laughter) Well you watch it - I mean I don't want anything to slip up to-day.

T: No, we'll watch it.

H.M.Jr: O.K.

T: Right Henry.

H.M.Jr: Thank you.

T: Goodbye.

H.M.Jr: Goodbye.

November 2, 1936

Over the telephone from the farm, this morning, the Secretary said to Mrs. Klotz:

"Yesterday I called up Cochran and told him to proceed to Holland Monday night. I asked him if there was any reason why we could not let Belgium wait and he said they could wait. I told him to go ahead and try to get the Government to agree and then I told him to send me a cable, for the record, confirming what I had said to him over the telephone.

"I then called up Herbert Feis and asked him to cable Paris giving Cochran permission to go and he said he would.

"Then I called up Haas and told him that I wanted him and White, by themselves, without any lawyers, to give me, Wednesday morning, what they thought we could do and I outlined to him what I wanted, just the way I did the other morning. I told him that I wanted what was best from the standpoint of economics and not from a legal standpoint. I said after we decided what was best from an economic standpoint, then we would let the lawyers draw up a contract to fit that plan rather than have the lawyers tell us what was best legally and then try to fit the economic plan to the legal plan. I told him to work entirely by themselves, but that they could consult Lochhead if they wished, but nobody else."

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France.

DATE: November 1, 1936, 3 p.m.

NO.: 441.

FOR THE AMBASSADOR.

FROM THE SECRETARY OF THE TREASURY.

I should like Cochran to proceed to the Netherlands on Monday evening for discussions with the Dutch authorities, if this is agreeable to you.

HULL

EA:LWW

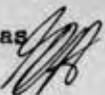
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 2, 1936

TO Secretary Morgenthau

FROM Mr. Haas 

At 5:30 P.M., Sunday, November 1, 1936, you telephoned me at my home and asked that I have ready for you by Wednesday morning, November 4, this Division's recommendations covering our monetary arrangements with Belgium, Switzerland, and The Netherlands; also a suggested draft of an announcement covering this matter.

You also asked that I have ready at that time a statement indicating just who holds title to the monetary gold in each of the three countries - Belgium, Switzerland, and The Netherlands, and a brief picture indicating the monetary pattern in each of these countries particularly with regard to the handling of gold, etcetera.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 2, 1936, 10 a.m.

NO.: 1070.

FROM COCHRAN.

FOR THE SECRETARY OF THE TREASURY.

I transmit the following to indicate my understanding of certain points discussed in the conversation on Sunday afternoon over the telephone.

I was told by you that you would request the Department of State to send a telegram that day which would authorize me to proceed to the Netherlands on Monday with the view to procuring from the Dutch an arrangement for reciprocity in gold dealings along the lines of the declarations already obtained from the Swiss and from the Belgians.

The Belgian and amended Swiss declarations have not yet received the final approval of the United States. In the conversation I told you that I thought both the Belgians and the Swiss are quite anxious to cooperate with us but that in their declarations they can go no further than already indicated to us. The suggestion was made that you inform me, whenever you may find one or more of the countries of Europe ~~which are~~ eligible to be added to your list for gold reciprocity, of the terms of the announcement which you plan to make regarding the particular arrangement. Then I would procure the approval of the country concerned to the declaration <sup>that</sup> is proposed.

You

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You would then inform the British Government and I would inform the French Government about the approved declaration.

END SECTION ONE.

BULLITT.

EA:LWW

Paraphrase of Sections two and three of telegram No. 1070 of November 3, 1936, from the American Embassy, Paris.

I would be notified by the interested country of the terms of the announcement which it might propose to make, and I would pass this on to the French Government and to you. After the interested country and the United States are in final agreement on the reciprocal arrangements and on the terms of the announcements, then I would suggest to the interested country that it contact the British and the French for direct negotiations with them.

The British, you said, wanted to participate in arrangements with any countries which the United States adds to its list, and I said that the same thing was desired by the French. Therefore, the idea would be to work toward simultaneous declarations with the terms of each country's declaration known to the others in advance.

Although in our conversation we did not cover the point it would presumably be desirable that if Belgium, the Netherlands and Switzerland are all accepted by France, Great Britain and the United States, the new additions should reach arrangements for reciprocity among themselves at the same time.

You made the explanation that you did not want publicity for the details of your several arrangements, but merely wanted to announce the additions made to the list after "agreement with the appropriate authorities" - this phrasing to depend upon the circumstances in each case.

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I expressed the opinion that on this side satisfactory arrangements could be made regarding the citing of the authorities provided you indicated what you wanted. Of course there was to be no effort in any of these negotiations to compel the internal financial or monetary set-up of any country with which we negotiated.

I informed you that at noon on Saturday I had received a letter from Bachmann in which he confirmed his telegram which I quoted in the last paragraph of my telegram No. 1064 of October 30, 3 p.m. He added that:

"Thus the question of the 'declaration' is now settled on the part of Switzerland. I suppose that the two alterations we made in the declaration of October 18 and of which I spoke to you yesterday by telephone will cause no difficulties for approval by the United States. The declaration signed by our Minister of Finance as well as by the Swiss National Bank will reach you within the next (omission) days."

In his letter Bachmann stated he had noted that the Belgian Government had on September 27 formally declared its adherence to the monetary agreement of September 25 between the Governments of the United States, France, and Great Britain. Bachmann wanted to know whether Switzerland should likewise signify in due form her consent to this arrangement, and you said you thought it might be desirable

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desirable for the Swiss announcement on reciprocal gold arrangements to include notice of adherence to the original tripartite agreement; in the case of the Netherlands the same procedure could be followed.

You questioned me about the French situation, and I said that there was improvement in certain economic factors. The gains of Government securities which had been made after devaluation had been lost, however.

BULLITT.

EA:LWZ

Paraphrase of section four of telegram No. 1070  
of November 2, 1936, from the American Embassy, Paris.

I also said that there is gossip in the country regarding the possibility of further devaluation of the franc.

I should add that I believe, for the following reasons, that the importance of further action being taken to implement the tripartite agreement becomes more urgent each day.

(1) As to the French situation, there is a growing distrust, aggravated by the publication of budget figures for 1936 and 1937 showing substantial deficits. All the support which the French Government can get is needed. Any evidence of the tripartite monetary agreement being a sincere arrangement acceptable to a growing number of countries would be very helpful to the Government.

(2) If there is no continuous progress on this matter, the German contention, voiced by Schacht in his declaration, that the tripartite agreement could not be regarded as a part of a permanent monetary settlement may receive some apparent substantiation. Should new countries, on the other hand, link on to the monetary arrangements made by France, Great Britain and the United States, the general public in France and in Germany and elsewhere should get the impression that this agreement was a turning point in  
the

- 2 -

the monetary history of the world.

I received this morning the Department's cablegram No. 441 of November 1, 2 p.m., authorizing me to proceed to Holland. I made a telephone call to President Trip, who will receive me tomorrow morning. He will make an appointment for me to see Colijn, the Premier. Therefore I am leaving this noon for Amsterdam, and Wednesday morning I should be back in Paris.

END MESSAGE.

BULLITT.

EA:LWW

November 3, 1936.  
9:18 a.m.

H.M.Jr: Hello Archie.  
L: Good morning.  
H.M.Jr: What's new?  
L: Nothing new - the rate is still pegged at 4.88-15/16s to 4.89.  
H.M.Jr: Ah-ha.  
L: The market doesn't seem to be doing an awful lot over there.  
H.M.Jr: Ah-ha.  
L: Francs are still holding around 65 -4.65.  
H.M.Jr: Yes.  
L: And the only thing is yesterday Security bids were fairly heavy again - about 5½ million.  
H.M.Jr: Gosh.  
L: So they still keep going there.  
H.M.Jr: Archie.  
L: Yes.  
H.M.Jr: I notice they're having a little trouble holding the guilder down.  
L: Well about holding the guilder down - they had the - the guilder was going up day before and then yesterday it turned around a little bit the other way.  
H.M.Jr: Yes but I was thinking if they're having trouble stabilizing and I also see they are trying to get out a new loan.  
L: Well there's talk, yes - talk about putting out a new refunding loan there.  
H.M.Jr: They may be very glad to come into out little agreement.

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- L: I should think in a way they might because the - of course Holland does work the bank - the Central Bank of Holland works with the Bank of England but then that's just simply a banking operation.
- H.M.Jr: Yes.
- L: And I don't think they'd let them do too much over there.
- H.M.Jr: Yes.
- L: And so I wouldn't be surprised if they did come in.
- H.M.Jr: buy those bonds.  
(Both men talking together - only last three words could be made out)
- L: What's that sir?
- H.M.Jr: When did you buy those bonds yesterday?
- L: We bought those bonds about the last half hour yesterday.
- H.M.Jr: Yes.
- L: I told them to go in and advance the price a little bit. The market was a little bit funny yesterday. There was very little activity in it - some were up and some were down and I thought best to put a little strength in it by actually buying some.
- H.M.Jr: Just hold the wire a minute.
- L: Yes.
- H.M.Jr: Hello.
- L: Yes.
- H.M.Jr: Go ahead.
- L: Well as I say I sold - raised his bids up about a thirty-second about the last half hour.
- H.M.Jr: Good.

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L:           Ard we picked up just about 800 - there weren't many around but it was just enough to give it a little bit better tone.

H.M.Jr:      Well that's all right.

L:           Yes.

H.M.Jr:      About how long are you going to stay at the office?

L:           Well I think I'll stay around till about noontime. I want to just find out that everything is closed up on the other side.

H.M.Jr:      Well I'm going out to ride about ten. I'll be back about noon and I'll call up then.

L:           Fine. Well I'll be here till about one o'clock or so anyway.

H.M.Jr:      Well I'll call before that.

L:           Right. All right then. As I say, I doubt if we get anything from the other side but naturally we'll be ready in case anything did happen.

H.M.Jr:      Well I'll call between 12 and 12:30.

L:           Right, sir. Goodbye.

H.M.Jr:      All right.

\* \* \* \* \*

Operator: I'll get Mr. Taylor.

H.M.Jr: Yes and then Mr. Gaston after that.

O: I beg your pardon?

H.M.Jr: Gaston if he's there.

O: Right.

O: Go ahead.

Taylor: Hello.

H.M.Jr: Hello - Wayne?

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T: Good morning, Henry.

H.M.Jr: Good morning. Anything you want to tell me?

T: No.

H.M.Jr: Good.

T: Very quiet as you probably heard from Archie.

H.M.Jr: Yes, did you get off that cable to....

T: Yes I did.

H.M.Jr: Well I wish you'd tell the State Department that we're anxious - we'll have that cable and could they get it over as early Wednesday morning as possible.

T: All right, I'll do that.

H.M.Jr: See so that when I get.....

T: I told them Wednesday that we wanted it Wednesday morning when you get back.

H.M.Jr: Well I'd tell them that - I mean it will most likely be a long one - see if you can't get it over there by - tell them we'd like to have it by 10 o'clock.

T: All right, fine. When are you coming down?

H.M.Jr: Well if the weather is all right I'll get in tomorrow noon about.

T: Around noon?

H.M.Jr: Yes, yes.

T: Does it look all right to you?

H.M.Jr: Oh sure - sure.

T: I think so.

H.M.Jr: Yes. O.K. Wayne.

T: All right, Henry.

H.M.Jr: Thank you.

T: Goodbye.

H.M.Jr: Hello.

Operator: I'm getting Mr. Gaston.

H.M.Jr: And after that I want whoever is the Acting Commandant, Coast Guard, please.

O: All right.

Operator: Mr. Gaston.

H.M.Jr: Oh Herbert.

G: Yes.

H.M.Jr: How are you?

G: Fine.

H.M.Jr: Herbert, I didn't have a chance to tell you before I left....

G: Yes.

H.M.Jr: I wish - I think you ought to plan next week to take some time off.

G: Well that's very nice - I'd be delighted to.

H.M.Jr: As a matter of fact you suit yourself.

G: Yes.

H.M.Jr: I'll be leaving Thursday and be gone for a week and...

G: Next week.

H.M.Jr: Well this coming Thursday we're leaving.

G: I see.

H.M.Jr: But I mean if you want any time - as much time as you want to take the following week.

G: Well that's very fine - thank you. How are you?

H.M.Jr: I'm all right.

G: Gamily all right?

H.M.Jr: Everybody's fine. Just tired - but that's no news.

G: No.

H.M.Jr: It wouldn't even make the back page.

G: No. You took the trip yesterday, did you?

H.M.Jr: Yes - yes. I road from Newburgh clear around with him and I was with him most of the time alone and he is in a grand humor - naturally he's a little high-strung.

G: He seemed to get a good reception over on the west side.

H.M.Jr: Well, considering the territory, very good.

G: Ah-ha - ah-ha.

H.M.Jr: The remarkable - the only thing that was remarkable was last night's reception in Poughkeepsie. I've never seen anything in the 20 odd years I've been here.

G: Ah-ha - ah-ha.

H.M.Jr: The way the people - well they thought 20,000 - I imagine there were 10,000 - 10 or 15,000 anyway.

G: Ah-ha.

H.M.Jr: Well if you can more than 1,000 together in Poughkeepsie you're good.

G: Ah-ha - yes.

H.M.Jr: And it really was a remarkable demonstration.

G: Ah-ha.

H.M.Jr: And he spoke without boasting and he talked and talked and talked - it was one of the best talks I ever heard him give.

G: Is that so?

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H.M.Jr: Yes.

G: Ah-ha.

H.M.Jr: And he just talked on and on.

G: Ah-ha. Well....

H.M.Jr: But the only thing that bothers anybody is that thing of that Security tag.

G: I wish that I had spoken to somebody two or three days ago. There's one end of that they've neglected very much. Both Landon and Knox said they believed in Social Security, yes, for the needy-aged and should be cared for out of taxation. Well take - for the needy-aged means a paupers tax - it means the poor farm and poor relief.

H.M.Jr: Yes.

G: And I think they should have played that a little more.

H.M.Jr: Ah-ha. Well I guess - I mean I haven't got the slightest qualms of any kind.

G: I haven't - I haven't the least.

H.M.Jr: No.

G: Yes.

H.M.Jr: And there was no news - the last - nothing at all.

G: No, there's nothing at all. The only - the only - the nearest thing to a roorback is their - last night they had a Rabbi and some others instructing God which side he was on.

H.M.Jr: A Rabbi?

G: Well they were - the Rabbi was the man that made the prayer. He informed God that Roosevelt ought to be defeated.

H.M.Jr: He did?

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G: Yes.

H.M.Jr: Well we're - Mrs. Klotz and I will take care of him.

G: (Laughter) I hope you do.

H.M.Jr: O.K.

G: Yes.

H.M.Jr: And - no - well I'll be seeing you Wednesday.

G: Fine.

H.M.Jr: All right, Herbert.

G: Goodbye.

H.M.Jr: Goodbye.

\* \* \* \* \*

Klotz: (Laughter)

H.M.Jr: Are you there?

K: (Laughter) I love that.

H.M.Jr: What.

K: I love that (Laughter)

Operator: I have Captain Covell.

H.M.Jr: All right.

O: Go ahead.

H.M.Jr: Captain Covell.

Covell: Good morning, sir.

H.M.Jr: Secretary speaking.

C: Yes.

H.M.Jr: I talked to the President about bring back the Campbell from England.

C: Yes sir.

H.M.Jr: It is agreeable to him to bring her back right away.

C: We'll order her right back, sir.

H.M.Jr: Order her right back.

C: Yes sir.

H.M.Jr: And that's all. Anything you want to tell me?

C: No sir, nothing. Admiral Waesche will be back Thursday. Everything is quiet down here.

H.M.Jr: You mean Thursday?

C: Yes sir.

H.M.Jr: What boat is this that Oliphant is going on?

C: That's the England, sir.

H.M.Jr: And where is she going?

C: Why he wants to go down to - drop off - he wants to take the boat at Philadelphia and then there's - that's the one we've ordered into Savannah - came from your office for a couple of days and then I believe to drop him off at Havana.

H.M.Jr: There was no order from my office.

C: Well from across the street someone wanted - it came from a Senator and a Congressman down there wanted a boat to - one of these new boats to stop in at Savannah for a couple of days. I got it - maybe it's Assistant Secretary 's office.

H.M.Jr: I guess it must have been Mr. Gibbons.

C: Probably.

H.M.Jr: Well what is the boat going to do?

C: Just drop in there so they can see it sir.

H.M.Jr: At Savannah?

C: At Savannah, yes sir.

H.M.Jr: And then she goes from there?

C: Then she goes from there to Havana to drop off Mr. Oliphant and then she goes out around through the canal.

H.M.Jr: Oh well the only stop she makes extra is Havana?

C: Yes sir.

H.M.Jr: Is that right?

C: Yes sir.

H.M.Jr: Was she making this trip anyway?

C: Yes sir, she's ordered - she's one of those going around to the Pacific Coast.

H.M.Jr: Oh so.....

C: It's right on his route and we allow them to stop. When the Commanding Officer makes an itinerary he'll stop one, two or three places on the way around.

H.M.Jr: I see.

C: So this is just absolutely in line with his regular cruise.

H.M.Jr: Well where does Mr. Oliphant get on?

C: At Philadelphia, sir.

H.M.Jr: Oh I see.

C: Now I'm telling you this Mr. Secretary. I sat in when Admiral Waesche was talking this over.

H.M.Jr: Yes, I didn't have a chance.....

C: Sir?

H.M.Jr: I didn't have a chance to ask the Admiral so that's why I'm asking.

H.M.Jr: And when does she sail?

- 11 -

C: I think it's the end of this week, sir. I - I couldn't tell you that - I'd have to guess at it. Within a very short time - it's a matter of days.

H.M.Jr: But you say some Senator asked them to stop in?

C: We had some - I saw the correspondence go to a Congressman there at - at Savannah and I think one of the Senator's office.

H.M.Jr: Ah-ha.

C: That's for - I'm just telling you that from recollection now.

H.M.Jr: Ah-ha. Well that's all right.

C: Yes sir.

H.M.Jr: All right, thank you.

C: All right, sir, we'll order the Campbell right back.

H.M.Jr: Righto.

C: All right.

H.M.Jr: Thank you.

C: Goodbye.

H.M.Jr: Goodbye.

K: Hello

H.M.Jr: Hello

K: Yes sir.

H.M.Jr: I thought I might as well get it straight.

K: Yes.

H.M.Jr: What?

K: That's right.

**PARTIAL PARAPHRASE OF TELEGRAM RECEIVED****FROM: American Embassy, Paris, France****DATE: November 4, 1936, 10 a.m.****NO.: 1075****FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.**

I make reference to telegram No. 441 from the Department of November 1, 2 p.m. and to my telegrams No. 1063 of October 30 and No. 1070 of November 2.

On Monday night I arrived in Amsterdam; I was received by President Trip of the Netherlands Bank at 9:45 Tuesday morning at the Bank. Mr. Beaufort, his ranking director, and Mr. Dejong, the Secretary of the Bank, also joined us for the discussion. I quote below the text of a document drafted jointly -

**"Declaration.**

The Government of the Netherlands represented by its Minister of Finance and

The Netherlands Bank represented by its President declare and confirm the following vis-à-vis the Government of the United States of America:

One. By Royal Decree of September 26, 1936, the export of gold coin and bullion was prohibited in the Netherlands. The said Royal decree acquired force of

**END SECTION ONE.****BULLITT.****EA:LWF**

MED

SPECIAL GRAY

PARIS

Dated November 4, 1936

Received 3:15 p.m.

Secretary of State,  
Washington

1075, November 4, 10 a.m. (Section two).

law as supplemented day on which it was signed, by virtue of a law of September 30, 1936, Staatsblad (Official Journal) No. 101.

Two. By virtue of a law of September 30, 1936, Staatsblad official journal No. 403, an exchange equalization fund was established in the Netherlands for the purpose of influencing foreign exchange rates and smoothing out excessive fluctuations of such rates. By the same law the Netherlands Bank's obligation to redeem its notes was suspended.

Three. As a result of the measure mentioned sub (one) the gold standard is for the time being not operative in the Netherlands. A new gold parity for the Dutch guilder has not been fixed and no limits have been fixed between which the gold parity of the Dutch guilder will ultimately be established. The obligation of the Netherlands Bank to maintain a metallic cover of at least forty percent against the aggregate of its liabilities payable on demand (i.e. the amount of its notes outstanding plus

MED - 2 - #1075 November 4, 3:15 p.m. from Paris

plus the balances it owes in current account and the bank post bills outstanding) is still in force.

Four. The exchange equalization fund mentioned sub (two) above, operates for account and risk of the Government and is managed by the Netherlands Bank according to rules laid down by the Minister of Finance and under the supervision of the Minister of Finance (END SECTION TWO)

BULLET

HPD

LMS

SPECIAL GRAY

Paris

Dated November 4, 1936

Rec'd 4:55 p. m.

Secretary of State,  
Washington.

1075, November 4, 10 a. m. (SECTION THREE)

Five. In its relations with the United States the Dutch exchange equalization fund offers reciprocal facilities for operations in the exchange markets of both countries it being understood:

(A). That the amounts of dollars to be purchased or sold in Amsterdam and the amounts of guilders to be purchased or sold in New York as well as the rates at which purchases or sales of the currencies in question will be made will be fixed on each occasion by mutual agreement;

(B). That any dollars thus acquired for the account of the Dutch exchange equalization fund and any guilders thus acquired for the account of the United States will be converted into gold one quarter basis of the official United States gold price of \$35 per ounce fine, less or plus one quarter of one per cent handling charge as the case may be; and

(C). That the gold thus acquired by either of the  
sources

LMS 2-No. 1075, November 4, 10 a. m., Sec. 3, from Paris.

sources will be earmarked for account of the owner in the country of the other party and will at the request of the owner be shipped to the country of the owner by first available steamer of either country, the cost of the shipments including insurance to be borne by

(END OF SECTION THREE)

BULLITT

NPL:EMB

LMS

SPECIAL GRAY

Paris

Dated November 4, 1936

Rec'd 5 p. m.

Secretary of State,  
Washington.

1075, November 4, 10 a. m. (SECTION FOUR)

the Dutch exchange equalization fund.

In making this declaration the Netherlands Government and the Netherlands Bank base themselves on the declaration of the Secretary of the Treasury of the United States dated October 12th, 1936. In view of the fact that the United States have reserved themselves the right to withdraw that declaration on giving notice twenty-four hours before, the Netherlands Government and the Netherlands Bank must make the same reservation with regard to their offer of reciprocal treatment contained in the present document. B

The Hague, Amsterdam. November 1936."

BULLITT

NPL:EMB

PARAPHRASE OF SECTIONS FIVE TO EIGHT, INCLUSIVE,  
No. 1075 of November 4, 1936, from the American Embassy,  
Paris.

I had lunch with Beaufort and President Trip. Trip and I went to The Hague at 2:45, where at 4 o'clock Premier Colijn with Minister of Finance Oud received us, and I explained to the Minister and to Colijn the procedure we are following in negotiating with the countries which have indicated interest in dealing with us in gold on a reciprocal basis, and the draft document was explained by Trip. Colijn and Oud approved the draft declaration, but until you may indicate through me the acceptability thereof, the document will not be signed. Then the officials to sign would be Oud and Trip. Trip and I went to the American Legation at 5 o'clock to inform Minister Emmet of our conversations, but the latter was not in The Hague. Of course I shall inform him of the developments in the situation.

If and when you find the Dutch declaration acceptable I am to telephone to Trip, who will then arrange for the forwarding to me of the document when signed. This weekend when the BIS directors have their regular meeting at Basel I shall have the opportunity to see Trip.

The request is made by the Dutch that publication should not be given to the terms of their declaration; they would be pleased to have us submit to them the wording of the announcement which we may plan to issue regarding adding their country to our list of countries eligible to get gold

gold

- 2 -

gold from us. It is not anticipated by the Dutch that under this agreement there is likely to be a large volume of business transacted with the United States. But they appreciate the usefulness of disassociated cooperation in the monetary field at this time and they are anxious to join.

The point was made by the Dutch officials, however, that one danger of giving a demonstration of solidity in monetary matters between six or more important powers is that within one or more of these countries, or elsewhere, the impression may be gained that basic problems can be solved by cooperation without the need for sound financial management internally.

The details of a proposed negative arrangement were drawn up by Trip for cooperation between his Bank and the Federal Reserve Bank of New York as fiscal agents of the stabilization funds, which was for consideration if the treasuries establish general lines of agreement. I made the suggestion that before acting he condense paragraph number five of the declaration to only those essential points necessary to indicate the manner in which the Dutch, being off the gold standard and having no free gold market such as the British have, visibly arrive at a basis of gold calculations with the United States. Please inform me if you want the full text of his tentative suggestions for the inter-fiscal agent arrangement at this time.

The

- 3 -

The American elections very much interested Premier Colign, and he hoped Secretary Hull would be able to carry on his program of trade agreements.

The progress made in the Netherlands since devaluation seemed to be quite satisfactory to the Dutch officials. There has been a rise of less than one per cent in retail prices. It has been possible to make a reduction in Government export subsidies to agriculture. Capital has been quoted on a satisfactory scale and Dutch Colonial enterprises are receiving considerable foreign money, especially British. The florin is left by the equalization fund to find its own level, except that for a few days recently in order to check the rise in the florin some purchases of sterling and of gold at London have been made. Subscriptions are being opened by the Dutch Treasury to a one hundred million florin twenty-year three percent loan at ninety-five three quarters to have around a 3 1/2 percent yield. Fifty million florins will be taken by various official and semi-official funds and organizations, and fifty million will be open to public subscription; This is a trial issue to test the market after devaluing.

The French situation is of some concern to Trip, since there is an apparent tendency of this country to continue to doubt the Government, and since there is a lack of prospect for a strong confidence-inspiring government to gain control.

Recent tendencies of politics and of economic policies



November 4, 1936.  
3:30 P.M.

Cochran: Hello.

H.M.Jr: Hello.

C: Hello, Mr. Morgenthau.

H.M.Jr: Hello, Cochran.

C: Congratulations on your landslide.

H.M.Jr: Thank you.

C: Oh, the papers are carrying it in tremendous headlines over here.

H.M.Jr: Well, we all feel very happy.

C: Yes sir, you must.

H.M.Jr: I left the President at three o'clock this morning and of course he was very happy.

C: Surely. Where are you now?

H.M.Jr: What's that?

C: Where are you now?

H.M.Jr: I'm sorry, I don't hear you.

C: I say where are you?

H.M.Jr: I'm at my desk in Washington.

C: Oh, you're in Washington then?

H.M.Jr: Yes.

C: You had gone to New York when I called earlier.

H.M.Jr: Yes.

C: Has - have you seen my two telegrams on the Hague?

H.M.Jr: On what?

C: The two telegrams, one on the Dutch arrangement.

- 2 -

H.M.Jr: No, up till five minutes ago they had not come in.

C: Is that so?

H.M.Jr: Well, to be exactly accurate, the first section of your telegram 1075 is in - just one section.

C: Yes.

H.M.Jr: That's all we got.

C: That's all?

H.M.Jr: Yes.

C: So they started coding it early this morning. I got in at midnight.

H.M.Jr: Oh, you didn't send it from Holland.

C: I didn't get your message there.

H.M.Jr: Oh.

C: I went to Amsterdam first where Tripp fixed up the arrangements.

H.M.Jr: Yes.

C: Then we went by train to the Hague -

H.M.Jr: Oh

C: - where Premier Colijn and the Finance Minister live, and they gave their O.K. to it.

H.M.Jr: Yes.

C: They didn't sign it until they knew whether it would help.

H.M.Jr: Oh.

C: Then Tripp and I went by the Legation place to call on the Minister.

H.M.Jr: Yes.

- 3 -

C: But he was in Paris.

H.M.Jr: Oh.

C: So - and I just had time to catch a train then and so Tripp took us on to the train.

H.M.Jr: I see.

C: And so we didn't either - the Secretary wrote me last night - I got the letter here this morning that you had wanted a cable gram from there.

H.M.Jr: Yes, well I wanted it so that I would get it in time this morning but it's over now.

C: It would have been plenty slow from there because they would only have about one person to work on it.

H.M.Jr: Ah-ha. Well now, what's on your mind?

C: Now the point is this - I sent you a second cablegram in which I read - quoted the following report from a Zurich International paper of to-day which carries this item from Geneva.

H.M.Jr: Yes.

C: It says, "The Swiss Federal Government has authorized the Department of Finances and the Swiss National Bank to sign a declaration and according to the terms thereof Switzerland actively adheres to the Anglo-Franco American monetary agreement....."

H.M.Jr: Yes.

C: "Switzerland takes the same measure as the third country to fix the price of gold; declares herself ready to ship gold on the same conditions and to exchange it at a price determined with the Banks of \_\_\_\_\_ as of Great Britain, France and the United States.

H.M.Jr: Yes.

C: Count DeArgon and Cortez were with me and we both think it passed through the Swiss Federal Council.

H.M.Jr: You did what?

C: We think that someone of the members of the Swiss Federal Council.....

H.M.Jr: Yes.

C: .....must have let this get out to a third party - spoken somewhere.

H.M.Jr: Yes.

C: Anyway it's repeated in - in all the financial papers to-day with some fever.

H.M.Jr: Yes.

C: And Baumgartner telephoned me - he saw it before I did this morning and he said that Auriol was anxious to see what we were going to do.

H.M.Jr: Yes.

C: .....so that they could get busy too.

H.M.Jr: Yes.

C: The point is I was afraid you were getting away and I rechecked before you left Monday.

H.M.Jr: Yes, Well -

C: If we could get some decision so that these things could come out to the front it would be better now since a leak has started.

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

C: I mean this one leak.....

H.M.Jr: Yes.

C: .....already is just a supposition.

H.M.Jr: Just a moment - just a moment. (Aside to someone in H.M.Jr's office, "Where is Mr. Taylor? All right.")

H.M.Jr: Hello - go ahead please.

- 5 -

C: I say the report of this one affair in Switzerland.....

H.M.Jr: Yes.

C: .....is already giving rise to conjectures.

H.M.Jr: It's - it's given rise to what?

C: Conjectures.

H.M.Jr: Yes.

C: To - to a supposition in the press as to what Belgium and Holland will do.

H.M.Jr: Yes. Well now this - what you're telling me - have you cabled me this?

C: Yes I cabled you that.

H.M.Jr: You did - I mean what you're telling me now?

C: I've cabled you what I'm telling you now.

H.M.Jr: Yes.

C: Not what the press is printing - in asking about Holland and Belgium.....

H.M.Jr: Oh.

C: .....that's being - that's just in tonight's paper - since I've come home I've seen that.

H.M.Jr: Yes - well now let me ask you -

C: Yes.

H.M.Jr: In view of the fact that it hasn't come out, have the French changed their position that they want all three?

C: No, they didn't say anything. They just said that they hoped we could get some word.

H.M.Jr: Well, Cochran - I haven't read your cable so I'm in the dark.

- 6 -

C: Surely.

H.M.Jr: Now I'm going to have the people come to my house tonight and we'll see whether we can do anything.....

C: All right.

H.M.Jr: .....but I'm sorry that the Swiss let it out. I still think that we ought to do it with all three countries at the same time.

C: Yes - yes - I agree.

H.M.Jr: So I'll phone you tomorrow morning and let you know what decision I've come to.

C: All right.

H.M.Jr: And - ah - as I say, until I get these cables I don't know.

C: Yes.

H.M.Jr: But.....

C: I was afraid you'd be going away, you see?

H.M.Jr: Well I'm going away tomorrow afternoon - Thursday afternoon.

C: Yes.

H.M.Jr: But the only worry I'm going to take back with me is this and of course the President isn't back and I wouldn't want to bother him with anything for a couple of days.

C: No - no.

H.M.Jr: But I'll - I'll call you sometime tomorrow morning.

C: Then if you do decide that the three are acceptable...

H.M.Jr: Yes.

C: .....and give me a formula I could get their O.K. to it - that is as to our release.

H.M.Jr: Yes. Well that's what we're working on now.

- 7 -

C: And if - if we don't get this settled before Monday.....

H.M.Jr: Yes.

C: .....all these people will be feeling

H.M.Jr: Will be what?

C: All these Central Bank Governors will be feeling bad at Basle. They might be pressing the Swiss quite a bit for more information.

H.M.Jr: Well when is the meeting in Basle?

C: This Sunday and Monday.

H.M.Jr: This Sunday and Monday?

C: Yes.

H.M.Jr: Well I doubt if we could get ready by then.

C: I see.

H.M.Jr: I don't think we can get ready by then.

C: I mean if you can't, I'll just get them to keep quiet as much as I can.

H.M.Jr: I'm quite sure we can't get ready by Sunday or Monday because, after all, after we make up our own minds the English will have to make up theirs and you know they have week-ends.

C: (Laughter) Yes - yes - I know.

H.M.Jr: Yes.

C: Well the main reason - I wanted to get the word to you lest you might be getting away to-day.

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

C: Fine.

H.M.Jr: I've just read what Mr. Blum said about the President's election and the pap - the tickers carried it here.

- 8 -

- C: Yes.
- H.M.Jr: And that the statement he made that - I'm - this is quoting Blum.
- C: Yes.
- H.M.Jr: He said, "I'm convinced the election assured continuation and close collaboration of the three great democracies - United States, France and Great Britain as inspired by the recent currency realignment agreement.
- C: Oh is that so? I didn't know he was giving it out.
- H.M.Jr: Yes - it just came over the ticker this minute. I think that's rather nice.
- C: Yes - Auriol and Baumgartner send their congratulations to you also.
- H.M.Jr: Fine - well our stock market went up four points to-day and our bonds went up about a half a point.
- C: Yes - good. So the security market was here better and securities were better too.
- H.M.Jr: Right.
- C: I'll wait till I hear from you then tomorrow.
- H.M.Jr: You'll hear from me tomorrow.

Thursday - November 5, 1938

London

WCNS64

ADD EDEN, LONDON

THE FOREIGN MINISTER SEEMINGLY HINTED DELICATELY THAT BRITAIN MIGHT BE WILLING TO MAKE A LOAN TO GERMANY.

REFERRING TO THE PROVISION OF THE TRI-PARTITE EXCHANGE PACT PROPOSING THE ABOLITION OF QUOTAS, EDEN SAID:

"IF GERMANY SAW FIT TO PARTICIPATE WE WOULD GLADLY CONSIDER SYMPHETICALLY ANY METHODS LIKELY TO CONTRIBUTE TO THE EASEMENT OF HER ECONOMIC DIFFICULTIES WHERE THEY ARE DUE TO INTERNATIONAL ECONOMIC AND FINANCIAL RESTRICTIONS."

11/5 - R138P

NOV 12 1936

CHAMBERLAIN ON TRI-PARTITE AGREEMENT

571.47

LONDON- CHANCELLOR CHAMBERLAIN IN A REPLY TO A QUESTION IN COMMONS AS TO WHEN THE BANK OF ENGLAND WOULD BE REQUIRED TO HAND OVER TO THE TREASURY 160 000 000 PDS THE PROFIT ON GOLD RESERVE REVALUATION AS RESULT OF THE TRI-PARTITE MONETARY AGREEMENT SAID THE QUESTION APPEARED TO BE BASED ON TWO MISAPPREHENSIONS- THE TRI-PARTITE AGREEMENT HE SAID INVOLVED NO REVALUATION OF STERLING IN TERMS OF GOLD AND ANY PROFITS FROM ULTIMATE REVALUATION WOULD BE HANDED OVER TO THE TREASURY AND APPROPRIATED TOWARD REDUCTION OF NATIONAL DEBT

DUTCH TO JOIN CURRENCY AGREEMENT *of 2.00*  
AMSTERDAM - THE DUTCH GOVERNMENT IS  
CONTEMPLATING JOINING THE TRI PARTITE MONETARY  
AGREEMENT NOV 13 1936

BANK OF NETHERLANDS HAS RESUMED THE  
PRACTISE OF REDISCOUNTING AMERICAN GUILDER  
BILLS COVERING COMMODITY SHIPMENTS TO ENGLAND -  
DUTCH BANKS THEREFORE HAVE OPENED NEGOTIATIONS  
FOR FINANCING BY SUCH BILLS.

WCNS39

PRESIDENT ROOSEVELT HAS ORDERED A STUDY BY THE FEDERAL RESERVE BOARD AND THE TREASURY INTO HEAVY BUYING OF AMERICAN SECURITIES BY FOREIGN SOURCES, HE SAID TODAY.

11/13--R1113A

MR. ROOSEVELT SAID THAT SUCH PURCHASES IF CARRIED BEYOND A CERTAIN POINT MIGHT CONSTITUTE A DANGEROUS OR DISTURBING FACTOR TO FOREIGN EXCHANGE AND CREDIT.

HE EXPRESSED THE BELIEF THAT LEGISLATION WOULD HAVE TO BE OBTAINED TO CORRECT THIS SITUATION.

IN RESPONSE TO A BARRAGE OF QUESTIONS CONCERNING RECENT MARKET OPERATIONS AND HIS CONVERSATIONS WITH FEDERAL RESERVE BOARD GOVERNOR MARRINER S. ECCLES AND S. E. C. CHAIRMAN JAMES LANDIS, HE DECLARED THAT THE QUESTION OF A POSSIBLE RUNAWAY STOCK MARKET WAS NOT INVOLVED IN HIS DISCUSSIONS.

11/13--R1117A

WCNS44

ADD ROOSEVELT

HE SAID THAT THE OBVIOUS DANGER TO GUARD AGAINST AT PRESENT WAS THE POSSIBILITY THAT THE PRESENT TOP HEAVY MARKET POSITION MIGHT REACT UNFAVORABLY UPON CURRENCIES IN THE MANNER THAT WHAT HE CHARACTERIZED AS CERTAIN SYNDICATED DRIVES HAD DONE IN THE PAST.

HE MADE PLAIN THAT THE ADMINISTRATION'S POSITION WAS STILL IN THE STUDY STAGE BUT THAT THIS WAS BEING CONDUCTED FROM THE POINT OF VIEW THAT THE SITUATION CONSTITUTED A POTENTIAL DANGER NOT ONLY TO OUR OWN CURRENCY BUT OTHERS AS WELL.

IN REVIEWING THE PICTURE MR. ROOSEVELT REMARKED THAT BEFORE THE GENTLEMEN'S AGREEMENT WAS PLACED INTO EFFECT THE GOLD CURRENCIES OF VARIOUS EUROPEAN NATIONS HAD BEEN AFFECTED BY CERTAIN PRIVATE OPERATORS WHO ATTACKED IN CONCERTED FASHION THE MONEY OF OTHER NATIONS.

THIS HE SAID NOT ONLY UPSET THE PARTICULAR CURRENCY AT WHICH THE DRIVE WAS AIMED BUT ALSO THE EXCHANGE RATES AND THE CURRENCIES OF OTHER COUNTRIES.

THAT PARTICULAR FACTOR, HOWEVER, HE REMARKED IS NOW UNDER CONTROL THROUGH THE GENTLEMEN'S AGREEMENT.

IT IS TO PREVENT ANY SIMILAR EFFECTS THROUGH HEAVY FOREIGN BUYING OF AMERICAN SECURITIES THAT THE STUDY IS BEING MADE.

OFFICIALS ARE TAKING INTO ACCOUNT THE FACT THAT THESE HEAVY ACCUMULATIONS OF AMERICAN SECURITIES BY FOREIGN HOLDERS ARE SUBJECT TO DISPOSAL IN A HURRY.

THE PRESIDENT SAID THAT THE SECURITIES CAN BE SOLD IN A MANNER THAT CORRESPONDS TO "HOT MONEY" THUS CREATING A DISTURBING FACTOR.

HE EXPRESSED THE BELIEF THAT THERE WAS NOTHING IN THE LAW NOW TO MEET ADEQUATELY THE SITUATION AND THAT LEGISLATION WAS NECESSARY.

IN RESPONSE TO QUESTIONS HE SAID THAT HE HAD NO ESTIMATE AS TO HOW MUCH FOREIGN MONEY WAS INVOLVED IN PRESENT OPERATIONS.

--0--

IN THIRD PARAGRAPH PLEASE READ X X X BEFORE THE GENTLEMEN'S AGREEMENT X X X ETC INSTEAD AS SENT.

11/13--R1125A

*Blum on the Election*

WCNS9

PARIS.--PREMIER LEON BLUM LED FRENCHMEN TODAY IN CONGRATULATING PRESIDENT ROOSEVELT ON HIS ELECTION VICTORY. IN A STATEMENT TO THE UNITED PRESS HE SAID:

"I AM MOST HAPPY AT THE TRIUMPH OF PRESIDENT ROOSEVELT, FOR WHOM I HAVE THE GREATEST ADMIRATION. I AM CONVINCED THAT THE ELECTION INSURES THE CONTINUATION OF CLOSE COLLABORATION OF THE THREE GREAT DEMOCRACIES--THE UNITED STATES, FRANCE AND GREAT BRITAIN--AS INSPIRED BY THE RECENT CURRENCY REALIGNMENT AGREEMENT."

11/4--R843A

BLUM ON ROOSEVELT REELECTION

PARIS-U P- PREMIER LEON BLUM LED FRENCHMEN  
TODAY IN CONGRATULATING PRESIDENT ROOSEVELT ON  
HIS ELECTION VICTORY- IN A STATEMENT TO THE  
UNITED PRESS HE SAID-

-I AM MOST HAPPY AT THE TRIUMPH OF  
PRESIDENT ROOSEVELT FOR WHOM I HAVE THE  
GREATEST ADMIRATION- I AM CONVINCED THAT  
THE ELECTION INSURES THE CONTINUATION OF CLOSE  
COLLABORATION OF THE THREE GREAT DEMOCRACIES-  
-THE UNITED STATES FRANCE AND GREAT BRITAIN-  
-AS INSPIRED BY THE RECENT CURRENCY REALIGNMENT  
AGREEMENT-

-0-

NOV 4 1936

12.25

This is an extra  
copy and I  
believe must  
belong to you.

W  
N

*The Chairman*

53

LMS

SPECIAL GRAY

Paris

Dated November 4, 1936

Rec'd 4:55 p. m.

Secretary of State,  
Washington.

1075, November 4, 10 a. m. (SECTION THREE)

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(B). That any dollars thus acquired for the account of the Dutch exchange equalization fund and any guilders thus acquired for the account of the United States will be converted into gold one quarter basis of the official United States gold price of \$35 per ounce fine, less or plus one quarter of one per cent handling charge as the case may be; and

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sources

LMS 2-No. 1075, November 4, 10 a. m., Sec. 3, from Paris.

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(END OF SECTION THREE)

BULLITT

NPL:EMB

LMS

SPECIAL GRAY

Paris

Dated November 4, 1936

Rec'd 5 p. m.

Secretary of State,  
Washington.

1975, November 4, 10 a. m. (SECTION FOUR)  
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In making this declaration the Netherlands Government and the Netherlands Bank base themselves on the declaration of the Secretary of the Treasury of the United States dated October 12th, 1936. In view of the fact that the United States have reserved themselves the right to withdraw that declaration on giving notice twenty-four hours before, the Netherlands Government and the Netherlands Bank must make the same reservation with regard to their offer of reciprocal treatment contained in the present document.

The Hague, Amsterdam. November 1936."

BULLITT

NPL:EMB

PARAPHRASE OF SECTIONS FIVE TO EIGHT, INCLUSIVE,  
No. 1075 of November 4, 1936, from the American Embassy,  
Paris.

I had lunch with Beaufort and President Trip. Trip and I went to The Hague at 2:45, where at 4 o'clock Premier Colijn with Minister of Finance Oud received us, and I explained to the Minister and to Colijn the procedure we are following in negotiating with the countries which have indicated interest in dealing with us in gold on a reciprocal basis, and the draft document was explained by Trip. Colijn and Oud approved the draft declaration, but until you may indicate through me the acceptability thereof, the document will not be signed. Then the officials to sign would be Oud and Trip. Trip and I went to the American Legation at 5 o'clock to inform Minister Emmet of our conversations, but the latter was not in The Hague. Of course I shall inform him of the developments in the situation.

If and when you find the Dutch declaration acceptable I am to telephone to Trip, who will then arrange for the forwarding to me of the document when signed. This weekend when the BIS directors have their regular meeting at Basel I shall have the opportunity to see Trip.

The request is made by the Dutch that publication should not be given to the terms of their declaration; they would be pleased to have us submit to them the wording of the announcement which we may plan to issue regarding adding their country to our list of countries eligible to get  
gold

- 2 -

gold from us. It is not anticipated by the Dutch that under this agreement there is likely to be a large volume of business transacted with the United States. But they appreciate the usefulness of disassociated cooperation in the monetary field at this time and they are anxious to join.

The point was made by the Dutch officials, however, that one danger of giving a demonstration of solidity in monetary matters between six or more important powers is that within one or more of these countries, or elsewhere, the impression may be gained that basic problems can be solved by cooperation without the need for sound financial management internally.

The details of a proposed negative arrangement were drawn up by Trip for cooperation between his Bank and the Federal Reserve Bank of New York as fiscal agents of the stabilization funds, which was for consideration if the treasuries establish general lines of agreement. I made the suggestion that before acting he condense paragraph number five of the declaration to only those essential points necessary to indicate the manner in which the Dutch, being off the gold standard and having no free gold market such as the British have, visibly arrive at a basis of gold calculations with the United States. Please inform me if you want the full text of his tentative suggestions for the inter-fiscal agent arrangement at this time.

The

- 3 -

The American elections very much interested Premier Colijn, and he hoped Secretary Hull would be able to carry on his program of trade agreements.

The progress made in the Netherlands since devaluation seemed to be quite satisfactory to the Dutch officials. There has been a rise of less than one per cent in retail prices. It has been possible to make a reduction in Government export subsidies to agriculture. Capital has been quoted on a satisfactory scale and Dutch Colonial enterprises are receiving considerable foreign money, especially British. The florin is left by the equalization fund to find its own level, except that for a few days recently in order to check the rise in the florin some purchases of sterling and of gold at London have been made. Subscriptions are being opened by the Dutch Treasury to a one hundred million florin twenty-year three percent loan at ninety-five three quarters to have around a 3 1/2 percent yield. Fifty million florins will be taken by various official and semi-official funds and organizations, and fifty million will be open to public subscription; this is a trial issue to test the market after devaluing.

The French situation is of some concern to Trip, since there is an apparent tendency of this country to continue to doubt the Government, and since there is a lack of prospect for a strong confidence-inspiring government to gain control.

Recent tendencies of politics and of economic policies

in

- 4 -

in Germany also disturbed Trip. There he thinks a spirit of desperation is developing which within a couple of years may conceivably lead to war. He does not look for final de jure negotiability of important currencies until the international atmosphere becomes more clarified.

Trip feels that the principal merit of the present American legislation providing for a stabilization fund and a further cut in the dollar is that this legislation constitutes a balance to steady sterling, and that the relationship between the dollar and sterling now more than ever has an important influence on ~~the currencies of all countries~~ the currencies of all countries.

At 5:25 p.m., on Tuesday I left The Hague for Paris.  
END MESSAGE.

BULLITT.

EA:LWW

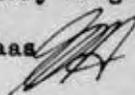
TREASURY DEPARTMENT

60

INTER OFFICE COMMUNICATION

DATE November 4, 1936

TO Secretary Morgenthau

FROM Mr. Haas 



The attached report was prepared by Messrs. White and Seltzer and myself.

Mr. Lochhead has gone over it and has indicated that the proposals therein contained would offer no difficulties in exchange operations.

Attachment

Contents

1. Memorandum on draft of statement referring to sale of gold to foreign countries.
2. Draft of Treasury announcement to supersede the announcements of January 31, 1934 and October 13, 1936.
3. Alternative draft of Treasury announcement to supersede the announcements of January 31, 1934, February 1, 1934, and October 13, 1936.
4. Memorandum on gold ownership and the central bank of Belgium.
5. Memorandum on gold ownership and the central bank of Switzerland.
6. Memorandum on gold ownership and the central bank of The Netherlands.
7. Copy of Treasury press release regarding statement made by the government of Belgium, September 6, 1936.

# TREASURY DEPARTMENT

62

## INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Mr. Haas *SHA*  
Subject: Draft of statement referring to sale of gold to foreign countries.

The accompanying draft of the new announcement to be issued accomplishes the following:

(1) It replaces the statements of January 31, 1934, and of October 13, 1936, without involving any departure from the recently established policy of dealing only with governments.

Furthermore, while embodying important change of policy from that indicated in the two previous statements, it appears to contain only minor changes from the earlier statements, and only those changes necessitated by matters of more or less technical importance.

(2) It will make it possible and just for the Secretary of the Treasury to announce publicly that in our arrangements with Belgium or any other country we are dealing with the governments, though, of course, the actual operations are carried out through fiscal institutions designated for that purpose by the governments.

(3) The draft is so phrased as to make it possible for any country to be added to the list of those eligible to purchase gold from us. As the Statement of October 13, 1936, reads, countries not having stabilization funds cannot be included in the list. Likewise countries on the list would have to be taken off if the existence of their stabilization funds terminated.

The suggested draft would make it possible to add countries like Sweden, China, Japan, Mexico, etc., even though they have neither stabilization funds, nor are on the gold standard.

(4) While adhering to the policy of dealing only with governments, the draft is so worded as to make it possible - in our opinion from the economic point of view - for any government to consent to the conditions even though that government may not have title to the gold in the central bank, or have a stabilization fund, and without having to actually deal in gold.

Secretary Morgenthau - 2 -

Thus we believe the drafted statement can be reasonably interpreted to mean that in the case of Belgium, by virtue of her being on the gold standard, the government does in effect offer to sell gold to those countries to which it permits gold to flow freely (U. S. would be so included) at a price which the government fixes. In the instance of Belgium, the price happens to be fixed by statute and can be altered de jure only by statute, though de facto alterations are doubtless possible without passage of any law. Whereas in the United States the price is fixed by the Secretary of the Treasury and can be altered by his statement.

In other words, the Belgian Government, while not actually dealing in gold, nor being the principal in the transactions, offers to sell gold by virtue of its statutes which compel the Bank of Belgium to sell gold (to the United States) at a fixed price. The Belgian Government could alter the price at will by altering the statutory price. Since a statute may be reasonably regarded as the expression of will of the Government, it appears that the Government is doing the offering on terms which it sets - though it may leave the details by statute to the Central Bank.

(5) In affording the Belgian Government the opportunity to be added to the list of countries eligible for purchase of gold from the United States, we are not inquiring of a sovereign foreign power whether she has the power to make the arrangement, nor are we suggesting in any way that she make any changes in her domestic monetary system, nor need we in any way indicate the manner in which she implement the arrangement. All that we insist upon is that the arrangement be made between the United States Government and the Belgian Government through appropriate government channels, and that the Government of Belgium state what fiscal institution she designates for the purpose of executing the gold transactions with the U. S.

The difference in the arrangement which we are making with Belgium, and the arrangements which prevailed under the old gold standard is important. It lies in the fact that:

- (a) We deal only with the Belgian Government, and our fiscal agent sells gold only to the government or its designated fiscal institution.
- (b) The Secretary of the Treasury has power to alter the price, the terms, and the conditions at which he will sell gold from day to day, whereas formerly the price, terms, and conditions were generally regarded set by statute and alterable only by statute.

Secretary Morgenthau - 3 -

(6) There is no clause in the draft stating the price at which we will sell gold. It is purposely omitted in order to make our gold price policy appear less rigid. This is a step toward making possible flexibility in the price of gold, and is in line with recent statements made by the Secretary at a recent press conference. The price of gold which the Secretary will set can be announced in some other document (just as is done with the list of countries eligible to purchase gold here) and will appear to be by that fact subject to change from day to day. The price will have a greater appearance of potential flexibility than would be the case were the price included in the statement as was done in the October 13th draft.

(7) If Belgium refuses to accept this draft, it were better in our opinion to leave her off the list than give up the principle of dealing only with governments.

The consequences would be important as establishing the principle. Actually Belgium would be affected only to a negligible extent if any, unless her failure to be put on our list meant she could not purchase gold in France.

She could, of course, purchase gold in the open gold market in London and that would enable her to operate with almost as much facility as if she could buy gold from us or from the French Government. Yet because of the proximity of France to Belgium, and the possible narrowness of the London market, it would be to her advantage to be able to purchase gold from France and the United States, as it would likewise be of some slight advantage to France to be able to sell gold to Belgium if she chose.

Though the value of this privilege to Belgium is slight, it might be desirable -- should Belgium not see fit to comply with our conditions -- to make it clear to her and to France and England that they can make whatever arrangements they wish among themselves provided the arrangements do not, of course, violate the tripartite announcement of policy.

If Belgium's name were left off our list, the loss to us would be nil. Switzerland and Netherlands would soon be added. Our gold operations would be virtually unaffected. If it leaked out in Europe that the "United States refused" to make it possible for Belgium to obtain gold here, we would gain by the opportunity of stating our principle that we deal only with governments in matters of sale of gold.

Secretary Morgenthau - 4 -

(8) Draft No. 2 has all the advantages of Draft No. 1, but in addition completes the channelization of gold from as well as to governments. It embodies the important step of actually confining gold operations to governments. We not only would sell gold exclusively to governments (or their designated fiscal institutions) but we would buy gold only from such sources (except, of course, newly mined domestic gold).

It would mean that no gold could enter this country unless it came from some foreign central bank (as the designated fiscal institution). It would eliminate so far as the United States is concerned, all dealing in imported gold by private banks or individuals.

The difficulty of issuing such a statement lies in the understanding with France and England. It is extremely doubtful that we could get England to agree to purchase for import gold from "stabilization funds" or government fiscal operations because she maintains the most important free gold market of the world.

If we were to issue such a statement as Draft No. 2 it would have to be on our own.

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

1.

Draft of Treasury announcement to supersede  
the announcements of January 31, 1934 ~~and~~  
~~October 18, 1936~~

Superseding the announcements made by him on January 31, 1934 *and*  
~~and October 18, 1936~~, referring to the sale of gold for export,  
the Secretary of the Treasury states that (hereafter, and until,  
on twenty-four hours notice, this statement of intention may be  
revoked, or altered) the United States will sell gold for immediate  
export to, or earmark for the account of, the exchange equalization  
or stabilization fund, or fiscal institution designated by the  
government, of each country whose government likewise offers to  
sell gold to the United States; provided that such government  
offers gold at such rates and upon such terms and conditions as  
the Secretary may deem most advantageous to the public interest.  
The Secretary announces herewith, and will hereafter announce daily,  
the names of the countries complying with the foregoing conditions.  
All such sales of gold will be made through the Federal Reserve Bank  
of New York, as fiscal agent of the United States, upon *following* ~~such~~ terms  
and conditions as the Secretary of the Treasury deems most advantageous  
to the public interest.

11.  
Draft of Treasury announcement to supersede  
the announcements of January 31, February 1,  
1934, and October 13, 1936.

Superseding the announcements made by him on January 31 and February 1, 1934, referring to purchases of gold by the Treasury and on January 31, 1934, and October 13, 1936, referring to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered) the United States:

(a) will sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization fund, or fiscal institution designated by the government, of each country whose government likewise offers to sell gold to the United States, provided that such government offers gold at such rates and upon such terms and conditions as the Secretary of the Treasury may deem most advantageous to the public interest;

(b) will buy gold for immediate import into the United States, or earmark for the account of the United States from the exchange equalization or stabilization fund, or fiscal institution designated by the government, of each country whose government offers gold at such rates and upon such terms as the Secretary of the Treasury may deem most advantageous to the public interest;

(c) will buy domestic gold through any United States Mint or United States Assay office at New York or Seattle at such rates and upon such terms and conditions deemed by the Secretary most advantageous to the public interest.

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The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales and purchases of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon such terms and conditions as the Secretary of the Treasury deems most advantageous to the public interest.

# TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE November 4, 1936

TO Secretary Morgenthau  
FROM Mr. Haas *[Signature]*  
Subject: Gold ownership and the Central Bank of Belgium

1. Who owns the Central Bank?

The National Bank of Belgium is privately owned. The bank is chartered by the State. Shareholders owning more than twenty shares are entitled to vote at the semi-annual meeting at which three Directors, nine Regents and ten Censors are elected. Profits on the operation of the bank are distributed to the State and to the shareholders.

2. Who controls the Central Bank?

The Belgian Government exercises some control over the Central Bank through the power of the crown to nominate the Governor of the bank and through its power to appoint a Government Commissioner to supervise all bank operations.

3. Who owns the gold reserve of the Central Bank?

The gold reserve is owned by the bank except, of course, as this ownership is limited by the sovereign power of the State and the will of the Government as expressed by law.

4. Who owns the profits of the revaluation of the gold reserve?

The bank turned over to the State Treasury the profit which accrued from the revaluation of its gold, amounting to nearly 4 billion francs, in accordance with the monetary law of March 30, 1935. The law provided that this sum should be used for the execution of the policies of economic recovery.

In addition to payments of 133 million francs to Luxembourg and 345 million francs for reduction of the State debt to the National Bank, the Treasury appropriated from the revaluation profit 1 billion francs to each of two funds, one for the protection of the price of Government securities and one for the equalization and protection of the exchanges. The assets of these funds were ultimately to be returned to the Treasury. It appears that the Treasury has been using the remainder of this profit for the purpose of balancing monthly expenditures and receipts.

Secretary Morgenthau - 11/4/36 - 2

5. Does Belgium have a stabilization fund?

An Exchange Equalization Fund of 1 billion francs was created on March 31, 1935. In the twelve months of its existence no use was made of this fund and its resources were returned to the Treasury in full on March 31, 1936.

6. Who owned the stabilization fund while it existed?

The Belgian Exchange Equalization Fund, although administered by the National Bank, was owned by the Treasury. At the end of its existence, the 1 billion francs which comprised the fund were returned to the Treasury's account of revaluation profits.

7. Is the stabilization fund in gold or local currency?

The Belgian Equalization Fund derived from revaluation profits was not a stock of gold but was an account with the National Bank expressed in local currency.

8. From whom does the Central Bank buy gold and to whom does it sell gold?

The National Bank, which is authorized by its charter to deal in gold and silver, was given exclusive right to export and import gold bullion or coin by the Royal Decree of March 17, 1935. That same Decree provided that any trading in gold within Belgium was subject to the authorization of the bank. Although this Decree has not been repealed, it is believed that the bank is very lenient in its application, readily granting authority for domestic trading and freely selling gold. The export of \$8 millions of gold to the United States on October 17, 1936, may offer proof that the bank is willing to sell gold to private banks for export.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 4, 1936

TO Secretary Morgenthau

FROM Mr. Haas 

Subject: Gold ownership of the Central Bank of Switzerland.

1. Who owns the Central Bank?

The Swiss National Bank is owned partly by private citizens of Switzerland, partly by the former issue banks, and partly by the Cantons. (In 1933 the ratio was 46.3%, 15.5% and 38.2%, respectively.)

2. Who controls the Central Bank?

The Federal Government exercises a strong control over the bank through its power to appoint the President and Vice-president, and a majority of the members, of the Bank Council, and through its authority to approve the Annual Report, all statements made by the bank, and bank regulations.

3. Who owns the gold in the Central Bank?

The gold reserve of the National Bank is owned by the bank except, of course, as this ownership is limited by the sovereign power of the State and the will of the government as expressed by law.

4. Who owns the profits on the revaluation of the gold reserve?

After provisional revaluation of the gold reserve of the National Bank on September 27, 1936, the profits were retained by the bank. Although the Federal decree of September 27 directed the bank to maintain the gold parity of the Swiss bank at between 25% and 35% of its former value, and although the franc has recently stood at approximately 30% of its former value, the gold reserve of the bank was revalued at 35% of the former value. This yields a profit of approximately 538 million Swiss francs.

5. Does Switzerland have a stabilization fund?

A stabilization fund was created on September 27, 1936, when the entire profit from revaluation was placed to the account of a special "equalization fund," charged with maintaining the rate of exchange within the new limits through buying and selling gold.

Secretary Morgenthau - 11/4/36 - 2

6. Who owns the stabilization fund?

The bank controls the stabilization fund and has the sole right to dispose of it. It is not clear, however, who does own it, according to the information contained in cables from Cochran.

7. Is the fund in gold or local currency?

The fund is evidently held in terms of a Swiss franc account in the Swiss National Bank. The fund has not been separated from the bank and therefore it is not certain whether or not it can be said that the fund is backed by 100% gold.

8. From whom does the Central Bank buy gold and to whom does it sell gold?

By the decree of the Federal Council, dated September 27, 1936, the National Bank is relieved of its obligation to redeem its notes in gold. It appears that the bank does not sell gold to private persons or firms.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE November 4, 1936

TO Secretary Morgenthau

FROM Mr. Haas 

Subject: Gold ownership of the Central Bank of the Netherlands.

1. Who owns the Central Bank?

The Netherlands Bank is a private institution incorporated as a limited company. The shares of the bank are owned by private persons. The shareholders elect 15 commissioners and not less than 2 directors.

2. Who controls the Central Bank?

A certain degree of control over the Netherlands Bank is possessed by the government, although, apparently, the amount of control is less than in the case of Switzerland and Belgium. The crown appoints the President and Secretary of the bank, and appoints a Royal Commissioner who is entitled to vote. The President and Secretary and the Directors together form the Management, in which the government has an important influence.

3. Who owns the gold in the Central Bank?

The gold reserve of the Netherlands Bank is owned by the bank except, of course, as this ownership is limited by the sovereign power of the State and the will of the government as expressed by law.

4. Who owns the profits on the revaluation of the gold reserve?

The gold reserve of the Netherlands Bank has not yet been revalued, and there are no indications of the policy which will be followed when revaluation is carried out.

5. Does the Netherlands have a stabilization fund?

On September 27, 1936 the Netherlands took steps towards the creation of a stabilization fund whose resources of 300,000,000 guilders are to be obtained from the issue of Exchequer Bonds. No estimate is yet available of the total of such bonds which have been sold to provide funds for this purpose.

Secretary Morgenthau - 11/4/36 - 2

6. From whom does the Central Bank buy gold and to whom does it sell gold?

By Federal law, dated September 29, 1936, Netherlands established an embargo on all gold exports. Whether or not the Netherlands Bank sells gold within the country, or redeems its notes in gold, has not been ascertained.

Dear Sirs:

Enclosed for your information and guidance is a copy of a letter I have sent to the Assay Office at New York.

You will receive instructions from time to time authorizing the sale of gold from the Stabilization Fund to the General Fund and the purchase of gold from the General Fund for the account of the Stabilization Fund. In establishing appropriate credits, purchases and sales shall be made at the flat price of \$55 per fine ounce without adding or subtracting the one-fourth of one per cent charge.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, N.Y.

Enclosure

BB:ght

11-4-36

Dear Sir:

This letter supplements the instructions given to you in my letter of October 12, 1936, relating to the delivery of gold bars in connection with the statement issued on that date.

You are hereby further authorized and directed upon receipt of properly authenticated instructions from the Federal Reserve Bank of New York to deliver or hold gold bars for the account of, or receive gold bars from, the Stabilization Fund. In establishing the appropriate credits purchases and sales shall be made at the flat price of \$35 per fine ounce without adding or subtracting the one-fourth of one per cent charge.

Enclosed is a copy of a letter of authorization sent to the Federal Reserve Bank of New York.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Superintendent  
United States Assay Office  
New York, New York.

Enclosure.

RE 11/1/36 rewrite RE: CVO:BJ 11/1/36

MEETING AT 2201 R STREET

November 4, 1936.  
8:30 P.M.

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

H.M.Jr: Now, I haven't had time to read the description of each - Holland, Belgium, and Switzerland, how they operate; I mean how their central banks are set up and formed.

Haas: Harry can answer those questions as they come up.

H.M.Jr: In going through this thing - in the first place let me say I think it is an excellently prepared memorandum. I think for the time being Draft 2 is out. I don't think - I don't think that there is much use in discussing it. Anybody want to plead for Draft 2? Let me run through this and see how it looks now, huh? I didn't have before me the January 31, 1934, or the October 13.

White: I have those if you want them.

H.M.Jr: I have them now.

White: Oh.

H.M.Jr: So it is difficult to compare Draft 1 with these others, you see; so I'm going to read Draft 1 out loud and then as we go along, White, supposing you point out where Draft 1 differs from October 13. See, White?

White: Yes.

H.M.Jr: Now I'll read this: "Superseding the announcements made by him on January 31, 1934 . . .

White: Of course, that begins right off the bat as being different. Do you want me to point out the difference?

H.M.Jr: Please.

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White: The previous announcement, the October 13, said "supplementing." It was additional powers. This supersedes the orders which relate to selling only, not buying.

H.M.Jr: Yes. Well - "Superseding the announcements made by him on January 31, 1934, and October 13, 1936, referring to the sale of gold for export, the Secretary of the Treasury states that the United States will sell gold for immediate export to or earmark for the account of the exchange equalization or stabilization fund, or fiscal institution designated by the government . . .

White: That's new.

H.M.Jr: Yes, that's new.

White: That's new. That phrase is new and the next phrase is new.

H.M.Jr: Just a minute. Beginning "or fiscal institution designated by the government of each country" - is that right?

White: Yes, that's all new.

H.M.Jr: - "of each country whose government likewise offers to sell gold to the United States."

White: "Offers to sell gold" is the same, but the rest is new.

Taylor: Why do you say "of each," Harry?

White: I wouldn't like to tell you, because I wanted to say "those." The difficulty was this - do you want to discuss that now?

H.M.Jr: No.

Haas: Just phrasing.

Taylor: No, I thought it might mean something else.

White: Huh?

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- Taylor: I thought it might mean something else. Instead of saying "countries" why do you say "of each country"? That's more inclusive, isn't it?
- White: Well, shall - ? If you want to take it up now, it is put in because - in order to keep the singular "fiscal institution" instead of "fiscal institutions" - in order to make that singular so that the country doesn't designate many institutions, say "All our banks are fiscal institutions," but rather have to refer to the central bank alone. You couldn't say "of those countries" as we originally had it, you see; it would be "fiscal institution of those countries" - so you had to make that singular. I mean it was a language difficulty.
- Taylor: Yes. I'll come back to it.
- H.M.Jr: You go back to it in the debating room.
- Taylor: No, it was a curious way of saying it that - I wasn't quite sure what it meant.
- H.M.Jr: Now, let's see -
- Taylor: "Of each country whose government" is the place.
- H.M.Jr: I've got that now. This next sentence - "provided that such government offers gold at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest."
- White: The one change there is that "such government." See, we are repeating again.
- H.M.Jr: I see. All right. "The Secretary of the Treasury announces herewith and will hereafter announce daily the names of countries complying with the foregoing conditions."
- Haas: That's the same.
- H.M.Jr: What?
- Haas: That's the same.

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H.M.Jr: "All such sales of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon such terms and conditions as the Secretary of the Treasury deems most advantageous to the public interest."

Just a minute. This is known as Draft 1, what I am reading from (to reporter).

White: There is a slight change there. The original draft, instead of saying "upon such terms and conditions," said "upon the following terms and conditions," which meant that the price would have to be stated as attached on Draft 1; it's clipped on.

H.M.Jr: Now, why do you change "upon such terms"?

White: The original was "upon the following terms and conditions."

H.M.Jr: And this says "upon such terms as."

White: It means that it can stand -

H.M.Jr: What are you looking at when you compare this - which one?

White: Looking at the order of October 13.

H.M.Jr: Now, I don't get the significance of not putting in that gold price.

White: Of not adding - Well, the thought was as follows: That -

H.M.Jr: I do get it. I mean -

White: Excuse me.

H.M.Jr: I do get the significance.

White: Oh, I beg your pardon.

H.M.Jr: But I want to talk to the point of "why?"

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- White: I think it should be left off because I think we are at a disadvantage so long as there is a perfectly fixed price of gold; that if we can develop very gradually the idea of flexibility, even though actually it may change negligibly or not at all, there is something to be gained, and that - that gain is achieved by not tying the price onto this statement any more than you tie the name of the countries onto this statement. You say separately that "these countries are added to the list" or "this and this is the price."
- H.M.Jr: Now, the disadvantage at this time is this: In the first place, we have just gotten out this October 13, and you men are suggesting that I withdraw it and issue this one, which is a little bit difficult, but I don't consider that too great a hurdle. See? I mean to make a different arrangement, a different agreement with England and France. But I want to give that very careful thought, you see. But at this stage, if we don't put the gold price on, you're just going to scare people.
- Lochhead: Sure.
- White: I think you ought to have the gold price issued at the same time.
- H.M.Jr: No, I disagree with you.
- White: At this point - this is a press release - you can give them both together, but they needn't be part of this.
- H.M.Jr: But just the fact - just the fact that it's loose scares me.
- White: If it does you, it does others, and I'll go against it.
- Haas: It was at Archie's suggestion that we clipped it on, because he had the same view that you had.
- H.M.Jr: But instead of clipping it you should have riveted it.

- 6 -

Haas: Now we're getting into something, I'll tell you. You're getting into something now, I think - I mean I think it's a question of policy, which is not economics at all.

H.M.Jr: Well, I can say it without having - This gets down to a question of policy, public relations.

Haas: That's right.

H.M.Jr: And my feeling at this time is that that part should not be changed, and that this statement should read "upon the following terms."

White: It is solely a question of policy.

H.M.Jr: Do you agree with me, Wayne?

Taylor: Absolutely.

H.M.Jr: And you (to Lochhead)?

Lochhead: Yes, sir.

Haas: I'm not sure I do.

H.M.Jr: George, I'm not arguing. I mean I've - I've told the press -

Haas: - that you could change it.

H.M.Jr: Yes

Haas: That you will.

H.M.Jr: And there is - I want the country to get used to that. This would be too much.

Haas: O.K. I say it's not economics, it's policy.

Taylor: You certainly have got to until you get your new stabilization fund legislation. You're leaving everything else out of it.

H.M.Jr: Well then, this would read "upon the following terms . . .

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- White: Then you'd have to put "upon the following terms and conditions." Then it would read exactly the same as the others all the way from "The Secretary announces herewith. . . . ."
- H.W.Jr: I constantly subconsciously have been thinking about this thing for four days. "Upon following terms and conditions" and then this price of gold would become a part of the statement. Now, as far as this statement goes, this is one way to do it. But can't we - I mean I'd have to think a long, long time before I would change the October 13, and I'd rather get out a - I mean there's no argument about cancelling, I think we all agree to cancel January 31, 1934. And what I'd like to suggest for argument is, leave the October 13 for England, France and ourselves, and then let's get out a new statement something along this Draft 1 for Belgium, Holland, and Switzerland.
- Haas: Oh well, what we have done, Mr. Secretary - that is one way of doing it; all we have done there is we have ground it all into one lens. Here's the reason: It looks as if you're -
- H.M.Jr: It is changing it, and furthermore I don't want to put Belgium, Holland, and Switzerland in the same class. So I see that is an idea, see? And furthermore, I just don't want -
- Haas: Yes, sir, I think that's a real argument.
- H.W.Jr: And I don't want them apart. Now look - I mean we are talking here very confidentially. Now, one of the great burdens that England has to carry is the fact that so many countries are tied to sterling. It's both an advantage and disadvantage. Now, right now France is weak; it becomes a burden of England and ourselves. And the bigger that agreement, each money that is weak, it becomes a burden.
- Haas: And Belgium may think - may feel that if you put it out this way, every time you change it you've got to consult with Belgium and the Swiss, the whole circle. And this bothers me - about the 35 - because when you have a fixed price agreement

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with Belgium you practically have a gold standard pure and simple, almost. But this way keeps your original stabilization fund agreement intact -

H.M.Jr: Yes

Haas: - and helps that situation out psychologically.

H.M.Jr: Yes. I mean - that means - let's say we took this Draft 1 as you wrote it, plus the gold on it, and then we change it and ask England and France to come onto this agreement.

Haas: Uh huh.

H.M.Jr: It's moving in the direction of Belgium.

Haas: That's right. It wouldn't be if you left the 35 off, but when you put that on -

H.M.Jr: That's true. But if we can keep the October 13 as it is and then get out a new formula for the smaller countries; then let's say Italy wants to come in; you can add Italy, you can add Sweden to that, couldn't you?

Haas: Uh huh, we could fix it so you could.

White: Sweden is easy because it is a government-owned bank.

Taylor: To do that, have you got that idea - remember when we five of us got together that evening?

Haas: Yes

Taylor: With the idea of working them all into one model, leaving the October 13 as it was.

H.M.Jr: You mean the stuff that you sent me up?

Taylor: Yes.

H.M.Jr: I've got that here, but that isn't this.

Haas: No.

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Taylor: It can become this.

H.M.Jr: This thing here is what I want.

Lochhead: I can see where we could leave out Belgium on that, but then when we read back to the October 13 you have more or less made a statement here that you will add other countries to this list whose exchange stabilization funds offer to do that. Now, is that a backing down, would that be interpreted as a backing down of the October 13 agreement?

White: I think so.

H.M.Jr: Just a moment, I'm not listening. This is what you people gave me. This is undated: "Modifying the announcement made by him on January 31, 1934, relating to the sale of gold, the Secretary of the Treasury states that hereafter - etc. etc. - the United States will sell gold to those foreign central banks . . ."

Taylor: No, that isn't the one. What I'm talking about is where we took all the countries.

H.M.Jr: Well, I haven't got it.

Maas: And it said - some little note about Archie going over.

H.M.Jr: Well look, what's the point, what point are you trying to make?

Taylor: The point is doing - the intention was to do just what you have in mind, to keep your three major countries as is, with the loophole there which Archie indicates here, that those countries which have stabilization funds - you could add to the October 13 countries without stabilization funds regardless of whether it would run on a reciprocal basis or whether it was simply a sale of gold to a government, which wouldn't - which would just bother you if you had a reciprocal arrangement with them - such as Guatemala, for example; why, you bring them all in on that one blanket thing. So that you only have two formulas, your second formula being broad

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enough so that it would take care of both sales of gold to Belgium and straight sales of gold similar to a special license with Guatemala or China.

H.M.Jr: Well look, let's just leave Guatemala and China out of this for a moment. I mean we have a satisfactory formula for both Guatemala and China; I mean they are taken care of. I mean I don't see -

Taylor: All right, leave Guatemala and China out of it.

H.M.Jr: Leave Guatemala and China out. I mean if some country calls up the Federal Reserve and says, "We want to get some gold" and if we think they are entitled to it we'll let them have it, and each transaction stands on its own feet.

Taylor: Right

H.M.Jr: But I want to get back to this thing here.

Taylor: But I am still talking to this thing here.

H.M.Jr: I don't get it.

Taylor: In other words, over a formula that I am describing - my terms - I'm sorry I muddled it by bringing in the Guatemala and China. But it does do what you are talking about, except that it leaves out the point on a reciprocal basis, which I don't think adds anything to it.

H.M.Jr: Well, that's the whole point.

Taylor: I think your "on terms advantageous to the public interest" etc. covers that.

H.M.Jr: Well, you might just - let's wait a minute. I haven't finished and I want to get White just a second. I think the thing we all overlooked in this discussion, at least I did, is the fact that Belgium is the only country that has sent us a note, and she did it the day afterward - which I have read very carefully. She sent it on September 26 - in which she - what's the word? - she confirmed what we were trying to do and she used

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very interesting language. I just want to draw your attention to this. Here it says - this is known as Treasury Department Press Service #8-55, dated September 26, 1936 (to reporter). It says here: "It is ready to take part (talking of Belgium) - It is ready to take part, as often as it may be necessary or useful, in consultations which may be called either between interested governments or between the competent institutions..."

Haas: I noticed that today when Harry dug it up.

H.M.Jr: I dug it up.

Haas: I know; we dug it up for you; you asked for it.

H.M.Jr: But now, I think they've said it; they've said it. Now, I, in going through this in my mind - I was arguing myself - I wanted to sort of put Belgium on the shelf temporarily; but I think, inasmuch as she did this - I think we ought to go ahead. I mean if we can't do all three at the same time I think we ought to go ahead with Belgium first. I mean I've changed myself after having read this thing very carefully, because it says so I mean. And the thing that I think where Cochran slipped up was that Cochran didn't throw this back at me. It says here "interested governments or between competent institutions."

White: I forgot about it completely.

H.M.Jr: I mean I - I'm not trying to rub it in, but I'm just saying that when Belgium - when Cochran went to Belgium I'm surprised that he didn't say, "Well, Mr. Morgenthau, what's all the shooting for? They've said it." It is interesting, isn't it?

Haas: Very interesting. I think we've all overlooked it.

Taylor: I think we were perfectly conscious that Belgium had been the first one in and had made a public statement and so on.

White: But that phrase -

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Taylor: That particular phrase -

White: - would have avoided some discussion that we had.

H.M.Jr: It would have avoided a lot. Now, what I think is - I'll come back to the other point - this thing again of trying to do the three countries; it makes it awfully difficult, I think. I don't think - I don't say it is unsurpassable.

Haas: As a general rule, too, isn't it better to do one at a time and look at yourself building it up, rather than -

H.M.Jr: Well, I'm just wondering; and here is this thing, September 26, over a month old; they came through voluntarily.

Haas: I thought you were led toward taking the three at one time because France wanted you -

H.M.Jr: I know, I know it influenced me, but now that they are talking that we should do it with the three countries, we should notify France and England and each of the three countries should notify each other, it's getting to be like a monopoly or something.

Haas: Yes

H.M.Jr: A game I mean. Huh?

Haas: Doesn't that also indicate, what you read there, that Belgium would like to be in on that when you talked to England and France?

H.M.Jr: That isn't important.

White: I don't see why it would be necessary - and perhaps you're not imputing it like I do - but why it is at all necessary to take any other government into the discussion even to the extent of getting their acquiescence on any plan other than the three, because those three governments were given that oral understanding; that understanding didn't extend to anybody who wants to join in the spirit. It was something that did not appear in the

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tripartite agreement, in the announcements. And therefore, it seems to me you would be perfectly within your reasonable policy to confine the discussions as to what your policy will be with additional nations, if you like, to those three governments.

Taylor: Well -

H.M.Jr: Well, of course, the fact that -

Taylor: Excuse me.

H.M.Jr: What, Wayne?

Taylor: I think that it is in the public announcement.

H.M.Jr: Well, the fact that I have said so again and again, although England went ahead and did business with France without telling me -

Lochhead: They do a certain amount of business with Holland; that is, the Bank of England.

H.M.Jr: But I think this - Cochran's point today that we ought to hurry up because there's been a leak from Switzerland, from the Swiss Council - I don't see why that should influence me. I mean since reading this thing I've changed my own attitude. I'm perfectly willing to go ahead and try to do all three at the same time, but if we can't do the three then I think we ought to give Belgium the preference, due to her note of September 26.

White: I don't see any particular merit in doing the three at a time at all.

Haas: No, I don't.

White: Even from any point of view. Even if you could do the three at a time I think it would be preferable to do them separately. Why? Because it gives an impression of progress, momentum - one today, one next week, and nobody knows when the next one will come; might be a day, might be a week, might be a month, two months.

Taylor: Three at a time gives -

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- White: No, three at a time cleans it all up.
- Haas: Gaston always tells me when I have a bad thing break it down into ten parts and it has much more news value. That applies here.
- H.M.Jr: Another thing, I'd just as leave keep this thing up in the public mind as much as possible up until we get our stabilization legislation extended. And when we get this thing through, these three, it is finished; I mean I don't think there would be many others.
- White: Sweden might well come in - Sweden anyway.
- H.M.Jr: Let's just talk a minute - I mean just let's say that we want a pattern that will fit either the three or any one of the three. See? Now, why doesn't this Draft 1 do it?
- Let me read this again. (Reads Draft 1 through again).
- Now, I think that when some of you people get at this thing you'll want to change this a little bit; but what's the matter with that?
- White: I don't think you could do that if you leave the other as it is.
- H.M.Jr: What?
- White: This can't - if you're going to leave the October 13, then you can't phrase it this way, because it would be very peculiar. Then you'd have to - well, you are already taking care of those countries with exchange equalization funds in the 13; I mean that's taken care of.
- H.M.Jr: Now, wait a minute; you're taking care of two countries.
- White: You don't specify that in the announcement. You don't specify England and France.
- H.M.Jr: Well, you'd leave out - I mean then those that had

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stabilization funds would be added to the 13, and those that didn't would come under - let's say this is November 10, let's say.

- White: Yes. If you wanted to arrange a different one to take care of those who did not come under the 13, then I think you would have to word the beginning a little differently, and we'd have to word it down here a little differently.
- H.M.Jr: We'd leave out the reference to exchange equalization.
- White: Say "superseding the announcement made on January 31 and supplementing that of October 13, 1936."
- H.M.Jr: Where are you reading? "Superseding the announcement made by him . . .
- White: - "on January 31, 1934, and supplementing. . .
- H.M.Jr: Wait a minute. And then you say "and supplementing ..
- White: - "and supplementing the announcement made by him.." I don't know whether you have to repeat that - "on October 13, 1936, referring to the sale of gold" etc. Then we go down to "the United States will sell gold for immediate export to any fiscal institution -
- Taylor: - or earmark for
- White: -- or earmark for the account of - that's right - any fiscal institution - the fiscal institution designated by the government of those countries - or of each country, avoiding that language difficulty, whose government likewise offers to sell gold to the United States, etc. etc. In other words, the rest of that would be the same.
- H.M.Jr: Why isn't that about it?
- Taylor: That will do it.
- White: The only thought in my mind there is, you are going to have two that are so nearly alike that - will the thought occur to anybody "Why weren't these combined? Such a simple thing. Why do you have two statements in which the wording is so much

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alike, where you could combine them in practically one statement?"

- Haas: It will just serve the purpose that the Secretary wanted, because he wants those three to stick.
- Taylor: You want those three to stick and you want those countries with the stabilization funds to stick.
- H.M.Jr: Well now, wait a minute. Under - the way we are thinking now, if Holland came in she'd go under the October 13. Is that right?
- White: Oh huh, with a stabilization fund you sell to the stabilization fund.
- H.M.Jr: Yes. Would she become a part of the tripartite agreement?
- Lochhead: Your tripartite agreement was one statement. Then you follow that by a gold announcement on October 13. That wasn't the tripartite agreement. You see, it didn't -
- H.M.Jr: No, it didn't refer to the -
- Lochhead: October 13 did not refer to the tripartite agreement.
- H.M.Jr: Well then, this statement should read something like this: "Supplementing the statement of October 13..
- White: Yes, if you want to supplement.
- Taylor: You can't supplement that, because October 13 in turn supplemented the one of January 31; so you have to say "supersede."
- White: You'd have to supersede and supplement.
- Lochhead: First of all you want to eliminate that January, so you have to start off by superseding that. .
- White: You can use that phrase "superseding that and supplementing this."
- Taylor: No you can't here.

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White: You mean because you - the 13 supplements something which you are now superseding?

Taylor: Yes

H.M.Jr: Look, this is very interesting. This gives you a new angle. This October 13 says "supplementing the announcement made by him on January 31 and February 1." If we are going to supplement those and then we cancel them....

White: That's just the point Wayne's raising now.

Taylor: I say that you have to supersede.

H.M.Jr: Then we have to get out a brand new statement.

White: That is a brand new statement.

Taylor: This Draft 1 supersedes January 31. All right then, the other one which was supplementing January 31 -

H.M.Jr: Well, this supersedes that also.

White: The point is, how can you supplement something which supplements something that you are superseding?

Taylor: To me it's perfectly simple. Here's the relationship here, you see; this is the main thing and that is January 31 (referring to pillows on floor).

H.M.Jr: Just a minute, I'm going to telephone. Will you remember what you're going to do?

Taylor: Absolutely.

(Secretary talks on phone)

H.M.Jr: All right.

Taylor: Are you ready?

H.M.Jr: Yes, I'm ready.

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Taylor: This is January 31, see?

H.M.Jr: This is damn silly.

Taylor: Then you create October 13.

H.M.Jr: Yes

Taylor: Which supplements this baby. You see?

H.M.Jr: Uh huh.

Haas: You've got to put them together.

Taylor: All right. You've got them together. Now, if you substitute this for this, that relationship is still the same. In other words, October 13 supplements this.

Haas: But now, Wayne. .

H.M.Jr: Does anybody understand it?

Haas: Yes, but I was asking -

White: In other words, by superseding, by having this document supersede the January 31 -

H.M.Jr: Listen, may I say something? If it takes three pillows to explain, then I say it's no good; then I say the simplest thing to do is to cut out January 31 and October 13 and start again. When you've got to take three pillows to explain it, then I say it's no good.

Haas: That's what we thought when we wrote it; but I still think there is something in your point of keeping this tripartite arrangement separate.

H.M.Jr: I do, but - but this statement - on thinking it over - let's say we used your Draft 1; that doesn't say anything about taking on new partners.

White: I don't see why the new - this draft cannot be used in place of the old one without any loss.

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H.M.Jr: Look, when you've got to talk seriously about supplementing, amplifying, and superseding, nobody - I mean you can't get it. Just have one statement. And then there is another point. If - let's say we went ahead with Belgium first and just had a special statement for Belgium. Then everybody would pick that up and then they'd say - Belgium would stick out like a sore thumb. In other words, let's say we got out a statement, left October 13, got out a new supplement-supersede statement for Belgium; Belgium came along and then we put her on this new November statement. Then Holland came along; Holland went on October 13. And we'd have a special statement just for Belgium and it would stick out like a sore thumb, and that is just what we don't want.

Taylor: Right.

H.M.Jr: I mean if we did that we'd have just what we don't want; we'd have all the countries on October 13 and Belgium on November.

Taylor: You'd expect to do it this way - to have a new one which takes in all?

H.M.Jr: I think we ought to have a new one and we'll have to submit the new one to England and France and see if it's acceptable; and then, if it is acceptable to them, then we can show it to Holland and Belgium and Switzerland.

Haas: It's just the same thing; no change there. It's just ground their agreement into another one.

Lockhead: I don't think there would be any objection, but naturally they'd want to see it.

H.M.Jr: That's the point of this thing. I suppose Herbert wants to know what's going on; that's why he's bringing this thing over himself. That's all right.

I'm coming around to this thing, and I think we can polish this thing up so that - I'd like to, if

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I could get it by the President, I mean, so he could let me submit it to these countries the week I'm away, and this thing would go the rounds and by the time I'm back it would come back, and we could explain why we have to do that.

Taylor: It's certainly easy to explain to England and France.

H.M.Jr: Oh yes, I'm coming around. What we'd have - we'd have all the countries on October 13 and Belgium on some November statement, which is just what I don't want.

White: But there is, as you are fully aware doubtless - there is a phrase in here that may seem not much different and innocuous, but really gives rise to considerable discussion; so I think the lawyers most assuredly ought to go over this.

H.M.Jr: Let me explain to you how I'm working this thing. I want to have my arguments first, clear my own mind first, without being hampered by legal phrasing. Then when I make up my mind what I think I want to do, then I submit it to lawyers and then I say "Tell me how I can do this legally." I mean - I explained it to George - I want to first make up my mind what is good business. Then, after I decide what is good business, then I say "I want to do this; fix this up so I can do it legally." See, White?

White: Yes, but it would have - well, it wouldn't have to be explained to Great Britain. They'd understand it.

H.M.Jr: Well, what is it?

White: It's the fact that we are saying here that we are going to sell gold to each country - to countries whose government offers us -

Haas: Well, the stabilization fund is the government.

White: But I'm speaking of a different point of view from Belgium -

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H.M.Jr: Providing such government offers us gold. That's all right.

Haas: We carefully avoided saying central banks; we said fiscal institutions.

H.M.Jr: Well, I wouldn't move until the thing begins to clear, and I think this thing is beginning to clear.

Jake will be here tomorrow, by the way. Incidentally, if it is ready; if not - after all, he set up those figures on gold, remember, for us originally.

Haas: Uh huh.

H.M.Jr: And before that November 15 thing is in final form I'd like Viner to go over it. I think it's helpful; that's his baby.

Haas: Yes, the more views we get on it the better. I don't know if you've got it far enough (to White).

White: I don't know what you're talking about.

Haas: You know, the publication of the capital movement stuff.

H.M.Jr: Well, if it isn't that far we'll get - he can come again.

Haas: Oh, it's far enough along to go over it.

H.M.Jr: Now Wayne, without any pillows, how do you feel about this?

Taylor: O.K. You may want to, where you say "whose governments" -

H.M.Jr: Well, when you get down to worries...

Lochhead: There's going to be a bitter fight about that, though - on that question of the government and central banks; Mr. Oliphant, I'm sure, is going to -

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H.M.Jr: What's he going to fight?

Lockhead: When we say here that such governments offer gold at such rates and upon such terms - and he's going to say the government does not offer you gold in Belgium.

H.M.Jr: Well, I'll be responsible. (Goes out of the room).

Lockhead: But I still think he's going to have a pretty stiff fight.

(Secretary returns)

H.M.Jr: On that argument - I'll settle that argument. This is a statement that I'm making, and when it gets down to actual exchange, isn't that a legal matter for our fiscal agent? They take the responsibility for us. I mean I'm not going to fight about that; I'm through, I'm not going to fight about it. I mean they're going to draw the contract the way I decide that I want to work, and I'm not going to work in order to have the thing legal.

White: If fifteen years from now they discover it isn't right, we can set up a new one.

Haas: The practical thing is you can quit any time.

H.M.Jr: This whole idea of trying to channelize this whole thing and go to suit the lawyers - I'm not going to do it.

White: I think Oliphant would be satisfied with this.

H.M.Jr: When I was in Albany I worked much closer then - I mean the whole thing was smaller; and I always used - the job for the Attorney General and all of them was to get me out of jail, not to stop me from operating. That's what I used to tell them; and we operated and he kept me out of jail.

Well, we've cleared this thing, and I think the thing to do is immediately in the morning begin

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to draft that thing with the idea that that will take the place of October 13 and January 31. Huh? Everybody in accord on that? And then when you begin to draft I'd let the lawyers sit in on that, Wayne, see?

Taylor: I've got this crop insurance thing tomorrow that I think I ought to go to.

H.M.Jr: Listen, young fellow - well, all right, I don't care; I'll start the thing as soon as I get there. What time is your crop insurance?

Taylor: Ten o'clock.

H.M.Jr: Well, I'm going to start on this thing early and I'm going places and I'm going to have this thing finished at 11 o'clock so when you come in in the morning - I'll explain to Oliphant what I want and I'll put you all into that room - you (Haas) and you (Lochhead) and Oliphant and Jake - and then by 11 o'clock I want something. That ought to be possible, oughtn't it?

White: Yes, because there isn't much that can be changed.

H.M.Jr: Now, you've been through this thing, White, before; do you see any arguments?

Haas: Plenty argument.

H.M.Jr: Well, I'll tell Oliphant what I want. But the thing is cleared in my own mind.

White: I think we can satisfy Oliphant on this.

H.M.Jr: I'll start as soon as he gets there in the morning. I'll explain to him what I want and then he'll go right to work and see if he can't have something for me about 11 o'clock, see? Now, don't come in late and then have some ideas, Wayne.

Taylor: No, no, as long as it's like that, why, it's absolutely O.K.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

COPY

DATE November 4, 1936

TO Secretary Morgenthau

FROM Mr. Haas

The attached report was prepared by Messrs. White and Seltzer and myself.

Mr. Lochhead has gone over it and has indicated that the proposals therein contained would offer no difficulties in exchange operations.

GCH:LL

Contents

1. Memorandum on draft of statement referring to sale of gold to foreign countries.
2. Draft of Treasury announcement to supersede the announcements of January 31, 1934 and October 13, 1936.
3. Alternative draft of Treasury announcement to supersede the announcements of January 31, 1934, February 1, 1934, and October 13, 1936.
4. Memorandum on gold ownership and the central bank of Belgium.
5. Memorandum on gold ownership and the central bank of Switzerland.
6. Memorandum on gold ownership and the central bank of the Netherlands.
7. Copy of Treasury press release regarding statement made by the Government of Belgium, September 26, 1936.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

COPY

DATE

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Draft of statement referring to sale of gold to foreign countries.

The accompanying draft of the new announcement to be issued accomplishes the following:

(1) It replaces the statements of January 31, 1934, and of October 13, 1936, without involving any departure from the recently established policy of dealing only with governments.

Furthermore, while embodying important change of policy from that indicated in the two previous statements, it appears to contain only minor changes from the earlier statements, and only those changes necessitated by matters of more or less technical importance.

(2) It will make it possible and just for the Secretary of the Treasury to announce publicly that in our arrangements with Belgium or any other country we are dealing with the governments, though, of course, the actual operations are carried out through fiscal institutions designated for that purpose by the governments.

(3) The draft is so phrased as to make it possible for any country to be added to the list of those eligible to purchase gold from us. As the Statement of October 13, 1936, reads, countries not having stabilization funds cannot be included in the list. Likewise countries on the list would have to be taken off if the existence of their stabilization funds terminated.

The suggested draft would make it possible to add countries like Sweden, China, Japan, Mexico, etc., even though they have neither stabilization funds, nor are on the gold standard.

(4) While adhering to the policy of dealing only with governments, the draft is so worded as to make it possible - in our opinion from the economic point of view - for any government to consent to the conditions even though that government may not have title to the gold in the central bank, or have a stabilization fund, and without having to actually deal in gold.

Secretary Morgenthau - 2 -

Thus we believe the drafted statement can be reasonably interpreted to mean that in the case of Belgium, by virtue of her being on the gold standard, the government does in effect offer to sell gold to those countries to which it permits gold to flow freely (U. S. would be so included) at a price which the government fixes. In the instance of Belgium, the price happens to be fixed by statute and can be altered de jure only by statute, though de facto alterations are doubtless possible without passage of any law. Whereas in the United States the price is fixed by the Secretary of the Treasury and can be altered by his statement.

In other words, the Belgian Government, while not actually dealing in gold, nor being the principal in the transactions, offers to sell gold by virtue of its statutes which compel the Bank of Belgium to sell gold (to the United States) at a fixed price. The Belgian Government could alter the price at will by altering the statutory price. Since a statute may be reasonably regarded as the expression of will of the Government, it appears that the Government is doing the offering on terms which it sets - though it may leave the details by statute to the Central Bank.

(5) In affording the Belgian Government the opportunity to be added to the list of countries eligible for purchase of gold from the United States, we are not inquiring of a sovereign foreign power whether she has the power to make the arrangement, nor are we suggesting in any way that she make any changes in her domestic monetary system, nor need we in any way indicate the manner in which she implement the arrangement. All that we insist upon is that the arrangement be made between the United States Government and the Belgian Government through appropriate government channels, and that the Government of Belgium state what fiscal institution she designates for the purpose of executing the gold transactions with the U. S.

The difference in the arrangement which we are making with Belgium, and the arrangements which prevailed under the old gold standard is important. It lies in the fact that:

- (a) We deal only with the Belgian Government, and our fiscal agent sells gold only to the government or its designated fiscal institution.
- (b) The Secretary of the Treasury has power to alter the price, the terms, and the conditions at which he will sell gold from day to day, whereas formerly the price, terms, and conditions were generally regarded set by statute and alterable only by statute.

Secretary Morgenthau - 3 -

(6) There is no clause in the draft stating the price at which we will sell gold. It is purposely omitted in order to make our gold price policy appear less rigid. This is a step toward making possible flexibility in the price of gold, and is in line with recent statements made by the Secretary at a recent press conference. The price of gold which the Secretary will set can be announced in some other document (just as is done with the list of countries eligible to purchase gold here) and will appear to be by that fact subject to change from day to day. The price will have a greater appearance of potential flexibility than would be the case were the price included in the statement as was done in the October 13th draft.

(7) If Belgium refuses to accept this draft, it were better in our opinion to leave her off the list than give up the principle of dealing only with governments.

The consequences would be important as establishing the principle. Actually Belgium would be affected only to a negligible extent if any, unless her failure to be put on our list meant she could not purchase gold in France.

She could, of course, purchase gold in the open gold market in London and that would enable her to operate with almost as much facility as if she could buy gold from us or from the French Government. Yet because of the proximity of France to Belgium, and the possible narrowness of the London market, it would be to her advantage to be able to purchase gold from France and the United States, as it would likewise be of some slight advantage to France to be able to sell gold to Belgium if she chose.

Though the value of this privilege to Belgium is slight, it might be desirable -- should Belgium not see fit to comply with our conditions -- to make it clear to her and to France and England that they can make whatever arrangements they wish among themselves provided the arrangements do not, of course, violate the tripartite announcement of policy.

If Belgium's name were left off our list, the loss to us would be nil. Switzerland and Netherlands would soon be added. Our gold operations would be virtually unaffected. If it leaked out in Europe that the "United States refused" to make it possible for Belgium to obtain gold here, we would gain by the opportunity of stating our principle that we deal only with governments in matters of sale of gold.

Secretary Morgenthau - 4 -

(8) Draft No. 2 has all the advantages of Draft No. 1, but in addition completes the channelization of gold from as well as to governments. It embodies the important step of actually confining gold operations to governments. We not only would sell gold exclusively to governments (or their designated fiscal institutions) but we would buy gold only from such sources (except, of course, newly mined domestic gold).

It would mean that no gold could enter this country unless it came from some foreign central bank (as the designated fiscal institution). It would eliminate so far as the United States is concerned, all dealing in imported gold by private banks or individuals.

The difficulty of issuing such a statement lies in the understanding with France and England. It is extremely doubtful that we could get England to agree to purchase for import gold from "stabilization funds" or government fiscal operations because she maintains the most important free gold market of the world.

If we were to issue such a statement as Draft No. 2 it would have to be on our own.

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

COPY

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*Draft #1*

Draft of Treasury announcement to supersede the announcements of January 31, 1934, and October 13, 1936.

Superseding the announcements made by him on January 31, 1934, and October 13, 1936, referring to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked, or altered) the United States will sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization fund, or fiscal institution designated by the government, of each country whose government likewise offers to sell gold to the United States; provided that such government offers gold at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the countries complying with the foregoing conditions. All such sales of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon such terms and conditions as the Secretary of the Treasury deems most advantageous to the public interest.

COPY

Draft of Treasury announcement to supersede the announcements of January 31, February 1, 1934, and October 13, 1936.

*Draft #2*

Superseding the announcements made by him on January 31, and February 1, 1934, referring to purchases of gold by the Treasury and on January 31, 1934, and October 13, 1936, referring to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered) the United States:

(a) will sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization fund, or fiscal institution designated by the government, of each country whose government likewise offers to sell gold to the United States, provided that such government offers gold at such rates and upon such terms and conditions as the Secretary of the Treasury may deem most advantageous to the public interest;

(b) will buy gold for immediate import into the United States, or earmark for the account of the United States from the exchange equalization or stabilization fund, or fiscal institution designated by the government, of each country whose government offers gold at such rates and upon such terms as the Secretary of the Treasury may deem most advantageous to the public interest;

(c) will buy domestic gold through any United States Mint or United States Assay office at New York or Seattle at such rates and upon such terms and conditions deemed by the Secretary most advantageous to the public interest.

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The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales and purchases of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon such terms and conditions as the Secretary of the Treasury deems most advantageous to the public interest.

HDW:ls

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE November 4, 1936

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Gold ownership and the Central Bank of Belgium

1. Who owns the Central Bank?

The National Bank of Belgium is privately owned. The bank is chartered by the State. Shareholders owning more than twenty shares are entitled to vote at the semi-annual meeting at which three Directors, nine Regents and ten Censors are elected. Profits on the operation of the bank are distributed to the State and to the shareholders.

2. Who controls the Central Bank?

The Belgian Government exercises some control over the Central Bank through the power of the crown to nominate the Governor of the bank and through its power to appoint a Government Commissioner to supervise all bank operations.

3. Who owns the gold reserve of the Central Bank?

The gold reserve is owned by the bank except, of course, as this ownership is limited by the sovereign power of the State and the will of the Government as expressed by law.

4. Who owns the profits of the revaluation of the gold reserve?

The bank turned over to the State Treasury the profit which accrued from the revaluation of its gold, amounting to nearly 4 billion francs, in accordance with the monetary law of March 30, 1935. The law provided that this sum should be used for the execution of the policies of economic recovery.

In addition to payments of 133 million francs to Luxembourg and 345 million francs for reduction of the State debt to the National Bank, the Treasury appropriated from the revaluation profit 1 billion francs to each of two funds, one for the protection of the price of Government securities and one for the equalization and protection of the exchanges. The assets of these funds were ultimately to be returned to the Treasury. It appears that the Treasury has been using the remainder of this profit for the purpose of balancing monthly expenditures and receipts.

Secretary Morgenthau - 11/4/36 - 2

5. Does Belgium have a stabilization fund?

An Exchange Equalization Fund of 1 billion francs was created on March 31, 1935. In the twelve months of its existence no use was made of this fund and its resources were returned to the Treasury in full on March 31, 1936.

6. Who owned the stabilization fund while it existed?

The Belgian Exchange Equalization Fund, although administered by the National Bank, was owned by the Treasury. At the end of its existence, the 1 billion francs which comprised the fund were returned to the Treasury's account of revaluation profits.

7. Is the stabilization fund in gold or local currency?

The Belgian Equalization Fund derived from revaluation profits was not a stock of gold but was an account with the National Bank expressed in local currency.

8. From whom does the Central Bank buy gold and to whom does it sell gold?

The National Bank, which is authorized by its charter to deal in gold and silver, was given exclusive right to export and import gold bullion or coin by the Royal Decree of March 17, 1935. That same Decree provided that any trading in gold within Belgium was subject to the authorization of the bank. Although this Decree has not been repealed, it is believed that the bank is very lenient in its application, readily granting authority for domestic trading and freely selling gold. The export of \$8 millions of gold to the United States on October 17, 1936, may offer proof that the bank is willing to sell gold to private banks for export.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE November 4, 1936

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Gold ownership of the Central Bank of Switzerland.

1. Who owns the Central Bank?

The Swiss National Bank is owned partly by private citizens of Switzerland, partly by the former issue banks, and partly by the Cantons. (In 1933 the ratio was 46.3%, 15.5% and 38.2%, respectively.)

2. Who controls the Central Bank?

The Federal Government exercises a strong control over the bank through its power to appoint the President and Vice-president, and a majority of the members, of the Bank Council, and through its authority to approve the Annual Report, all statements made by the bank, and bank regulations.

3. Who owns the gold in the Central Bank?

The gold reserve of the National Bank is owned by the bank except, of course, as this ownership is limited by the sovereign power of the State and the will of the government as expressed by law.

4. Who owns the profits on the revaluation of the gold reserve?

After provisional revaluation of the gold reserve of the National Bank on September 27, 1936, the profits were retained by the bank. Although the Federal decree of September 27 directed the bank to maintain the gold parity of the Swiss bank at between 25% and 35% of its former value, and although the franc has recently stood at approximately 30% of its former value, the gold reserve of the bank was revalued at 35% of the former value. This yields a profit of approximately 538 million Swiss francs.

5. Does Switzerland have a stabilization fund?

A stabilization fund was created on September 27, 1936, when the entire profit from revaluation was placed to the account of a special "equalization fund," charged with maintaining the rate of exchange within the new limits through buying and selling gold.

Secretary Morgenthau - 11/4/36 - 2

6. Who owns the stabilization fund?

The bank controls the stabilization fund and has the sole right to dispose of it. It is not clear, however, who does own it, according to the information contained in cables from Cochran.

7. Is the fund in gold or local currency?

The fund is evidently held in terms of a Swiss franc account in the Swiss National Bank. The fund has not been separated from the bank and therefore it is not certain whether or not it can be said that the fund is backed by 100% gold.

8. From whom does the Central Bank buy gold and to whom does it sell gold?

By the decree of the Federal Council, dated September 27, 1936, the National Bank is relieved of its obligation to redeem its rates in gold. It appears that the bank does not sell gold to private persons or firms.

# TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

COPY

DATE November 4, 1936

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Gold ownership of the Central Bank of the Netherlands.

1. Who owns the Central Bank?

The Netherlands Bank is a private institution incorporated as a limited company. The shares of the bank are owned by private persons. The shareholders elect 15 commissioners and not less than 2 directors.

2. Who controls the Central Bank?

A certain degree of control over the Netherlands Bank is possessed by the government, although, apparently, the amount of control is less than in the case of Switzerland and Belgium. The crown appoints the President and Secretary of the bank, and appoints a Royal Commissioner who is entitled to vote. The President and Secretary and the Directors together form the Management, in which the government has an important influence.

3. Who owns the gold in the Central Bank?

The gold reserve of the Netherlands Bank is owned by the bank except, of course, as this ownership is limited by the sovereign power of the State and the will of the government as expressed by law.

4. Who owns the profits on the revaluation of the gold reserve?

The gold reserve of the Netherlands Bank has not yet been revalued, and there are no indications of the policy which will be followed when revaluation is carried out.

5. Does the Netherlands have a stabilization fund?

On September 27, 1936 the Netherlands took steps towards the creation of a stabilization fund whose resources of 300,000,000 guilders are to be obtained from the issue of Exchequer Bonds. No estimate is yet available of the total of such bonds which have been sold to provide funds for this purpose.

Secretary Morgenthau - 11/4/36 - 2

6. From whom does the Central Bank buy gold and to whom does it sell gold?

By Federal law, dated September 29, 1936, Netherlands established an embargo on all gold exports. Whether or not the Netherlands Bank sells gold within the country, or redeems its notes in gold, has not been ascertained.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE  
Saturday, September 26, 1936.

Press Service  
No: 8-55

The Secretary of the Treasury makes public the following note from the Belgian Embassy, transmitted to the Treasury Department by the Secretary of State:

"BELGIAN EMBASSY

Washington,  
September 26, 1936.

No. 3479

"Mr. Secretary,

"Upon the order of my Government, I have the honor to inform Your Excellency of the following:

"1) The Belgian Government has learned of the declarations by which the Governments of France, Great Britain and the United States have considered it opportune to express their intentions with regard to the monetary and economic problems existing at the present time, and joins with them in affirming a common intention of safeguarding the peace, of favoring the establishment of conditions which will contribute to the restoration of order through the international economic relations and to pursue a policy with a view to developing world prosperity and improving the standard of living of all peoples.

"2) To this effect the Belgian Government is decided to modify in no way the monetary policy which it has carried out during the last year and a half and which has had the effect of assuring the complete stability of the Belgian franc on the international exchange market, avoiding any disturbance of that market.

"3) The French Government, considering that the desirable stability of the principal currencies cannot be assured on a solid basis without a previous re-establishment of a durable equilibrium between the various national economies, has decided to propose for this purpose to its Parliament the adjustment of its currency. The Belgian Government, as well as the Governments of the United States and Great Britain, considers that this decision is of a nature to establish on more solid foundations the stability of international relationships. It is ready to take part as often as it may be necessary or useful in the consultations which may be called, either between the interested Governments or between the competent institutions.

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"4) The Belgian Government, as well as the Governments of France, Great Britain and the United States, is moreover convinced that the success of the policy above outlined is bound up with the development of international commerce.

" Particularly, it attaches the greatest importance to the initiation of an action without delay with a view to reducing progressively the existing systems of contingents and control of exchange with a view to their final abolition.

"5) The Belgian Government, as well as the Governments of France, Great Britain and the United States, considers that the collaboration of the other nations for the realization of this program above mentioned is highly desirable. For this purpose, the Belgian Government will remain always willing and ready to bring its entire collaboration.

"For the Ambassador:

(Signed) PRINCE EUGENE DE LIGNE"

His Excellency,  
The Secretary of State,  
Department of State,  
Washington, D.C.

November 5, 1936.

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At 10 A.M., Mr. Preston Delano, Governor of the Home Loan Bank System, D.W. Bell and Mr. Upham met with Secretary Morgenthau to discuss Home Loan Bank financing.

Mr. Delano explained that the Home Loan Banks have a capital of \$130 million, of which \$109 million was subscribed by the Government. The maximum which the Government can subscribe is \$125 million. They propose to raise some additional capital in the market.

Mr. Delano has discussed the matter with Mr. Burgess, Mr. Eccles and Governor Myers and others. It is his opinion that consolidated debentures of all 12 banks should be issued and that they should be uncollateralized. He pointed out that the Home Owners Loan Corporation can buy these debentures but recommended against it. The banks can pay up to 2% for money but they would like to get it cheaper. Moreover, they feel that long term debentures will not be well received. The banks hold \$45 million of one year and less maturity as collateral for their loans and it is logical to issue against this short term debentures.

Mr. Delano was of the opinion that they could get 1 year money at 1% or 6 month money at 1/2% to 5/8%. They would not need the money before February and then at the approximate rate of \$5 million a month.

Mr. Morgenthau suggested that they issue debentures with a maturity of not less than one year and that they issue them quarterly in amounts sufficient to meet three month needs. It was his suggestion that they go to the market about January 15th.

Mr. Delano said that a syndicate might be formed to float the

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debentures or that they might make use of the fiscal agent of the Federal Intermediate Credit Bank.

Mr. Morgenthau favored the latter course.

Mr. Morgenthau asked for some information about Federal Savings & Loan Associations and plans to extend the system and its operations, but discussion of this matter was postponed until after Mr. Morgenthau's return from Sea Island.

November 5, 1936  
11:20 A.M.

Present: Mrs. Klots  
Mr. White  
Mr. Hsas  
Mr. Viner  
Mr. Oliphant  
Mr. Opper  
Mr. Lochhead

Oliphant: I have here what I understand to be - this statement is going to be your legal power that you will receive, by virtue of the President's approval, to sell gold. It is your grant of power. It is purely a legal question as to what document is sufficient to grant you the power of the sort that you tell me you want. From an operating standpoint it is wholly feasible - from Archie's standpoint, because the only people he will communicate with will be the Central Bank of Belgium, which the Belgian Government has designated as its fiscal agent.

Lochhead: I understand you are to pass on the legal contract that they give you.

Oliphant: Yes, and read - and I understand Viner has some reservations.

H.M.Jr: He always does. That's why I asked him.

Viner: No. I do - I have some now, but -

H.M.Jr: Well; we got - I've got lots of time. Now, let me just see this. White, I may want to take this with me south. Could you give Mrs. Klots another one of those? See? Could you give her another set of that?

Hsas: Uh huh.

H.M.Jr: Now - now let me just see: "Superseding the announcements made by him on January 31, 1934, and October 13, 1936, referring - relating" - no argument about that, is there? - Now that is, I take it, the meat of the cocoon, this thing here: "Earmark for the account of the

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Treasuries or the exchange equalization funds." Now, let me just - "providing such offers are made upon such terms and conditions" etc. etc. Then "the Secretary will name the following countries coming within the foregoing" etc. - "through the Federal Reserve Bank of New York as fiscal agent" etc.

Well then, the whole meat comes down here - "will sell gold for immediate export to or earmark for the account of Treasuries or stabilization funds of those countries whose Treasuries - " Now, let me go back to October 13 - "Supplementing the announcements made by him on January 31, 1934, and February 1, 1934" etc. - "will sell also gold for immediate export to or earmark for the account of the exchange equalization or stabilization funds." Well, in this October 13 you don't mention Treasuries.

Oliphant: Yes, sir.

H.M.Jr: Huh? You don't mention Treasuries.

Oliphant: Well, the only difference - we put the words "or Treasuries," insert that into October 13.

H.M.Jr: Well, you left that out, haven't you?

Oliphant: Yes, in October 13.

H.M.Jr: It says "the United States will sell gold for immediate export to or earmark for the account of the exchange equalization or stabilization funds." And then you say "or whatever fiscal agent of those countries" -

Oliphant: And then the words "whose Treasuries or." That's all that's new. Except for polishing a little, the only change in substance is we put in the words "Treasuries or" before the word "fund."

H.M.Jr: Well, wouldn't you say - partly explain "fund"?

Oliphant: Then that would precede that.

H.M.Jr: I'd repeat it anyway.

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- Oliphant: It's desirable, but I don't think it's necessary, because two lines above it says "exchange equalization or stabilization funds."
- H.W. Jr: Now, let's start with White; you're on my left. What do you like and don't like about this?
- White: I like this, with this reservation: that this states a little more clearly than the draft we had last night that you are confining the operations to Treasuries or exchange equalization funds, and that there is the possibility which must be evaluated - which is not necessarily vital, but it must be evaluated - that the Belgian Government in receiving this will feel that this doesn't cover their particular case unless they create either a fund or unless they have some gold in the Treasury, or unless the Treasury deals with gold. And that - I'm satisfied with Oliphant's explanation that that isn't necessary under this, but they may not appreciate that. And so it may be necessary to get that across to them before they will accept it and there may be some difficulty by virtue of the distance and agencies to get that across. But outside of that -
- Oliphant: May I state the hypothetical case that is possible under this thing I've got drawn up. I'm going to change it from gold to wheat. I'll be the Belgian Government, you (to Secretary) be the United States Government, Mrs. Klotz be the Secretary. I enter into a contract with you to deliver to you -
- H.W. Jr: Who are you?
- Oliphant: I'm the Belgian Government. I enter into a contract to deliver to you one month from today 100 bushels of wheat. You and I are the partners to that contract. I am bound to carry it out; the liability is mine. Now, if at the end of the month I procure that wheat to be delivered to you by Mrs. Klotz, that is no concern of yours. But in the day to day operations, after this thing is set up, say a month from now, any case Archie enters into a transaction, in the background

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the principals are the Belgian Government and the United States Government. Now, the Belgian Government, in discharge of that obligation may procure the gold to be delivered to you by the Central Bank; and as I can enter into a contract to deliver wheat and carry it out, never having owned a bushel of wheat - but I'm the principal, and I understood you wanted to deal with - not with the Central Bank, but -

H.W. Jr:

Well, may I just say this, for the record. In July, the middle of July, when Mr. Bewley, the Financial Attache, came to see me, I first broached the question that time that if we entered into an agreement with Great Britain under reciprocal gold, it would have to be with the British Government. He was very much taken aback. He said, "Why, you can get gold in the open market. Why with the British Government?" "Because," I said, "if you do business with us you know the United States Government guarantees they will deliver that gold. I don't care where I get that gold, but I want the British Government to guarantee to me that when I buy I get it."

Now I don't care; now, we crossed that bridge with them at that time. He was flabbergasted, and left me with the impression that it was very doubtful whether they would do it. Well, they crossed that bridge. And certainly in the case of England they could say and did say, "We've got our open market. Why ask us for anything more?" Still they came across, they guaranteed it. We wanted to know the British Government would see that they gave it to us, and our contract was - was not with the open market, whoever that is, or with the Bank of England. And we crossed that bridge last summer.

Now, if the British Government, with all their pride and everything else, were willing to do that - they might very well say, "Well, isn't the Bank of England good enough?" etc. - but they are willing to cross that bridge. And it was a very important decision which I made at that time when I stated that, because I knew how difficult it

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would be to get England to agree to it; and they did agree to it. Now, that bridge was crossed a good many months ago. And I know the President feels very strongly on this subject, and I do too.

Now, the only - the thing that I have told each of you, separately and collectively, is that I don't want to tell any country how they should run their own business inside; but when they deal with us, I have a right to say on what basis and with whom I want to deal. Now, that's the whole argument, isn't it?

Oliphant: Yes

H.M.Jr: Now, if any country wants to have - whether they want to hold their gold, have a Central Bank or National Bank or stabilization fund, that is their business - or how they handle their gold - entirely their business; but when they deal with me, that's my business.

Viner: You want the contract on their part to be that they will themselves sell gold of their property to you.

H.M.Jr: No, no, I simply -

Viner: That's what you're saying.

Oliphant: Not of their property. They will enter into the contract. This says the United States is selling; now, that is one party. Now, the only party on the other side has to be the government.

Viner: No, the contract needn't be that, though. We are agreeing to sell, but we may agree to sell to a country which agrees to sell to us or to make available for sale to us through whatever institution that country chooses to select.

Oliphant: It might be a private bank.

Viner: It might be a private bank.

Oliphant: Well, I understand you don't want to deal with a

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private bank or central bank.

H.M.Jr: Not as principal.

Viner: Well, the agreement would be the Government of Belgium. I, for instance - you see, I'm thinking of the Belgian case. On this basis the Belgians would have to make some new arrangements at home internally, or they couldn't - or this is not, ipso facto, available to them.

You see, we are saying that we will earmark gold for the account of the Treasuries or the exchange equalization fund.

Haas: - or Designated agencies.

Viner: No, no, it doesn't say "or designated agencies." It says "through" - that's not "or." We won't earmark it to the account of designated agencies. That's what Oliphant explained to us. That means you are operating through them as agents. That's what they made clear. Now, this does not fit the present Belgian situation.

H.M.Jr: Now, let's just take the English situation. When we earmark for them it's to -

Lochhead: - the Federal Reserve account of the Bank of England.

Viner: And that account - who opens that account of the Bank of England?

Lochhead: The account, as we understand, is owned by the stabilization fund.

Viner: Does the Federal Reserve Bank know that?

Lochhead: When we want gold from the English, it is earmarked for the account of the Federal Reserve Bank; it is not shown on the Bank of England books as the United States Treasury.

H.M.Jr: Wait a minute. When we got down to the thing, these contracts were drawn up by the lawyers of

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the Federal Reserve Bank, with some consultation and the aid of the Treasury.

Viner: But with whom was the contract?

H.M.Jr: You'll have to ask Oliphant.

Oliphant: Well, this is -

Viner: Didn't the Bank of England say it was acting as the agent of the exchange stabilization fund?

Oliphant: As I understand, the Bank of England is agent for earmarking, and so on, but the earmarking is for the account of the exchange equalization, or stabilization fund.

Viner: The exchange stabilization fund part - is that in the contract?

Lochhead: No

Viner: Well, you have no contract, and if the Bank of England wanted to earmark gold, there is nothing in the present arrangement -

Lochhead: - except that it's understood that this is the way we're operating.

H.M.Jr: (On phone) Would that be convenient for him - 12:30? If the President will talk to me about 12:30, please . . . I'm allowing him an hour (aside).

Well, we've got an hour on this.

Viner: Well, what I feel is this: that all the purposes that I can see that we have would be served if we had an agreement with governments that if we make gold available for sale to them or such institutions as they designate, they shall see to it that gold shall be available for us; whether it is at their Treasury or stabilization fund shouldn't make any particular difference to us as long as the governments undertake that the gold should be available to us. But this doesn't do this.

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H.M.Jr: Well, just a minute. I'm going to - I mean I'm going to take Oliphant. I explained to Oliphant this morning what was the pattern that I had in mind. I practically made up my mind that this was a pattern; after I made up my mind what was the pattern I'd like to have him draw a contract. See? Now, his responsibility is to see that the contract would be binding.

Now, let's boil this thing down. The contract is between the United States Government as the first - party of the first part, and let me ask you -

Oliphant: The Government of Belgium on the general contract.

Viner: Belgium would agree that gold would be available to us upon demand at prices on such and such a basis; as to who would sell the gold to us, that is another part, when the Belgian Government would agree that there would be somebody there whom they would choose, and suitable to their own situation, who would sell the gold.

H.M.Jr: May I read this thing here just a second. "It is ready to take part as often as may be necessary and useful in the consultations either between interested governments or between competent institutions (from Belgian note of September 26)." Well, it all gets down - here's the United States Government, party of the first part; who's the party of the second part? That's all.

Oliphant: Now, that's two questions; that's a double question.

H.M.Jr: Why a double question?

Oliphant: Well, your analysis -

H.M.Jr: What?

Oliphant: Your analysis of it is absolutely right. I just want to carry it one step further. Who are the two parties to this agreement we're now entering into? Further, who will be the principals of the agreements which we will be entering into from day

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to day in the purchase and sale of gold? Now, as I understand Viner's statements, he suggests that you go this far: There is a certain country that has nothing - no central bank - it merely has private banks; and it agrees with the Secretary to make gold available. Under Viner's suggestion the plan would be that from day to day the United States of America enters into a contract for the purchase of gold from private banks; and that would fit Viner's pattern, he'd be satisfied.

Now, as I understand it, your thought is that you are going to be doing business from day to day and the United States Government is to be the principal on this side in those contracts, and you want the principal on those day to day contracts on the other side to be the government over there, regardless of whom they designate as their fiscal agent to carry this out, and whom they designate to deliver this gold. Is that what you want?

H.M.Jr: It isn't clear to me. Are you addressing me or Viner?

Oliphant: I was addressing both.

H.M.Jr: Let Viner answer, because I don't get your answer. Maybe Viner does.

Oliphant: Well, everybody's agreed that the original understanding is to be an understanding in which the Belgian Government will be a party; that's out of the way. Then the dispute, the discussion, is on the question of who are to be the parties, that is, the principals, to the contracts entered in from day to day for the purchase and sale of gold. Now, that is the question.

On the other hand, this question is also out of the way and everybody's agreed on it: Whoever are the parties in the day to day contracts for the sale of gold, each of those parties may use any fiscal agent they please. We will use as our fiscal agent the Federal Reserve Bank of New York. The Belgian Government will use as its

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fiscal agent its central bank.

Now, coming back to the question that is under discussion: Who are to be the parties, the principals, in the day to day contracts for the purchase and sale of gold? As I understand what you want, and as I have drawn this document, in the background the principals of those contracts should be the Belgian Government and the United States Government. Whoever the Belgian Government may designate to negotiate those transactions from day to day and deliver the gold from day to day, and whosever gold may be delivered, the contract for the purchase and sale of gold should be a contract between two sovereign governments.

H.M.Jr: Right.

Oliphant: Now, as I understand your statements, that is the way I understand your position.

H.M.Jr: Just a minute. Hello (on phone). What could he do, please? - - Well now, just wait a second, hold the wire. (aside) I think we can clear this thing in about 15 minutes, can't we?

Oliphant: I think so. We've got the question cornered now.

H.M.Jr: (On phone) Hello? He said either 12 or 12:15? I'll take 12:15. Thank you.

All right, now. Let me go back again. I'm going to repeat; I'm going back to what I said to Bewley. I said to Bewley, "Now, mind you, I'm not satisfied to do this thing unless the British Government will guarantee to me that if I want a million pounds of gold today I get it. Whose gold it is or where it comes from is none of my concern." See?

Now, I think when I said that, that that was the time that we laid down a new principle, and that's what I want to carry out with the rest of them.

Viner: That I adhere to absolutely.

H.M.Jr: Well, where's the difficulty?

- 11 -

- White: He's also saying that, but that's not the same thing.
- Viner: But that's not the issue. My proposition is that you have agreements with countries that they will themselves sell or make available, from whatever agencies they find in their set-up, for sale to you, gold upon your demand, but that who shall actually sell the gold to you you don't care, provided it is somebody in that country designated by that government in accordance with the terms agreed upon by that government; whereas their proposal is that in each transaction the buyer be the United States Government and the seller be the Government of Belgium. And I think that that does not fit the Belgian situation, and it maybe doesn't fit the present English situation as far as your legal arrangements go, and that it is a new restriction, it serves no economic benefit, and that I don't see any legal risks in the arrangement I stated. If you see -
- Haas: I can bring those two views together.
- H.M.Jr: Can you? I think you're - well, you'll be good.
- Haas: That on the one that Herman was talking to you about, he said that the buying and selling is between the two governments or through some agent.
- Viner: Not "or" - "or" is wrong.
- Haas: No, not "or" - or buy and sell through some - the operations could be through a fiscal agent.
- Viner: Yes.
- Haas: All right. All that that means is that Jake is spelling out Herman's interpretation of what Herman's document means.
- Oliphant: No, now let me try it once more. I want to state Jake's position as I understand it, and I'm going to make it clear by stating an extreme case, a case to which it applies. I want you to think it through and I think you can tell me very quickly whether or not you want that sort of thing.

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So I want to take a sort of extreme case, make a very concrete picture. I wish I could name a country where there isn't any central bank, where they have nothing but J. P. Morgans.

Viner: You're trying to find a hard case that doesn't exist.

Oliphant: Excuse me, I'm trying to make the thing clear.

Viner: Well, I'd meet it by saying, "Instead of designated institution, say central bank."

H.M.Jr: Now, let him finish. Let him go ahead.

Oliphant: Let's assume a country where there are no banks that, in point of relation, rise above the status of Morgan or other private banks.

Viner: Bermuda. Take Bermuda.

Haas: Angora.

Oliphant: Viner's suggestion, now - now I come down and talk about the day to day operations; that's where the problem is; we're agreed on what the initial steps are. Viner is suggesting that in the day to day operations there will be solemn contracts for the purchase and sale of gold between the United States Government and that private bank.

Viner: And that's all? No, that's not my proposal. If you mean that's the whole story, that's not my account.

H.M.Jr: Are you through now (to Oliphant)?

Oliphant: Well, I should add with the government in the background as the guarantor.

Viner: All right; that's a rather important addition.

H.M.Jr: Now do you want to state - ?

Viner: If he adds that, if he includes the addition, that's the story: that we don't care who delivers

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the gold to us as long as they do it on terms that we have agreed on with their government, and that government undertakes to see that this contract shall be executed. That is, we have a covering contract with the government; you see, we are not dealing with this side private bank, as if it is -

H.M.Jr: Now let me try it. Could you put it this way? - We enter into a contract, the United States Government, with the Belgian Government that we will exchange gold under certain terms and conditions. Then the Belgian Government chooses to sublet that contract to the Bank of Belgium and it says to the Bank of Belgium, "Will you please go ahead and enter an arrangement with the fiscal agent of the United States Government."

Now, under a sublet, as I understand it, the original contractor is still responsible to the man who is building the house, but he lets this person sublet his plumbing and his heating, and all those people go ahead and do business; but the original contractor is the responsible person to build the house. Now, isn't that about the situation?

Cliphant: Yes, that's another way of doing it, and that doesn't face the problem of getting from the President a document authorizing you to do that.

H.M.Jr: Well, isn't that stating it in an entirely different way? I mean nobody has stated it yet - and isn't that what I want to do? I want to build a house. I enter into a contract with Jones & Jones, General Contractors, to build a house. Jones & Jones - I look them up and they are all right, they are known. Now, they sublet. They don't happen to be plumbers, so they sublet the plumbing contracts and these fellows go ahead and furnish the plumbing; but Jones & Jones are still responsible to me.

Cliphant: Well now, there are just three possibilities, and I want to talk about the day to day operations.

H.M.Jr: (Gets up) Oh, if you could see George's face - My god - oh!

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Haas: We've argued this Sunday, Monday, and Tuesday. I think you hit it right, you hit the explanation.

H.M.Jr: Well now, wait a minute.

White: I think it's it.

H.M.Jr: What are you fellows pointing at?

Haas: The contract that you just read.

Viner: The trouble is this sublease may be of great variety of kind.

H.M.Jr: Now wait a minute. There's a couple of people - Now, do you mind, George - what were you pointing at, George?

Haas: I was pointing at this statement which Herman read to you, where it says "through" - there's a parenthetical phrase in it: "through whatever fiscal agent they may designate." Your explanation which you just gave is, I think, a beautiful explanation of just that - what that is.

H.M.Jr: Well, if that's what that means, then Herman Oliphant has done what I mean it is.

White: But that's not quite what you said in the first instance. In other words, the instance is a little different from the principle which you enunciated before, because in this case you are still dealing with the government; you are not dealing with the central bank, you're dealing with the government. Whereas what he wants to make possible is that when you arrange with the contractor to build your house, you say to him, "I hold you responsible, but I'll make my contracts with -

H.M.Jr: No, no, no, no, no, no. Now wait a minute, just a second. Let me keep this thing on this house basis. I've had a contract and I build a house. The Procurement Division enters into a contract to build a Post Office with Jones & Jones. Their

- 15 -

contract is with Jones & Jones, and if Jones & Jones wants to have six sublettees I'm still doing business with Jones & Jones.

White: That's right.

H.M.Jr: But the plumber, the steam fellow, and the cement fellow, and the steel fellow - they go ahead and do this thing because they've got steel, they have the plumbing, they've got cement. But the principal that I'm doing business with is Jones & Jones.

Viner: Well, I think you want Oliphant's scheme, and that means you will not buy gold - you will not buy gold from the Bank of England, but you're doing it today.

H.M.Jr: You don't - I don't - don't know whether that is so or not - I mean I'm not - To go back again -

Oliphant: Can't be so.

Opper: It doesn't conform at all.

Oliphant: If so, we're doing an illegal thing.

H.M.Jr: When it came to the actual arrangements and drawing - My job is, after all - my job is to try to work out the principles of the thing; I think I worked it out, or fought this thing through. The actual "dotting of the t's" and the drawing of the contracts between those things, - I take it that my General Counsel saw that those things were drawn out in conformity with the October 13. Now - and I don't agree with you, White, that I have changed the thing.

White: You haven't changed it, but the principle which you enunciated first, when Jake agreed, was not the principle which you illustrated. There was a difference, and that difference was that in the first case it would have fitted the principle if the Government of Belgium guaranteed that gold was made available, irrespective of who made it available, whereas your illustration was that you

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would care who made the gold available; it would have to be the government which made it available through its fiscal agent.

Viner: That's right; that's the whole issue.

H.M.Jr: Wait a minute. I illustrated what we did in the case of England -

Viner: Yes

H.M.Jr: - and I said to the British Government, "I don't care where the gold comes from; I'm doing business with the British Government."

Viner: But you are actually carrying out the transactions, which on your own books are not with the British Government, but -

H.M.Jr: If that's - I don't know whether that's so; and that's why I said to let this thing go through first to the British and the French. As a preliminary, I mean, let me put this up to the French and the British and say, "Now look, we want to withdraw October 13 and we want to withdraw January 31. We want to substitute this. Can you see anything the matter with it? - because we want to fit this thing so we can let three other countries in." You see? I have no objections from our standpoint, and so if they agree -

White: That procedure is quite satisfactory. But you'll probably get a reaction.

H.M.Jr: I say in this case if you are not in a hurry try it out, try it out. Now, you're saying something very important. If this is acceptable to Great Britain and France -

Viner: - and Belgium -

H.M.Jr: Now just a minute. If this is suitable as a substitute to Great Britain and France and it doesn't change our contractual relationship with Great Britain - see?

Viner: Well, this would change it. I am saying now that

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your contractual arrangements are not in conformity with that.

- H.M.Jr: Well, these two fellows (Oliphant and Oppen) ought to know.
- Viner: Pick up the phone and ask the Federal Reserve Bank of New York.
- Oliphant: Jake -
- Lochhead: We're doing business with the stabilization fund of England, see?
- H.M.Jr: Jake, let me put it another way. First, if this new draft is acceptable to England and France and when we present it to them we say, "We only wish to change it so it will let in Holland, Belgium and Switzerland, and if this doesn't let them in we may have to change it again, but if this is acceptable to you in the first place," you see. Then what? Is it all right?
- Viner: Sure.
- H.M.Jr: What I want to ask is it all right, is it in the interest of the United States Government?
- Viner: Yes, it's perfectly satisfactory from my point of view. The only consideration I have in mind now is whether we may not have to relax this in order to get other countries in.
- H.M.Jr: But the thing I want to get - tell me, is this all right?
- Viner: Sure, absolutely.
- H.M.Jr: But we needn't stick to it, see? Now, October 13 is that; now we've got something - we've got something to go on, we're learning to walk.
- Viner: Yes
- H.M.Jr: Maybe this won't - will or won't permit Sweden or South Africa or Brazil or the Argentine to come in;

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I don't know.

Viner: This is perfectly all right if it is all right; if they will let it work, it's all right.

H.M.Jr: Let me go around once more. Let me put it this way: from the standpoint of the interest of the United States Government, do you think it's all right? White?

White: Unquestionably, if you're going to follow that procedure of presenting it to them and if they find difficulties with it we'll have a chance to reexamine those difficulties; I say it's quite all right.

H.M.Jr: George?

Haas: I think it's perfectly safe. When you get down to presenting it to Belgium, I think Cochran should be given some more information on the way to explain it to them. I think it's perfectly safe from our side.

Lochhead: I think it's perfectly safe from our viewpoint. I don't think - this is going to be a little difficult for the Belgians. We've argued these fine points out, and they're going to take it on the mat. Well, you know the Central Bank is the one who handles it there, and we've said that a dozen times.

Oliphant: I made this remark before: that just the moment that you say to the lawyers in the Central Bank of Belgium that we're merely insisting that the day to day transactions be with the Belgian Government they'll understand instantly what this is.

Viner: They'll understand; I don't see why it can't be explained to them.

H.M.Jr: I don't. Well, if they don't we'll ask them, "Have you any suggestions?" Then we'll listen.

White: And you may be sure that France, in giving their reply to you, will take full cognizance of and

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fully appreciate any difficulties which Belgium may have and will communicate that.

Viner: With Belgium -

White: So that we'll know.

H.M.Jr: How about you (to Oppen)?

Oppen: Fine.

H.M.Jr: Herman?

Oliphant: I think it's all right.

H.M.Jr: O.K.

Oliphant: I think - I'm inserting something, your suggestion, but I don't think it's necessary.

H.M.Jr: What?

Oliphant: Well, the words "stabilization fund."

I think it is well to bear in mind that when you submit it to the British and French, you want to discount any disposition on the part of any of them on that side to take up the cudgels for the Central Bank of Belgium, trying to get you to do this with the Central Bank of Belgium.

H.M.Jr: Listen, if - They crossed that bridge themselves. As a matter of fact, I think the only one who England is interested in right now is Holland. Now, let me get this thing - (On phone) See if Dr. Feis is in the office and if not - (Aside) What's his assistant's name?

Haas: Livesey.

H.M.Jr: (On phone) Livesey - please. - - - Hello? Well now, you find out where Herbert Feis is, and I want to talk to him. Will you? It's very important. I know where he is; he's over at S.E.C.; he told me. I don't care if he's in there; I want to talk to him.

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(Aside) What I want to do - Herbert Feis says that the best man, bar none, to draft a message is Livesey, so I want to get him over and help us, because I haven't got - you fellows explain it; the thing is to draft a message to Cochran simply saying that we are presenting this to the English and to the French for their consideration as a substitute for October 13 and also for January 31, with the idea that this will permit Belgium, Holland, and Switzerland to come in, and if they have any suggestions - and we'd like to know whether this would be acceptable to them and any suggestions that they have we'd be glad to receive them. You see? And Herbert Feis knows nobody better to draft the message than Livesey; I want to get him over. You fellows can explain it; I haven't got time. Let him just go in the room and draft a cable to Cochran forwarding this statement to Cochran.

Viner: I think it would be better if we draft it here and show it to Livesey and have him go over it, because it would take a long time otherwise and it's new to him.

H.M.Jr: Well, it isn't a very complicated thing.

Oliphant: When I may in that cablegram insert two or three sentences for Cochran's benefit making it explicit what this is.

H.M.Jr: All right. Now, if we can't get this thing done by two o'clock, when I get down there tomorrow morning you (Mrs. Klotz) will read it to me on the telephone, and if it sounds all right I want to personally talk to the British. So if you can't do it by two, if the cable isn't all right, you can give it to Mrs. Klotz and when I call up tomorrow morning she'll read it to me over the telephone. I mean I'm just going to take this kind of - I mean I don't want it pushed.

Let me just, while I have you here - Jake, if you - you can spend two days, can you?

Viner: All right.

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- H.M.Jr: Get me an extra photostat on that to take with me. I want to take all this stuff south.
- Oliphant: May I ask the stenographer to type up that little portion in which the Secretary gave his ideas on -
- H.M.Jr: Oh no; Jake, you've got what I want to go to Cochran.
- Oliphant: Now I have here three letters necessary to do this. Now, one is a letter from the President, one a letter from the Federal Reserve Bank, and one a letter from the Assay Office.  
- - - - - May I stand back of you just a moment?
- H.M.Jr: Always glad to have you stand back of me as long as you don't kick me in the pants.
- Oliphant: All right, we'll go to that.

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H.M.Jr:

When this thing is finished I want you to go in - White tells me that he's far enough along on this statement of November 15 to show it to you. I want you to take about - well, whether you want to do this monthly or quarterly.

(On phone) Good morning, Herbert. Well - I know. Well now, look. What we are going to do is this. We've come to an agreement as to this message. I'm going to read it to the President in a few minutes. If he approves it we're going to draft a tentative cable to Cochran, see, and I'm going to ask the British to be here at two; I want to explain it to them personally, see? Now, can you be here at two, and then at that time we will - either will or will not have a message for Cochran. You can polish it up. - - Well, we'll have something to show you at two o'clock. I'd like very much to have you here at two. Will you? Thank you. - - Thank you. (Phone conversation ends).

Just a second, Jake. (To Kieley) Ask Mr. Bewley and Mallett to be here at two, please. And get Taylor here at the same time, two o'clock.

Now Jake, that is either monthly or quarterly, see?

And in this case, before we do this thing I think it would be a nice gesture to let Goldenweiser see it. See?

Haas: Oh yes.

H.M.Jr: Let Goldenweiser see it, incidentally.

And the other thing - if you still had time when you get that done - there seems to be in the minds of the people confusion on the method of our running the gold figures; I don't know. I told this all to George Haas last night and he's delighted to have you do this. Now -

Lochhead: Do you want to give this meeting a copy of that license?

Superseding the announcements made by him on January 31, 1934, and October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that, hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered, the United States will sell gold for immediate export to, or earmark for the account of the treasuries or the exchange equalization or stabilization funds (through whatever fiscal agents they may designate) of those countries whose treasuries or <sup>stabilization</sup> funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries coming within the foregoing description. All such sales of gold by the United States will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

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

November 5, 1936.  
12:02 p.m.

H.M.Jr: Hello

Operator: Dr. Feis and Mr. Livesey are both attending a meeting out of the building.

H.M.Jr: Well now you find out where Herbert Feis is. I want to talk to him - it's very important. I know where he is - he is over at BEC - he told me.

O: All right I'll get him.

H.M.Jr: And you get - tell him - I don't care - he's in there - I want to talk to him on the wire.

O: All right.

H.M.Jr: Hello.

O: Dr. Feis. Go ahead.

H.M.Jr: Hello

Feis: Good morning, Henry.

H.M.Jr: Good morning - Herbert

F: Sorry I'm still over at the Securities Commission.....

H.M.Jr: Well I know.

F: -.....Still on the grill.

H.M.Jr: Well now look.

F: All right.

H.M.Jr: What we're going to do is this. We've come to an agreement as to this message. I'm going to read it to the President in a few minutes.

F: Yes sir.

H.M.Jr: If he approves of it we're going to draft a tentative cable to Cochran, see?

F: Yes.

H.M.Jr: And I'm going to ask the British to be here at two. I want to explain it to them personally.

F: At two?

H.M.Jr: Yes.

F: Right.

H.M.Jr: Now can you be here at two?

F: Yes.

H.M.Jr: And then at that time we'll either have - will or will not have a message for Cochran and you can polish it up and.....

F: Henry, I'm sorry I didn't get that.

H.M.Jr: Well we'll have something to show you at two o'clock.

F: You want me to be there at two.

H.M.Jr: I'd like very much to have you here.

F: I shall be there.

H.M.Jr: Will you?

F: Yes sir, certainly.

H.M.Jr: Thank you.

F: Thank you.

November 10, 1936.

3

Chairman Eccles, Governor Ransom, Mr. Taylor and Mr. Upham had lunch at 1 o'clock in room 184.

Mr. Taylor told Mr. Eccles and Mr. Ransom that we had communicated to the British and to the French a suggested supplementation of the statement of October 13th. He stated his belief that it is so worded as to make it possible for the Government of the United States to conclude an arrangement with the Belgian Government under which reciprocal sales and purchases of gold might be effected between the Treasury of the United States and the designated fiscal agent of the Belgian Government. He explained that the British have said that they see no objection to the proposed statement, and that while no official comment has been received from the French Government, the personal opinion of one of the officials in the French Treasury is to the effect that it would seem to involve an undesirable discrimination against Belgium.

There was some discussion of what that discrimination might be and some of the points which have been made over and over in Treasury discussions, were repeated, bringing out the fundamental point of difference between dealing with a central bank as such and dealing through a central bank as fiscal agent of a government. The point was made that perhaps the French feel that the statement as worded is one step further away from the automatic gold standard.

Mr. Taylor was of the opinion that the French banking community at least would like to go back to the automatic gold standard as soon as possible.

Mr. Eccles responded that that was also true of the banking

-2-

community in this country, including the Federal Reserve Bank of New York. He sees no reason to object to the small countries returning to and maintaining the automatic gold standard. He thinks it might have been better if we had not fixed a definite price for gold, but followed the example of England and maintain a free gold market.

Mr. Eccles is of the opinion that there is likely to be some objection in Congress to the continuation of the Stabilization Fund without some provision for public accounting and public report. He and Mr. Taylor agreed that it might be well to anticipate that attitude and not only make a report to the Congress at the time extension is asked, but agree as well to quarterly reports from now on.

Mr. Eccles thought that some quarterly reports should be made promptly at the close of the period covered by the report.

Mr. Taylor also explained to Mr. Eccles and Mr. Ransom that the Stabilization Fund had run out of liquid cash and had found it necessary to sell some gold to the Treasury to replenish its cash.

Mr. Eccles was particularly interested in the method by which this transaction and others like it would be handled and the resulting effect upon excess reserves. He suggested the possible desirability of dealings in bills by the Stabilization Fund as offsets to gold flows.

Both Mr. Eccles and Mr. Ransom seemed pretty sure that difficulty will be encountered in connection with the extension of the Stabilization Fund.

There was some discussion of the tax on undistributed earnings

and its effects as revealed by increased wages and dividend payments.

Mr. Eccles referred particularly to the increased wage payments as calculated to reduce the 1937 yield from the new tax and he commented upon the fortunate fact that there was not a complete abandonment of the corporation income tax in the Revenue Act of 1936.

Orig furnished  
to Selby by  
me. (Selby  
has his own personal  
notes written by him  
at Lond with Pres.)

WPA (including Ad.)	136
NPA	6.5
Fed. Admin.	7.0
Fed. Admin. (Trans., U.S.S., GAO)	4.0
	<hr/>
	\$153.5

Present Cost on  
same basis \$195

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November 15, 1936.

Hopkins talking:

Obligations:	November	160
	December	150
	January	140
	February	140
	March	140
	April	130
	May	125
	June	<u>115</u>
		1100

All Departments included except Tugwell.

December 15 will drop 250,000 drought farmers.

125,000 will need relief.

Prior to Dec. 15, drop 150,000 more families - W.P.A.

Drop prior to December 15, 25,000 administrative and foremen and supervisors.

Starting December 15, will save \$25,000,000 a month through doing above three things by December 15.

	-	-	-	-	-	-
2,500,000	on W.P.A.					
<u>300,000</u>	in other Departments					
2,800,000						
	-	-	-	-	-	-

Establish new formula effective January 1st - spend \$50 per man per month by dropping from \$65 to \$50. Expect to have formula ready in twenty-four hours.

- 2 -

85% of unemployed is in 100 cities.

- - - -

President Speaking:

Quicker get federal relief by paying wages of people on relief rolls. Locality will have to pay for material. Get his reorganization bill through first and then put all relief expenditures into one agency.

Hopkins says:

Can drop 400,000 more. Start July 1st with 2,000,000 on relief @ \$50 per month = \$1,200,000.

President says:

Shorten hours of labor in groups where there is a surplus of labor.

Between now and time I get back figures will be estimated for needs of balance of fiscal year. In April of 1936 - - Hoped it would last, but that amount of over-run would depend on business.

At present time most skilled employees can get jobs. However, unskilled workers do not show an adequate decrease. Hope every employer between now and January 1 will employ more unskilled laborers.

November 15, 1936.

Hopkins talking:

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- - - - -

2,500,000	on W.P.A.
<u>300,000</u>	in other Departments
2,800,000	

- - - - -

Establish new formula effective January 1st - spend \$50 per man per month by dropping from \$65 to \$50. Expect to have formula ready in twenty-four hours.

- 2 -

85% of unemployed is in 100 cities.

- - - -

President Speaking:

Quicker get federal relief by paying wages of people on relief rolls. Locality will have to pay for material. Get his reorganization bill through first and then put all relief expenditures into one agency.

Hopkins says:

Can drop 400,000 more. Start July 1st with 2,000,000 on relief @ \$50 per month = \$1,200,000.

President says:

Shorten hours of labor in groups where there is a surplus of labor.

Between now and time I get back figures will be estimated for needs of balance of fiscal year. In April of 1936 - - Hoped it would last, but that amount of over-run would depend on business.

At present time most skilled employees can get jobs. However, unskilled workers do not show an adequate decrease. Hope every employer between now and January 1 will employ more unskilled laborers.

November 5, 1936

I told Dr. Feis, last night, and if any question came up on monetary matters in South America, that personally I was opposed to holding any monetary conferences, and if any North or South American country wanted to consult us on monetary matters, as far as I was concerned they would have to see me in Washington. Dr. Feis agreed with me entirely.

Feis informed me today that he had conveyed this message in decisive terms to Mr. Hull and Mr. Welles.

With this heavy buying of stocks -- \$18,000,000 a day -- we can't keep sterling up and shouldn't artificially keep it up. I think we ought to keep it steady. On the other hand, at least 1/2 point each day I consider a sharp break and I don't want more than 1/2 cent a day. And if things get bad, get hold of Mrs. Kletz and have her call me, but I am just going to call up once a day, in the morning, and unless things are bad, don't call. Personally I think things are going to be very quiet.

(Explanation: This last paragraph was what he said to Taylor and Lochhead just before he left to go to take the train for Sea Island Beach, Georgia.)

FEDERAL RESERVE BANK  
OF NEW YORK

*Mr. Knobel* 153

OFFICE CORRESPONDENCE

DATE November 5, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

TO: L. W. Knoke

FROM: WITH BANK OF FRANCE.

Mr. Cariguel called at 11:18 today. He stated that so far they had done nothing in dollars but had sold a fair amount of sterling. He would have liked it if he could have bought some sterling in anticipation of the repayment of the £40,000,000 credit but, unfortunately, there were other buyers and he had to sell some in an endeavor to keep the rate somewhat steady. The pressure on francs was mostly against sterling. Dollars did not seem to be in demand just now. The sterling, Cariguel continued, he thought would probably ultimately go into Wall Street. I agreed with him and mentioned that yesterday's security purchases in our market for foreign account were probably as big as ever. He inquired whether we supported sterling yesterday and today. I told him that yesterday we had purchased some commercial sterling; today we had done nothing so far but probably would support the market if the rate went lower. I inquired as to his plans regarding the franc and he said he did not think they would let it go lower. I asked Cariguel how he made out in London and he said "Beautifully." Everything was arranged for him to make payment in gold, which was all in London now.

LWK:KMC

November 5, 1936

HM, Jr. spoke to the President at 12:15 today and said to him, "Have you a minute. I want to put something up to you on this European thing. Belgium, Holland and Switzerland are about ready to come in and we have been working here for two or three weeks to fix this thing up so that they could come in, but Holland and Switzerland have stabilization funds and Belgium has not and it makes it very difficult, because we are doing business with England on the declaration of October 13. We are still doing business with Belgium on an agreement made January 31, 1934, which has never been cancelled.

"We have been trying to work out something which would fit all of these things and give us an excuse to cancel the January 31, 1934, agreement, which is the old agreement under which gold moved between points.

"We have worked out a formula which satisfies me and I would like to read that part which is new:

'Superseding the announcements made by him on January 31, 1934, and October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that, hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered, the United States will sell gold for immediate export to, or earmark for the account of the treasuries or the exchange equalization or stabilization funds (through whatever fiscal agents they may designate) of those countries whose treasuries or stabilization funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries coming within the foregoing description. All such sales of gold by the United States will be made through the Federal Reserve

-2-

"Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

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

"The new part is where we bring the thing in through Treasuries. The thought that I have worked out is that I would submit this to the French and English, first, and ask them if this was acceptable and if it was I would then tell them that I propose to submit this to Holland, Belgium and Switzerland.

"This is the result of about three weeks' work. Is that acceptable to you?" The President said it was. Mr. Morgenthau then said, "That is very helpful.

"Elinor, my father and I are leaving at 3 o'clock for Sea Island. We are planning to get back on Sunday the 15th. Will I have a chance to see you and shall I remind you? (The President must have said, No; you won't have to remind me. I will keep the time for you.)

The President inquired whether Taylor should attend the Cabinet meeting tomorrow and HM, Jr's reply was, "I would like him to go if he is acceptable to you. He has been doing a good job.

"Europe yesterday, as near as we can estimate, bought on balance \$10,000,000 worth of stocks. Consequently, Sterling is a little weak. The Government bond market goes up 2 and 3 points at a time. Sterling is a little weaker; that is because they are sending their money over here to buy our stocks.

"I had both Starling and Murphy in this morning about their going to South America. Everything is arranged. Murphy would like very much to go. Do you mind?" (Explanation: After the conversation, HM, Jr. said the President was surprised to hear that Murphy

-3-

wanted to go.) We have an agent in Customs in Cuba by the name of Kime. I am putting him at their disposal, because he speaks Spanish fluently. He's the man the Navy spoke so much about."

(Explanation: The President said for HM, Jr. to have a grand trip and call him up any time on the telephone. 'I will be happy to talk to you' he said.)

November 5, 1936

Mr. Mallet came in to see the Secretary today. Also present were Dr. Feis, Mr. Taylor and Mr. Lochhead.

Mr. Mallet said to the Secretary, "I am sorry to say that Bewley is in New York today. I think he won't be back until tomorrow afternoon normally, unless you want him."

The Secretary said, "I will explain to you. I will start anyway. What we have been trying to do here is we have had word now from both Switzerland, Holland and Belgium more or less indicating their willingness to come, but all a little bit different, you see?" Mr. Mallet answered, "Yes." Continuing, the Secretary said, "In order to accomplish this, we feel that we have to change the declaration of October 13." Mr. Mallet's response was, "Oh!"

"We will have to change that," said the Secretary, "in order to make it possible for Belgium to come in. Holland and Switzerland could fit the present agreement." Mr. Mallet inquired, "That is the President's decree?" and the Secretary answered, "Yes, of October 13th. If we wanted to add Holland and Switzerland, they would fit in with the October 13th announcement." Mr. Mallet agreed, saying, "Yes; yes. Belgium would not, because she is on gold." Continuing the Secretary said, "Which would mean that if we left the October 13th announcement, we would have it and then another one. One especially for Belgium. That's the way it would be interpreted. People would interpret that we had a special one for Belgium and on account of Belgium being on the gold standard, it would take on an importance which it does not deserve." Mr. Mallet remarked, "Oh, yes. You want to have them all fitted into one."

The Secretary then explained, "Therefore, we have redrafted a new declaration, which I am going to hand you, which we are submitting to you and to the French for your approval and suggestions and comments, and before we show it to anybody other than yourself and the French we want first to come to an agreement that this substituted agreement is acceptable. If it is acceptable, then I will show it to Holland, Switzerland and Belgium, but I first want to make sure it is acceptable to Great Britain and

-2-

France. And the thing that has slowed us up is to try to find a way to do this and it always kept coming back that we would have two agreements -- one with Great Britain and France, Holland and Switzerland could slip into that, but Belgium could not. I repeat myself -- we would have five countries on one agreement and Belgium on a separate one. It would focus attention on Belgium; on the old gold standard. Everybody talking -- does it mean the world is going to move towards Belgium, the old gold standard? You can see.

"This is what we have drawn up and if it is not clear -- it's practically the same as the other."

Mr. Mallet remarked, "Yes. Then you would simply publish the thing, stating the names of the five countries?" Mr. Morgenthau answered, "That's all. The five countries, that would be all. I am going to hand you this and ask you to transmit it to your Government, as I say, for any suggestions or comments, and then we are doing the same with the French and we will do nothing until we hear. We are instructing Cochran to ask the French. We want to keep this to ourselves until we come to an agreement. If we come to an agreement that this is acceptable, then we will present this piece of paper simultaneously to Holland, Belgium and Switzerland and say we are ready to do business on this basis."

"Then if they agree," inquired Mr. Mallet, "then the President will promulgate this?" Secretary Morgenthau answered, "Yes; that's right. And again we would let each other know a few days in advance so we could go it all together."

Mr. Mallet asked, "Announce it in London along somewhat similar lines. I suppose it would take the lines suggested the other day in the message I brought you." Mr. Morgenthau agreed, saying, "Oh, yes. Oh, yes."

The Secretary then added, "We have been working on this thing for weeks, trying to get one formula that will do for all the countries." Mr. Mallet remarked, "Yes, quite. There was a phrase the Chancellor used -- 'The Chancellor would be in position to say, if Mr. Morgenthau so desires, that he welcomes the extension by the United States Treasury of their arrangement to the

-3-

countries named, which is in harmony with the arrangements already made between United States, Great Britain and France. Extension of the arrangement is also in harmony with the basis of mutual cooperation that exists between the British monetary authorities and the monetary authorities named in the United States announcement. 'That would really meet the case, wouldn't it?'

Mr. Morgenthau's reply was, "Yes. And furthermore, if you will make a note of this, it is in my thought that if we do come to an agreement with Holland, Switzerland and Belgium, we do not consider them necessarily a member of the tri-partite agreement. I would a little bit rather keep to the three countries, but giving the privilege of exchange of gold to these other countries, but keep it to England, France and ourselves. That's the way I feel."

Mr. Mallet remarked, "You would not, in your own mind, treat them as being parties to the original agreement." HM, Jr. said, "Not necessarily; in my own mind I would not consider that."

Dr. Feis added, "If I may suggest, Mr. Secretary, you recall the last paragraph of the original simultaneous declaration in which we said we welcome the full cooperation and participation of all other countries. That still stands good?"

The Secretary's response was, "That still stands good, yes. But let's, for example, say that after we get Holland, Belgium and Switzerland and say Mr. 'X' comes along. I wouldn't feel it necessary to consult Holland, Belgium and Switzerland, but I would consider it a part of the gentlemen's agreement to consult Great Britain and France, and vice versa." Mr. Feis remarked, "I thought that was the point you had in mind; just trying to clear that up." The Secretary said, "You did; you did."

At this point, Mr. Taylor said, "After you had made certain arrangements, you probably would let Holland, Belgium and Switzerland know." The Secretary remarked, "But I can't go through this whole rigamarole." Mr. Mallet added, "Give them a little notice; say we are going to do such and such a thing." HM, Jr. said, "Yes; 48 hours or so." Mallet then said, "But you would not consult them in

-4-

the same way." The Secretary replied, "No, I could not. With every country that came along, it would make the thing too burdensome. It gets so complicated that we wouldn't be able to move." Mr. Mallet added the remark, "And the risk of leaking increases." HM, Jr. said, "Well, you see what happens to the Swiss; just too many people talking." Mr. Mallet inquired, "They have announced the whole thing already?" HM, Jr. said, "And this is the stage I am in." Mr. Mallet then asked, "Has that actually caused any embarrassment?" HM, Jr. replied, "It does not cause me any embarrassment. It may embarrass them." Dr. Feis remarked, "The French seem to be embarrassed." The Secretary said, "I should think it would be very embarrassing to the Swiss. That is that. I am going to be gone a week and if you will see Wayne Taylor when you get word. And I have a telephone down there, so when this comes back, will you see Taylor?" Mr. Mallet replied, "Certainly, and are you in a great hurry to get this answer?" Mr. Morgenthau's reply was, "Just reasonably." Dr. Feis asked the Secretary, "They won't have to telephone?" Mr. Morgenthau replied, "No. That's unkind!"

Mr. Mallet said, "If I say you would like an answer as soon as convenient, or would you rather say 'as soon as possible'?" Secretary answered, "As soon as convenient. This is not a matter of such importance as some of the others." Mr. Mallet remarked, "All right. That's splendid! I should think you would like to get away for a holiday." HM, Jr. said, "I am going away in twelve minutes."

Mr. Mallet asked the Secretary, "Were you up in New York?" The Secretary replied, "Yes, I was with the President." Mr. Mallet remarked, "It must have been delightful." HM, Jr. answered, "It was. And I might say, in passing, that he has approved this. I read it to him this morning and he has approved." Mr. Mallet added, "I should not imagine that we will have any comments to make at all."

At this point, Mr. Mallet departed.

The Secretary asked Dr. Feis to remain and showed him the draft of cable to Cochran and said to him, "I suggest that Herbert Feis go in the other room with Jake Viner and Haas and trash this out."

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: November 5, 1936, 5 p.m.

NO.: 445

FROM THE SECRETARY OF THE TREASURY.

FOR COCHRAN.

Below is quoted the draft of a proposed statement by the Treasury which is intended to cover the release of gold for export to France and England in addition to the countries now under discussion, i.e., Holland, Switzerland and Belgium.

QUOTE. Superseding the announcements made by him on January 31, 1934, and October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that, hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered, the United States will sell gold for immediate export to, or earmark for the account of the treasuries or the exchange equalization or stabilization funds (through whatever fiscal agents they may designate) of those countries whose treasuries or stabilization funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries coming within the foregoing

- 2 -

foregoing description. All such sales of gold by the United States will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

Sales of gold will be made at \$35 per fine ounce, plus one-quarter of one percent handling charge, all such sales and earmarkings will be governed by the regulations issued under the Gold Reserve Act of 1934. END QUOTE.

A copy of this statement has been given to the British for their agreement, with the request that they make any comments or suggestions they care to. You are likewise requested to deliver a copy to the French authorities for their agreement with the same request we made of the British. You are to advise the French - I have advised the British - that the enclosed statement is not to be shown to any other government until the United States, Great Britain and France are agreed that the arrangement set up therein is satisfactory.

I want to point out, for your guidance, that the arrangement proposed in the statement just quoted contemplates not merely that the initial understanding setting up an arrangement shall be among the respective governments to the exclusion of central banks as principals to such understanding, but it also contemplates that the governments

- 3 -

governments to the exclusion of central banks shall be the parties principal to the day to day contracts for the sale of gold under this arrangement. I do not mean by this, however, that the respective governments shall not be free to use central banks as their respective fiscal agents, nor do I mean that a particular government may not arrange for a central bank which is not wholly owned by the government to deliver gold under such contract for its account, even though such central bank may continuously own that gold. Or in other words, the United States Government at this end will be the party to any contract for the purchase or sale of gold though it will, of course, in its day to day operations use the Federal Reserve Bank as its fiscal agent. In like manner it is contemplated that, at the other end also, the government shall be the contracting party to such day to day contracts even though it delegates to its fiscal agent the making of such contracts from day to day on its behalf and in its name, or even though it arranges for such a fiscal agent to perform these contracts by the delivery or receipt of gold.

I state for your information and guidance that the arrangement contemplated in the statement just quoted has been worked out with this underlying thought in mind - and my explanation of it to you has been made with the

same

- 4 -

same point in view: The Government of the United States disavows any desire to dictate or even suggest to other countries what their own monetary arrangements shall be, but all will recognize that for this Government to indicate with whom it shall enter into contractual obligations of the sort being considered is appropriate.

HULL

(HF)

EA:LWW

U

GRAY

Paris

Dated November 5, 1936

Rec'd 2:37 p.m.

Secretary of State

Washington

1080, November 5, 4 p.m.

FROM COCHRAN

Franc weak in exchange against other important currencies. Rentes up 75 centimes to 1 franc. Domestic business securities continuing yesterday's gains. Bank of France statement as of October 30 showed no change in gold holdings and no other important alterations except that note circulation gained about two billion francs with resultant decline in coverage from 64.95 to 64.09. French Parliament reconvened this afternoon for special session. Uneasiness over government's financial problems and over recurrence of shut in strikes responsible for renewed weakness of franc.

European financial press pleased with President Roosevelt's reelection and optimistic over prospect of continuing monetary cooperation for tripartite agreement. The FINANCIAL NEWS, London, today says in part: "The dollar was not affected by President Roosevelt's success. Although the elector of the Republican (END SECTION ONE)

HPD

BULLITT

FS

GRAY

Paris

Dated November 5, 1936

Rec'd 5:21 p. m.

Secretary of State,  
Washington.

1080, November 5, 4 p. m. (SECTION TWO)

candidate--who could be expected to adopt a more orthodox financial policy--would have been considered a "bull" point for the dollar, the reelection of Mr. Roosevelt was so much a foregone conclusion that it failed to disturb the dollar in the least. More especially as the conclusion of the recent gentlemen's agreement on currency control is generally taken to indicate a return to a 'sane' monetary policy by the Democratic Administration".

Following is excerpted from item on effect of American election appearing today under city notes in the LONDON TIMES.

"It is a reasonable assumption that the American recovery movement having now got well under way the President will be anxious to refrain from taking any steps that might hinder the movement which has yet a long way to go before unemployment is reduced to normal proportions and the budget balanced. There will not be the same necessity for such experiments, monetary or otherwise, as the President

indulged

FS 2-No. 1080, November from Paris (SECTION TWO)

indulged in to the consternation of the orthodox at the beginning of his term of office in the hope of finding a way out of the severe trade depression which existed at that time. Mr. Roosevelt put an end to the monetary experiment in less than a year and his recent actions show him to be keenly alive to the importance and desirability of international monetary stabilization. Mr. Roosevelt

NPL:EMB

BULLITT

FS

GRAY

Paris

Dated November 5, 1936

Rec'd 5:10 p. m.

Secretary of State,  
Washington.

1080, November 5, 4 p. m. (SECTION THREE)

lost the support of many able American economists and businessmen in 1933 owing to what were regarded as his unnecessary and dangerous experiments in the currency and banking sphere and not because they were opposed to his liberal policy in regard to social relief and security. That phase, however, has now passed away."

Press report of Swiss adherence to tripartite monetary agreement mentioned my 1076, November 4, 1 p. m. gave rise to conjectures in financial press as to whether other countries <sup>(might?)</sup> make also be planning to cooperate. FRANKFURTER ZEITUNG carried some details of Swiss declaration and also the rumor that the Belgium Government and the National Bank of Belgium had already declared their adherence. The FINANCIAL TIMES London today carries the following report from its Amsterdam correspondent:

"The Dutch Government and the Netherlands Bank are, I learn studying the question of Holland joining the

tripartite

FS 2-No. 1080, November 5 from Paris (SECTION THREE)

tripartite gold agreement. So far no result has been reached, the question, it was stated, being for the present 'as floating as the guilder'. In Dutch banking it is believed that it will be decided to join the agreement though it should be borne in mind that the situation in Holland is different from that in Switzerland which has already fixed a new parity for

NPL:EMB

BULLITT

FS

A portion of this telegram must be closely paraphrased before being communicated to anyone.  
(C)

Paris

Dated November 5, 1936

Rec'd 5:30 p. m.

Secretary of State,  
Washington.

1080, November 5, 4 p. m. (SECTION FOUR)  
(GRAY) her currency."

This report was followed by an editorial footnote "if the Dutch Government should agree to enter into the tripartite agreement it will cause a certain amount of surprise in the city of London as it had been generally felt that such action would not be taken by the Dutch authorities until the guilder had found its natural level."

Under money market notes the FINANCIAL TIMES London said today:

"While the reported adherence of the Swiss Government to the three power gold pact created little surprise in money market circles the news was received with interest. The practical effect of this decision may or may not be small but it does demonstrate the desire of the country to contribute towards this currency agreement and to extend still further the scope of this international economic plan.

Actually

- 2 -

Actually, there are now five countries who have ranged themselves together as Belgium previously announced her desire to cooperate with Great Britain, France and the United States. No doubt there will be some people who will contend that the more countries join this pact the sooner we shall see the abolition of the stabilization funds, agreements, undertakings, and all the rest--lock, stock and barrel so that the return to the 'old-fashioned gold standard' may be brought about. That is too much to hope for; a fairly long period of the experimentation is generally expected. In fact, it is being thought to an increasing extent, that the world is moving slowly but surely towards a new orientation in currency and economic matters and that management in some form or another will be ever present."

I refer to telegram No. 1075 of November 4 from the Embassy. The opportunity arose to inform Minister Emmet fully of the conversation which I had with officials in the Netherlands.

END MESSAGE.

BULLITT.

EA:LWF

LMS

GRAY

London

Dated November 5, 1936

Rec'd 3:45 p. m.

Secretary of State,  
Washington.

512, November 5, 5 p. m.

FOR TREASURY.

At the meeting with Waley and Philipps, the latter began by offering to cooperate in every possible way and asked on what specific subjects did the American Treasury desire any information which the British Treasury could give. After expressing appreciation I explained that to date our instructions were general not specific.

Philipps then said that he understood Mr. Morgenthau would like information as to how they saw the franc situation. There was no doubt that many persons and institutions directly or indirectly concerned with the foreign exchange problem took a pessimistic view of the franc; that they had grown accustomed to their way of feeling which, however, in most cases had proved unjustified. Philipps said he saw no indication that the French authorities were themselves weakening in their attitude. The French budget position was, of course, very bad; the

40-hour

LMS 2-No. 512, November 5, 5 p. m., from London.

40-hour week was a bold experiment particularly as one heard that the average French workman was not inclined to work very hard for the 40 hours and above all the internal political situation was the indeterminate and dominant factor. No one was really able to see what would be the turn of the French political wheel but he for one was not unduly pessimistic; in any event the French franc now no longer played on the financial stage its former important role.

I asked Philipps about the flow of funds from London to ex-gold block countries and he said that there has been a considerable flow to Switzerland; the Swiss had confidence in their new currency. On the other hand the amounts which had gone from London to Holland and France were very small indeed. I gathered that to some extent the British were relieved that circumstances had prevented a very large flow of capital from London to the continent in the first fortnight following the monetary arrangement and that the movement would now be relatively gradual in character.

Waley and Philipps commented on the decisiveness of the election and mentioned the fact that the trade agreement program seemed to have been a political asset rather than liability. Philipps seemed to think that the level  
of

LMS 3-No. 512, November 5, 5 p. m., from London.

of prices was already rather high in the United States and that it was practically certain that there would be a further increase in American prices, perhaps an abrupt increase. He asked about the shipping strike, how serious it was et cetera, and the conference ended by their offering to see the representatives of the Embassy whenever they had any matter which they wished to take up with them.

BINGHAM

WWC:CSB

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: November 5, 1936, 5 p.m.

NO.: 445

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FOR COCHRAN.

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I want to point out, for your guidance, that the arrangement proposed in the statement just quoted contemplates not merely that the initial understanding setting up an arrangement shall be among the respective governments to the exclusion of central banks as principals to such understanding, but it also contemplates that the  
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- 3 -

governments to the exclusion of central banks shall be the parties principal to the day to day contracts for the sale of gold under this arrangement. I do not mean by this, however, that the respective governments shall not be free to use central banks as their respective fiscal agents, nor do I mean that a particular government may not arrange for a central bank which is not wholly owned by the government to deliver gold under such contract for its account, even though such central bank may continuously own that gold. Or in other words, the United States Government at this end will be the party to any contract for the purchase or sale of gold though it will, of course, in its day to day operations use the Federal Reserve Bank as its fiscal agent. In like manner it is contemplated that, at the other end also, the government shall be the contracting party to such day to day contracts even though it delegates to its fiscal agent the making of such contracts from day to day on its behalf and in its name, or even though it arranges for such a fiscal agent to perform these contracts by the delivery or receipt of gold.

I state for your information and guidance that the arrangement contemplated in the statement just quoted has been worked out with this underlying thought in mind - and my explanation of it to you has been made with the

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- 4 -

same point in view; The Government of the United States disavows any desire to dictate or even suggest to other countries what their own monetary arrangements shall be, but all will recognize that for this Government to indicate with whom it shall enter into contractual obligations of the sort being considered is appropriate.

HULL

(HF)

EA:LWW

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

HO:CVO:BJ 11/5/36

*JGH*

U

GRAY

London

Dated November 6, 1936

Rec'd 11:45 a.m.

Secretary of State

Washington

514, November 6, 1 p.m.

FOR TREASURY.

In the course of last night's debate in the House of Commons on foreign affairs Eden took occasion to answer the recent speeches of Goebels and Goering by emphasizing the sum lent by Great Britain to Germany since the war and the favorable character of the Anglo-German payments agreement; he concluded as follows: "the central problem which we have to face is the possibility of securing an increase in the volume of world trade which will involve an increase in Germany's exports as in those of every one else. In that connection I want to say something about the hopeful line of approach which was contained in the recent three power currency declaration and notably the reference in that declaration to the possibility of action being taken without delay to relax, and as soon as possible to abolish the present system of quota and exchange control. This is the point to which I wish to draw the attention of the House. The cooperation

U -2- #514, Nov. 6, 1 p.m. from London

cooperation of other nations, including Germany, was specially invited in this programme and we should be only too glad if Germany saw fit to take her part in this programme. In so far as her economic difficulties arise out of international restrictions of an economic and financial character, and not out of decisions taken by her to deal with her own internal difficulties, we should always be glad to consider with sympathy any methods which appeared likely to contribute towards their easement. We desire Germany's cooperation in the economic as well as in the political sphere, and there can be no question on our part of the (?) of Germany in either".

In winding up this debate Neville Chamberlain said in part "it has been our endeavor to help wherever we could in facilitating the resumption of more normal economic and financial relations. The three power declaration on the devaluation of the franc was an instance in point and has I think been generally approved. It has been generally recognized as a first step but only a step in the direction of freeing international trade which if it is to have its full effect must be followed up by further steps. There has never been any suggestion that this was a means of bringing back the gold standard by a back. I have on more than

one

LMS 3-No. 514, November 6, 1 p. m., from London.

one occasion stated my own view that some day or other we shall get back to an international gold standard but before we do so conditions must be fulfilled which are not fulfilled at the present time. Until then I see no prospect of getting back to that standard."

BINGHAM

CSB

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 5, 1936.

TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF ENGLAND.

I called Mr. Bolton at 10:35 today. Bolton stated that there was a big speculation going on in commodities in the London market; Paris and the whole continent was a buyer of sterling which seemed to be more in demand than the dollar. In view of the definite weakness of the franc rate, Bolton thought that we were probably working into a disturbed area with more trouble for all of us since weakness of one currency was likely to spread. There was an enormous interest in Europe and in London in our stock market at the moment. All the brokerage houses there were getting cables from New York couched in the most glowing terms stressing the probability of further dividend distribution, etc. There seemed to be no suspicion in London at all of what might be called an insane speculation; everybody seemed to regard the whole thing as a more or less sound investment.

I referred to the Spanish situation which we had recently discussed and told Bolton that, as suggested by him, I had spoken to the City Bank and also to Mr. Dawson as Chairman of the Committee here. I repeated to him what the City Bank had told me, that is that they had been able to effect payments since the end of August and had paid out in excess of 4,000,000 pesetas in small amounts (no individual payment exceeding 250,000 pesetas). In each case they had asked their offices in Spain to cable immediately upon execution of the payment ordered and in each case had promptly received advice by cable. Also that the City Bank had managed to clear up practically all of their commercial contracts without recourse to London and were now agreeable to extend open contracts as long as necessary. He emphasized that his cable to

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 5, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF ENGLAND.

- 2 -

Midland Bank, suggesting settlement, was held in very friendly terms, was most tactful and did no more than suggest that prompt settlement might be convenient to the Midland Bank. He did not want anybody to have the impression that he had tried to use improper pressure upon the Midland.

I also repeated briefly what Dawson had told me, namely, that after advising the members of the Committee here of Bolton's recent comments, he had found a surprising number of banks which wanted to obtain delivery of their peseta contracts, not being willing to go short by selling to the foreign banks at the present low rates, and that the banks insisting on delivery were primarily those upon which calls for delivery had been made by their own commercial customers. In other words, they were the banks which found themselves in a very awkward position. Bolton replied that since speaking to me first regarding the Spanish situation he had had talks with the Guaranty in London and two or three other people, and that the banks in London were trying to arrange as many deliveries as possible, in brief were going to make a big effort to try and clear up the position. Bolton expressed the opinion that discussion of the situation between the Bank of England and ourselves had been very useful.

LWK:KMC

FEDERAL RESERVE BANK  
OF NEW YORKDATE November 6 1936

## OFFICE CORRESPONDENCE

TO Files

SUBJECT: \_\_\_\_\_

FROM D. J. Cameron

Mr. Bolton of the Bank of England telephoned at 1:32 p.m. and asked what was going on here. I told him that sterling was very weak, that the market was then 4.87 5/8, and that we had bought about £1,700,000 and would probably buy more before the end of the day. I told him that from all indications the weakness was due to stock market transactions and sell orders from abroad. He said that they had had a very active day and that he had sold \$3,000,000 since cabling us, making total sales of \$10,000,000 for the day. He said that he attributed the weakness partly to the political situation on the continent, but to a much greater extent to the enormous conversion into shares and commodities. I mentioned to him that the silver market had taken quite a rise and he said that was in line with what he had just said and that India was a buyer of silver. Before cutting off he said "don't let sterling go below 4.87 3/8." I told him we would watch out for that.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

COPYDATE November 7, 1936CONFIDENTIAL FILES

SUBJECT: \_\_\_\_\_

FROM Allan Sproul

Mr. Cariguel of the Bank of France called me at 11:35 a.m., this morning. He said they have been having a heavy time for the last three days, but that most of what they have been doing has been in sterling which has been wanted in Paris. Yesterday, he said, they had sold £8 million and this morning they had sold £3 million, which is very heavy for a Saturday morning. He then said that although London and New York have been supporting the pound, Paris has lost more gold to London than London has lost to New York so that, on balance, London has gained gold and losses have been borne by Paris.

Mr. Cariguel then asked me what had been going on here this morning. I told him that we had bought 9,900,000 francs on his order thus far; that francs had been offered at .0462 1/2 early in the morning, that we had bought some at that figure and at .0462 3/4; that when we raised our bid to .0463 nothing came out and it was then raised to .0463 1/4 and finally .0463 5/16 (.0463 1/2 net to Bank of France) at which figure francs were still coming out but not so heavily as earlier. I asked Mr. Cariguel if he had any different plans, than those he had been following, for next week. He said he thought the franc would continue to be under pressure but that the market is a psychological one and that they would continue to support it around present levels. I told him I thought he was right about the franc market and that there seemed to be considerable feeling here that the franc would go lower which, in turn, resulted in sales of francs causing it to be weak. I then said I would like to tell him how it looked to me, namely, that in such a psychological market

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

COPY

DATE November 7, 1936.

CONFIDENTIAL FILES

SUBJECT: \_\_\_\_\_

FROM Allan Sproul

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it would be better to hold the franc around whatever level he had decided upon, rather than to let it go down sharply and then to jerk it back up. Mr. Cariguel at first did not quite understand my remarks and asked whether I meant they should let the franc depreciate or should try to make it appreciate; but added that with speculative pressure centered on the franc they could not let it depreciate. I told him I was not suggesting letting it depreciate and certainly would not, under present conditions, have any idea of their causing it to appreciate, but I repeated what I had said about allowing such wide swings to take place in the market, referring to yesterday when the franc got as low as .0461 7/8 in this market before noon, and then we brought it back up to .0463 1/2 (on his order) in the afternoon. Mr. Cariguel agreed that fluctuations such as yesterday's were bad and thanked me, but did not suggest what he might do about it.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 9, 1936, 5 p.m.

NO.: 1088

FROM COCHRAN. FOR THE SECRETARY OF THE TREASURY.

I refer to telegram No. 445 of November 5, 5 p.m., from the Department.

This afternoon I left with Baumgartner at the Ministry of Finance a copy of the statement Secretary Morgenthau proposes to make, which was quoted in the cablegram above referred to. I was promised by Baumgartner that he would discuss the matter with Minister Auriol. He said that if possible he would provide me tomorrow forenoon with a memorandum setting forth such comment upon the draft declaration as the French Ministry of Finance may care to make.

BULLITT.

EA:LWW

## PARAPHRASE (PARTIAL) OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 7, 1936, 2 p.m.

NO.: 1092

FROM COCHRAN. FOR THE SECRETARY OF THE TREASURY.

I refer to telegram No. 445 of November 5 from the Department and to telegram No. 1088 of November 6, 5 p.m., from me.

I visited Baumgartner, the Director of the general movement of funds in the Ministry of Finance, at noon today. Baumgartner is the principal technical assistant to the Minister of Finance on questions such as that now being discussed. Since my call yesterday, Baumgartner had not been able to see the Minister, as the latter was engaged on Parliamentary affairs. However, Baumgartner gave me a letter in which he set forth his personal views on the matter; he will see the Minister over the weekend, and on Tuesday will inform me whether the Minister may desire to amend or supplement the opinion which is expressed in Baumgartner's letter. I made a translation of the letter, and I quote it below:

"I have read over carefully the document which you desired to communicate to me and here is my personal reaction on this subject:

If the document in question does not appear to me for the moment susceptible of directly embarrassing my Government it seems to me on the other hand to offer in

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a general way three categories of inconveniences.

(One) I wonder first whether it would not be quite inopportune to modify the October statement of the Secretary of the Treasury so short a time after its publication. During the period which we are now

END SECTION ONE.

BULLITT.

PARIS

Dated November 7, 1936

Received 2:20 p.m.

Secretary of State,  
Washington.

1092 November 7, 2 p.m. (Section two).

going through, I believe that everything should be avoided which might give even erroneously the impression that we are going back on or modifying the conditions decided upon in common for internal monetary cooperation.

I should much prefer that the list of countries to which the October statement is applicable be completed as the possibility therefor was expressly provided in the said statement by the naming of those countries which are disposed to conclude with you, as well as with Great Britain and France, an agreement analogous to that which has been arrived at among us three.

(Two). Without wishing to mix in the internal affairs of Belgium it seems to me that it would be entirely regrettable that this country should be excluded from the arrangements which you are going to conclude and such would be, I believe, the consequence of the formula proposed by your Government. For our part, I do not hesitate to tell you that we are very decided, and I believe that the British will share this view point, to  
incorporate

- 2 -

incorporate Belgium as soon as it may be possible into our system of agreement for gold deliveries. In fact, moreover, we are already exchanging gold with Belgium.

(Three). In a general manner and for some period of time there is no indication that the equalization or stabilization funds of the European countries will be of an indefinite duration. It is strongly possible that on the contrary we will come back to the normal system of the gold standard, that is to say, to the

BULLITT.

SECTION THREE. No. 1092 of November 7, 1936, from Paris.  
PARAPHRASE.

banks of issue maintaining without doubt close relations with the treasuries but conserving, at least in principle, their independence. From this point of view again the annulment of the statements of 1934 could eventually present inconveniences.

There you have some observations which I wish to communicate to you. They are of a personal character. But I do not doubt that my Minister of State will share these sentiments when I may have the opportunity to discuss the question with him."

Tonight I go to Basel, where on Sunday and Monday the BIS directors hold their meeting. I shall be in touch with the French Ministry of Finance again on Tuesday morning, and shall inform you of any further reaction to your draft after my contact with the Ministry.

END MESSAGE.

BULLITT.

EA:LWW

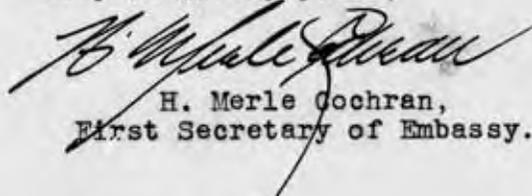
Paris, November 17, 1936.

Dear Mr. Secretary:

I have pleasure in transmitting herewith the original of a letter addressed to you by the Minister of Finance of Belgium, Mr. H. de Man, which was sent to me for forwarding.

There is attached an English translation which I have made of this communication. The letter follows exactly the terms drafted on my second visit to Brussels, and repeated in my cablegram No. 1061 of October 28, 10 p.m.

Very sincerely yours,



H. Merle Cochran,  
First Secretary of Embassy.

Enclosures.

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

Cabinet  
of the Minister of Finance

Brussels, November 9, 1936.

Mr. Secretary of the Treasury,

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 without the common consent of the two Governments.

Please accept, Mr. Secretary of the Treasury, the assurance of my very high consideration.

The Minister,

(signed) H. de Man

To Mr. Henry Morgenthau  
Secretary of the Treasury  
WASHINGTON.

Bruxelles, le 9 novembre 1936



Monsieur le Secrétaire de la Trésorerie,

Comme suite à la déclaration du 17 octobre 1936, j'ai l'honneur de vous confirmer que le Gouvernement belge garantit pleinement à l'égard du Gouvernement des Etats-Unis les obligations assumées dans cette déclaration par la Banque Nationale de Belgique, qui est d'ailleurs comme vous le savez le caissier (Fiscal Agent) de l'Etat.

Il est entendu que cette déclaration ne sera pas rendue publique sans l'assentiment commun des deux Gouvernements.

Veillez agréer, Monsieur le Secrétaire de la Trésorerie, l'assurance de ma considération très distinguée.

LE MINISTRE,

*H. de Man*

Monsieur Henry Morgenthau  
Secrétaire de la Trésorerie

WASHINGTON.

*H. W. R.*

2 Av. Gabriel, Paris.



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

*Personal*

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 10, 1936, 7 p.m.

NO.: 1100

FROM COCHRAN. FOR THE SECRETARY OF THE TREASURY.

With regard to the final sentence of my telegram No. 1092 of November 7, 2 p.m., Minister Auriol has asked me to come to see him on Thursday, the twelfth, at noon.

BULLITT.

EA:LWW

FEDERAL RESERVE BANK  
OF NEW YORK

*Mr. L. W. Knobe*  
130  
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OFFICE CORRESPONDENCE

DATE: November 9, 1938.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knobe

WITH BANK OF FRANCE.

Mr. Cariguel called me at 11:18 today to discuss the following cable, which he said he was going to send to us:

"Sell francs against dollars for our account \$ on the basis of 105 francs to the pound. Buy francs against dollars for that account on the basis of 105.20 francs to the pound net to us."

His purpose for changing his method is of course obvious. From his viewpoint the important rate is the London-Paris rate. The dollar rate is of less importance compared with the sterling rate. He is clearly trying to hold the London-Paris rate close to 105. That being so, by giving us his orders on the basis of the London-Paris rate, he enables us to follow sterling fluctuations in this market up and down. For instance, with sterling at 4.87 3/8, his quote of 105 to 105.20 equals a franc quotation of .046416 to .0463284; at 4.87 3/4, .0464523 to .0463649. I told Cariguel that I saw no difficulties and promised to talk to him frankly if, in the course of operating on his basis, I found that the scheme did not work as expected. I used the opportunity again to point out to him that what mattered above everything else was that we should receive his orders as early in the day as possible. Cariguel replied that switching over to a sterling basis, or rather tying his order up with the sterling rate in this market, would enable him to cable us in time for our opening, that is at his noon-time.

LWK:KMG

Regraded Unclassified

November 9, 1936.  
9:27 a.m.

Loch-  
head: Hello.

H.M.Jr: Hello Archie.

L: Good morning.

H.M.Jr: What's new?

L: Well sterling is a little bit easier this morning but not as bad as the other two days - it's 4.87-3/8s - that's just about an eighth off from Saturday.

H.M.Jr: Ah-ha.

L: Saturday was pretty heavy. We did about six million dollars.

H.M.Jr: Is that right.

L: Yes - all small amounts and a great deal stock exchange. It steadied up again though with - it wasn't quite as bad this morning.

H.M.Jr: Ah-ha.

L: And so I think we'll have less trouble supporting it, that is it looks that way now.

H.M.Jr: What is it?

L: I say it looks as if there'll be less trouble supporting it - it's about 4 - 4.87-3/8s.

H.M.Jr: Ah-ha.

L: Ah - the other markets are quiet - silver looks up again though - they've given silver a little squeeze.

H.M.Jr: You mean their pushing it up?

L: Pushing it up - yes.

H.M.Jr: Well -

- L: And maybe China will be able to work something over. We haven't got this morning's rate yet but it looks as if it will be up - well over 45¢.
- H.M.Jr: Ah-ha.
- L: The stock ticker shows there's about two million dollars excess purchased in the London market - in the New York market by foreigners on Saturday.
- H.M.Jr: I see.
- L: But that's small.
- H.M.Jr: All right.
- L: Nothing further - everything else is quiet and no cables.
- H.M.Jr: Well, Archie - I'd very much hate to see sterling go below 4.87.
- L: Yes.
- H.M.Jr: I'd fight awful hard to keep it from going below 4.87.
- L: Fight awfully hard at 4.87. Well I'm going to step in on it this morning. We haven't - it hasn't opened up the New York market yet, but I'm working much closer to the figures than we started out too.
- H.M.Jr: Yes.
- L: But, in other words, I'm not waiting for it to ease off at all from the London figure - we start right in here.
- H.M.Jr: No - I - I - I'd dislike to see it below 4.87.
- L: Right, well we'll - we'll work it up pretty heavy. Incidentally, I've about used up my cash balance. I'll have to start in transferring back some of the gold in New York for the General Fund again.
- H.M.Jr: You mean out of the hundred million?

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L: Yes - yes.

H.M.Jr: That's what I got you that order for.

L: Yes well that was cleared through and was cleared through the next day.

H.M.Jr: Well I'd do it five million at a time.

L: Well what I thought was that we'd work it more or less according to our needs in the day so that there wouldn't be any straight amount that they could follow.

H.M.Jr: Yes that's better.

L: And if we don't have - we'll take some of it out to-day anyway. You see - a couple of days here we've used 12 and 13 million at a time. Now that's pretty heavy.

H.M.Jr: How much gold have we in London?

L: We have 67 million in London.

H.M.Jr: What?

L: 67.

H.M.Jr: Oh.

L: See we've been taking the gold pretty heavily from London on supporting the Sterling.

H.M.Jr: Oh.

L: I spoke to Dan Bell. I want him to check up and find out whether I can make transfers of gold - the London gold to the monetary stock and he's looking that up because otherwise we might have to start in making a movement of gold from London which would look funny in the first place and then probably we'd have to reverse it sooner or later anyway.

H.M.Jr: Well can't you use up your hundred million they have here?

- 4 -

L: Well I've - that will be first but, as I say,.....

H.M.Jr: Oh you're looking forward.

L: I'm looking forward and not only that - I'd like to save some of this gold I have here, in case there should be a move-out then I wouldn't have to drain the monetary stock again. Of course I'm checking with that but I mean, of course, we have a hundred million to work on in the meantime.

H.M.Jr: Yes - all right Archie.

L: All right then, as I say, we'll watch that very closely to 4.87. Yes?

H.M.Jr: If any cable comes in from Cochran in answer to ours that we sent him - this new one about changing the October 13th -

L: Yes.

H.M.Jr: If you get an answer from Cochran I want either you or Mrs. Klotz to telephone me.

L: All right, we did on Saturday get just a short message that he had turned it over to the French and that he'd let us know when they'd reply.

H.M.Jr: Well when you hear.....

L: When I get something definite we'll get in touch with you.

H.M.Jr: .....get Mrs. Klotz to talk it over and if it's definite why 'phone me.

L: All right then.

H.M.Jr: Please.

L: Right.

H.M.Jr: Now Archie - is everything closed on Wednesday?

L: Everything closed on Wednesday?

H.M.Jr: Armistice Day.

- 5 -

- L: New York will be closed and, of course, the European markets will be practically closed.
- H.M.Jr: Well I understand - I saw in the paper that everything will be closed except the French.
- L: Well the French (aside to someone in his office, "Have you had the French on that?") Well
- H.M.Jr: Well supposing you check up?
- L: Yes I'll - I can..... Yes
- H.M.Jr: If the French stay open I would suggest that they close. I mean it's perfectly silly - the weakest one to stay open.
- L: I see. According to our book here France is meant to be closed but we'll check that up.
- H.M.Jr: The papers down here carried the story that they were all going to close except France which didn't seem right...
- L: Yes.
- H.M.Jr: And if France is going to stay open I'd suggest that they close up because otherwise they'll take an awful beating.
- L: Yes - well they're just checking here. From our book here it looks as though France would be closed and England would be open but I'll have to check that.
- H.M.Jr: Well Archie.
- L: Yes.
- H.M.Jr: Supposing you do a little checking.....
- L: Yes, well we'll make absolutely sure of that but our book here shows that France is closed and England open.
- H.M.Jr: Yes well do a little checking up on it.
- L: All right, then we'll do that.

- 6 -

H.M.Jr: All right.

L: Goodbye.

\*\*\*\*\*

H.M.Jr: Hello.

Operator: Mr. Taylor - Mr. Taylor - go ahead.

T: Hello.

H.M.Jr: Hello Wayne.

T: Hello Henry.

H.M.Jr: How are you?

T: I'm fine and you.

H.M.Jr: I'm better thank you.

T: Good.

H.M.Jr: Your note just came this minute. I haven't had a chance to read it.

T: All right.

H.M.Jr: Anything you want to tell me?

T: Well I think there's quite a lot going on in connection with the RFC situation.

H.M.Jr: Well that doesn't interest me down here.

T: Well that's - I had played golf with Jim Ally yesterday morning and.....

H.M.Jr: Well I really don't want to be bothered.

T: I get that.

H.M.Jr: No, I - I don't - there's nothing that I can do - you mean as to their extension?

T: Yes.

- 7 -

H.M.Jr: Oh I don't ---

T: Well there's nothing for you to do down there about it but I'd - I'd have it in the back of my head that that whole subject is coming up.

H.M.Jr: Well there's only one person to decide about RFC.

T: Yes.

H.M.Jr: And that's the President.

T: Right.

H.M.Jr: Now my calling the Lending Agencies together was surely a farce.

T: Well that was my impression too.

H.M.Jr: I mean the President has to make up his mind as to what he wants to do.

T: Right.

H.M.Jr: Is he finished with Jones?

T: What?

H.M.Jr: Has he finished with Jones at all?

T: Well Jones has talked to him - oh just a little before election, you see, and I gather that Jesse is thinking about - oh narrowing down the field very materially which is a good thing. No there's nothing to worry about but....

H.M.Jr: I wouldn't worry about it anyway because I don't - it's purely up to the President.

T: Right.

H.M.Jr: And, of course, if Jesse is speaking of narrowing the field I'd say that was good.

T: Very much to the good.

H.M.Jr: I told Lochhead I hate to see the pound go below 4.87.

T: Yes.

H.M.Jr: And - hello

T: Hello

H.M.Jr: So I hope it won't.

T: Well he says it's acting better this morning - less pressure on it.

H.M.Jr: All right, Wayne.

T: All right, Henry.

H.M.Jr: Goodbye.

T: Goodbye.

FEDERAL RESERVE BANK  
OF NEW YORK

*Lang*  
*File*

November 9, 1936

Dear Mr. Secretary:

I am sorry that, between the weekend and the election holiday, it was impossible to get any word from our contacts round the Street until today, on the subject of your note of October 27. Even so, the information that I have for you is perhaps not altogether satisfactory.

Certain of our banking friends have made a rapid but quite thorough canvass of their commercial departments and branch offices, and of the customs brokerage community. They report, in substance, that the changes in the direction of import business to date are far too slight to allow of any affirmative interpretation. The chief reasons given for this are first, that Christmas orders were placed before the new currency policies were announced, and the amount of business done with the interested countries is at the moment slight. Second, while some importers have sent buyers abroad to look over the price situation, on the whole the attitude of the importing community is one of watchful waiting, for they are still unable to see what the changed conditions are going to mean in the future. Third, as I wrote you on October 21, prices in some countries were advanced to an extent such that purchases there do not look like bargains. Finally, we are informed that in certain lines (precision instruments and optical goods) the high degree of specialization and the reputation of the makers induce

The Honorable,  
The Secretary of the Treasury.

11/9/36.

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importers to hesitate about taking business away from their old suppliers. This last is chiefly true as regards German goods.

Our contacts have promised to follow this matter up, and it has been proposed that we repeat our questions in about six weeks' time. I do not intend to wait as long as that, but I venture to suggest that it may be longer than a week or two before I am able to report anything new. However, we shall continue our inquiries.

Respectfully,



L. W. Knoke,  
Assistant Vice President.

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

November 10, 1936.  
9:48 a.m.

Operator: Mr. Lochhead.  
H.M.Jr: Hello.  
L: Hello.  
H.M.Jr: Hello - Archie?  
L: Yes, good morning.  
H.M.Jr: Good morning.  
L: Well now on sterling - it took care of itself yesterday.  
H.M.Jr: Did it?  
L: Yes, it held up to 4.87 and 9/16ths to 5/8ths and it looked for a while there as if there might have been support by selling of stock by foreigners.  
H.M.Jr: Oh.  
L: But the sheet this morning shows that they're still on the buying side to up to pretty nearly five million dollars.  
H.M.Jr: Yes.  
L: So it did pretty well in face of that yesterday.  
H.M.Jr: Ah-ha.  
L: Now the important thing though yesterday was silver, Mr. Morgenthau.  
H.M.Jr: Yes.  
L: They - I told you it looked a little bit nervous yesterday.  
H.M.Jr: Yes.  
L: The India speculators got in and jumped the price up to 48¢ in London.  
H.M.Jr: Yes.

- L: Now I - it was an awfully strong rise. I spoke to - I got in touch with C again and drew it to his attention so he could notify his people abroad and remind them again on that. And then they still came in - they said the market was so strong abroad so I took it on myself to sell a million and a half forward delivery over there.
- H.M.Jr: Ah-ha.
- L: Now this morning we just got the prices - China apparently didn't come in and they pushed the price up to about 50¢.
- H.M.Jr: Yes.
- L: Now of course I imagine that China or Mexico will be starting to cut there in a day or two but the speculators in India are just trying to run it wild a little bit and I don't - I mean you spoke before about trying to hold it level - I didn't know how far you'd want to go yesterday.
- H.M.Jr: Yes.
- L: But it seems to me that we ought to put some kind of a clamp on that.
- H.M.Jr: Well what's the matter with Mexico?
- L: Well I'll tell you - Mexico probably hasn't got enough ready yet and another thing they've given some publicity to the fact that the Silver Senate Committee is meeting at the end of this week. They've gotten that in the newspaper now - they're playing it up....
- H.M.Jr: Couldn't we bring back that silver we've got over there?
- L: Well what we could do better than that - we have three million ounces in the stabilization.
- H.M.Jr: Where?
- L: Well - ah - most of it is here but that's not the point. On the opinion that we had checked up on that the lawyers say that what we should sell is forward delivery and never make a natural delivery of the

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forward  
 silver but just sell/so that would cover the contracts.  
 So we could do that very easily because the forward  
 rate starts with delivery for 60 days is still up.  
 I mean it's up as high as the spot rate.

H.M.Jr:

Oh.

L:

So it's very easy - I mean - because it's all specula-  
 tion and they all buy forward. We could easily buy  
 forward delivery and then just turn it around and  
 cover it again when the - when China or Mexico started  
 coming into the market.

(Pause)

H.M.Jr:

Well I think - what - what did you - how much did you  
 sell yesterday?

L:

I sold a million and a half yesterday.

H.M.Jr:

At what price?

L:

At 48 - about 48 $\frac{1}{2}$ .

H.M.Jr:

Did you talk to Taylor about it?

L:

Yes I spoke to Taylor about it and he felt we ought  
 to sell but I mean he didn't know to what extent; he  
 thought this morning I'd better check again with you.

H.M.Jr:

Well that was all right - you're lucky Coolidge wasn't  
 Acting Secretary.

L:

(Laughter)

H.M.Jr:

Well that's all right. I'd a little bit you rather  
 call me but I guess it's all right - I don't know.  
 Before I do anything more I'm going to talk to the  
 President.

L:

I see. Well that - in other words, we won't sell  
 anything more.

H.M.Jr:

I'll call you back. I think  
 (fade out)

L:

Yes, well now I'll tell you - we checked the markets  
 carefully and everything they say comes from India -  
 that the Indians are starting to speculate again on it.

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H.M.Jr: Did you get off a cable to our man in India?

L: We - I've checked to see if there's anything come in from Waterman - there's nothing come in yet but we have full cables from both the Chase and the City and they - they say on that - that the speculation over in India - it started over there - they came in higher before the other markets and the general feeling is that with the new election here; after election took place that there would be something more done for silver and they're spreading the rumors around again and it's entirely a rumor market; they say that there's no - there's no buying for regular account; it's all speculative buying.

H.M.Jr: Well I think I ought to let him know and I'll call you back.

L: All right then - then we'll wait and I'll wait to hear from you before I do anything further.

H.M.Jr: (fade out) sterling.

L: What is that, sir?

H.M.Jr: If sterling is quiet-like - what is it to-day?

L: Sterling at the moment is 4.87-9/16ths.

H.M.Jr: If it's quiet I would buy a little and for this reason. I guess it needs the price of of the dollars in advance and not wait until they get short and then when they come to sell the sterling it - because there's a shortage of dollars, see?

L: Yes.

H.M.Jr: You've never done that, see?

L: Well we could do - of course it means we're working a little bit closer under the rate - at 4.87.....

H.M.Jr: I'd like to try it just for one day.

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- L: All right - just try it and lift them up a little bit when the market is steady.
- H.M.Jr: I'd like to try it for one day.
- L: All right then, we'll try it and see what it does on that.
- H.M.Jr: I'd like to see if you can't lift it up back to 4.88.
- L: I see. All right, well we'll test it out and start in buying a little early here and see how it comes along.
- H.M.Jr: Try it and if that makes an air-pocket after a day or so we'll know we made a mistake.
- L: Right.
- H.M.Jr: But I'd like to try it, even though it's quiet, and force it up to 4.88 if it's possible.
- L: Yes.
- H.M.Jr: And then see if you can hold it there.
- L: All right. Well we'll see how it goes if we have to take very much.
- H.M.Jr: We've never done that but I'd like to try it.
- L: O.K. then I'll do that.
- H.M.Jr: Righto.
- L: Well, incidentally, yesterday we had to take about 21 million in gold from London. That was what London had done to support sterling last Friday and Saturday.
- H.M.Jr: How much?
- L: 21 million.
- H.M.Jr: That shows they're good.
- L: Yes, they're working hard. The only point on it was that I had to sell out some of the gold that I've been holding here.

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H.M.Jr: Where?

L: In the Assay office.

H.M.Jr: Well, unless I'm entirely wrong, I want you to clear up the gold we have in America before you touch that London gold.

L: Right. Well that's what I'm doing. I sold 21 million of that.

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

L: The only point will be on that - the question will come - that's going to show up as a gain to the monetary stock.

H.M.Jr: We can't help that.

L: And the only point is whether or not we should let the Federal making any announcement on it. Also whether we just let it show up on our own statement.

H.M.Jr: Well you fellows will have to work that out.

L: O.K. then I'll - we'll talk that over here.

H.M.Jr: I'm going to follow that closely.

L: Right.

H.M.Jr: Use up what we've got here first.

L: I'll use that up before I touch anything else.

H.M.Jr: And I'll call you back in a little while.

L: O.K. sir. Right.

Klotz: Hello

H.M.Jr: Hello

Klotz: Yes sir.

H.M.Jr: I want Taylor.

K: Yes.

H.M.Jr: Hello

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Operator: Hello

K: Mr. Taylor.

O: All right.

O: Mr. Taylor - go ahead.

T: Hello

H.M.Jr: Hello Wayne.

T: Yes, hello Henry.

H.M.Jr: Good morning.

T: Good morning.

H.M.Jr: I talked to Archie and he told me about silver.

T: Yes.

H.M.Jr: I'm going to check up and call the President but before I talked to him I wondered if there was anything you had on your mind.

T: No - that - I think Archie's thinking about rate there. I don't know whether I'd do anything to-day too much; give the Chinese time to get in.

H.M.Jr: Well -

T: I've think they've had time but I don't think we ought to let it get away on the top side though, do you?

H.M.Jr: No - no - I think you did all right.

T: Yes.

H.M.Jr: I'll - I'll talk to you later.

T: All right, Henry.

H.M.Jr: Thank you.

T: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris  
DATE: November 10, 1936, 10 a.m.  
NO.: 1096  
FROM COCHRAN.

This morning I returned from Basel where on Sunday and Monday the BIS directors had their meeting. There were present as week-end visitors to Basel, in addition to the directors, the central Bank Governors of Canada, Greece, Hungary and Austria.

I was told by President Trip that when the Poles, Mlynarski and Baranski, recently visited his Amsterdam Bank, the advisability of devaluing the Zloty was being studied by them. Last Saturday, during my visit at the French Ministry of Finance, I gained the impression that the Poles were likewise consulting the French officials with regard to that matter. The President of the Netherlands Bank told me that for him to advise the Poles was quite a difficult thing. In countries such as his own and Switzerland, he said, which have tremendous gold resources, it was easy enough to hold confidence while resorting to devaluation of the currency.

END SECTION ONE.

BULLITT.

EA:LWW

SECTION TWO. No. 1096 from Paris, November 10, 1936.

Devaluation in Poland might have very different effects, he said, since that country has limited gold, a rather unstable political situation, and so on; he feared it might lead to further flight of capital and imposition of more regulations governing its flight. Trip's opinion was that if it was decided that Poland could not hold the present currency, it should immediately proceed to devalue and not lose time through exchange restrictions as an intermediary stage.

The Governors of the Central Banks of Greece, Austria and Hungary were consulting their colleagues and experts of the BIS with regard to debts and currencies. Kienboeck of Austria, it was believed, was especially anxious to convince the Viennese officials of his high international standing and of his useful contacts with his colleagues in central banks and in the BIS, since it is understood that Schusnigg is considering giving his position to someone else. Observers of the BIS thought that possibly the removal of League financial officials from Austria was premature. Some of these observers look for Austria to have some real problems in the near future principally because of their high gold prices and the extent to which Switzerland, through its devalued franc, may draw to itself some of the highly profitable tourist traffic which was  
built

built up in Austria during recent years at the expense of St. Moritz and other Swiss resorts.

END SECTION TWO.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION THREE. No. 1096 of November 10, from Paris.

Sir Otto Niemeyer, it is believed, told the visitors from Austria and Hungary they had better act quickly toward cutting their currencies. Some of the other monetary experts whose opinions were solicited at Basel, on the other hand, counselled a policy of waiting until the plans of Germany might be made known, or at least that they should have a period of tentative freedom such as is now enjoyed by most of the principal currencies if it should be decided that depreciation is necessary. At Basel it appeared to be the impression that the Polish zloty will get the next currency out, and that Hungary and Austria will wait at least until the fate of this currency is determined - and possibly that of the Reichsmark - before they take action on the zloty.

The Canadian Central Bank Governor is making the practice of an annual visit to the BIS. The idea of a Treasury-owned Central Bank, such as that of Canada, seemed satisfactory to him. At Basel he showed especial interest in getting information regarding Germany. Canada recently negotiated a commercial treaty with that country.

This time when I talked with Schacht he was in much better spirits than a month ago when I saw him. He told me that no change was constituted in their new four-year plan; the first four year plan had simply come to an end and Hitler felt under obligation to make some new announcement regarding it. Schacht said that to the extent that he could improve the foreign trade of Germany, they would

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alter the so-called plan. The German harvest, he said, had been quite spotty, and there are hard problems ahead for Germany; in fact, an unhappy winter may be expected for Europe, he thought, because of its economic state and its political state, considering particularly the situation in Spain. Schacht expressed the hope that our country would not experience repercussions therefrom, but he feared that before long we would have some social and labor problems to face. He believes there will have to be further devaluation of the franc, and reaffirmed to me his belief that the present Government in France cannot command confidence and that the whole cycle of depreciating currencies and rising prices is demoralizing and futile. The recent trade treaty between Canada and Germany gave Schacht great pleasure - particularly the fact that Canada, neighbor to the United States, had undertaken not to consider as dumping such assistance as might be given by the German Government to exports to Canada, so long as such aid may not exceed the percentage of depreciation of the Canadian dollar. The big victory of President Roosevelt in the recent election was not surprising to Schacht, but he, as well as many other Basel visitors, expressed keen interest in the course that might now be followed by the President.

It seemed to be the opinion of most observers that the President would follow a generous policy toward labor and

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and agriculture. The consensus of opinion seemed to be that there need be no worry about our ability in the future to balance the budget. It was realized that the United States has an opportunity for leadership in the monetary field, but it was not certain that we would grasp this opportunity constructively and wisely.

All of the permanent BIS staff, Quesnay, Hachslar and Van Zeeland, asked me whether there was any likelihood that our Treasury might now release gold to the BIS so that the latter might have proper facilities for continuing to assist the smaller European Central Banks to rebuild their supplies of gold.

Comment was made to me by Governor Norman about the large amounts of (omission) which, subsequent to the consummation of the monetary agreement, have been moving from London to New York. He emphasized the magnitude of the movements of capital to the New York stock market from Europe, and said that the United States seems likely to be the one possible destination for gold for an indefinite period. Too much gold he said has already been attracted to Switzerland and the Netherlands has an ample stock and is wise in not encouraging too great an influx of the metal.

END SECTIONS THREE, FOUR AND FIVE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTIONS SIX, SEVEN AND EIGHT OF  
No. 1096 of November 10, 1936, from the American  
Embassy, Paris.

He said because of the unfavorable political and financial situation in France, that country is not able to hold the gold which it acquired immediately after devaluation of the franc. He said that other European countries could not afford to purchase gold at the price now prevailing. The Bank of England, he said had all the gold that it needed or had use for. My suggestion that they dig a hole up in Scotland and bury some gold was rejected by Norman - he said his bank knew how to employ its funds more profitably than to tie them up in a gold surplus. The French situation is still of great concern to Norman.

The Under-Governor of the Bank of France, Fournier, did not follow the usual practice of accompanying Governor Labeyrie to Basel the past week-end. It is believed that possibly his presence in Paris was required because of the nervous condition of the franc. It was the opinion of most of my contacts that Blum was doing his best, and has shown considerable political acumen; however, they felt that the average Frenchmen will have insufficient confidence in the present Socialist Communist set-up to allow the world revival of prosperity and faith. My contacts consider the few indices of economic recovery so far demonstrated as simply the first effects of devaluation which, in an atmosphere of nervousness and social unrest, will not continue.

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tinue. It is predicted by these contacts that by the end of the calendar year the French Treasury will be obliged practically to exhaust its present borrowing facilities with the Bank of France. At present a public issue is impossible, and will become increasingly difficult as the amount borrowed from the Bank of France increases. There is not nearly a high enough quotation on rentes to permit the conversion which is necessary to reduce the burdensome carrying charge of the public debt. A few of my friends were of the opinion that dissolution of Parliament and a new election would be the best thing for France, in the thought that voters, disillusioned through the Popular Front experiment, would cut down the number of votes for Communist and Socialist parties, and would prepare the way for a Center Government which would have an opportunity to restore confidence and prosperity in France.

I was reminded by President Bachmann, Swiss National Bank, that in December the Swiss Parliament reconvenes. President Bachmann is quite anxious to have settled before that time the question of a reciprocal gold arrangement with our country; otherwise some embarrassing questions may face the Government and his Bank. Some comment is being raised because no new country has yet been added to our eligible gold list. Bachmann's assistant, Pfenninger, told me that perhaps there has been too (omission) an influx of gold

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gold and capital into Switzerland. He expressed fear that this might lead to a rise in prices, which would offset considerably the benefits to the Swiss tourist and other industries from devaluation of the Swiss franc. The outlets for domestic investment, furthermore, are becoming so clogged that Swiss bankers are grasping around for opportunities to lend abroad and in present circumstances may take risks which might have unfortunate results. The observation that it is "better to have lent and lost than never to have lent at all" was made by one BIS expert in an endeavor to console Pfenninger.

Further research work for the BIS staff is being planned by Beyen. He hopes within the next few months to invite member central banks to send young economists to the BIS for periods of one or two years. It is presumed they would be limited to four or five at a time, that the BIS would pay their salaries, and that after their period of service in the BIS, they would return to their respective banks. Certain plans are also being considered by Beyen for the BIS to be of service in discounting international clearing balances. There was considerable discussion at the BIS meeting of revising Articles 53 and 54 of the statutes regarding reserves and dividends. However, no decisions were taken on the matter. Before the end of the year it is expected that Governor Norman will name a successor to

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(omission) as resident British Manager of the BIS.

December 14 has been set as the date for the next meeting of the BIS directors.

END MESSAGE.

BULLITT.

EA:LWW

November 10, 1936.  
10:34 a.m.

L: Yes sir.

H.M.Jr: Hello - what happened?

L: Well on the silver there's nothing new. They say that on the other side the buyers seem to have stopped for the time being.

H.M.Jr: Well you can sell two million ounces.

L: Yes.

H.M.Jr: I think it's a good sale.

L: Right.

H.M.Jr: Sell two million.

L: About two - is there any limit - I mean I probably won't be able to make this top price.

H.M.Jr: Well I'd sell it....

L: But somewhere between within a half a cent range, say?

H.M.Jr: What is it now?

L: It's - it's about 50 now.

H.M.Jr: I'd sell - yes - yes - I'll give you a half a cent range.

L: I see. O.K. then.

H.M.Jr: Yes.

L: Well I'll do that. I think just a little bit to steady it off there.

H.M.Jr: Yes - yes I'd sell it.

L: Right.

H.M.Jr: And have you - have you got an opening on the bonds?

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- L: The bond market is strong again. They're going up about one or two thirty-seconds - a couple of them more than that but it looks as though they're going to turn around and take fairly good gains. The stock market - it looks a little bit irregular - it's kind of hard to say what it's going to do - it's turning around a bit but the other things - the commodities are all steady.
- H.M.Jr: I talked to the President and he didn't know anything about this silver.
- L: Well as far as we find it's a purely - it started in Bombay as a speculator's market.
- H.M.Jr: He said it must be old man Balmer that's taking the run of silver.
- L: (Laughter)
- H.M.Jr: Trying to stage a come-back.
- L: Well (laughter) well I think it's some of the Bombay boys that are trying to make a come-back all right at some expense.
- H.M.Jr: The President said some Hindu was pulling a fast one - he said, "maybe old man Balmer was staging a come-back as a Dictator".
- L: (Laughter) Well O.K. then I'll work on that. Now on sterling, it's a little bit better - around about 4.60 - about 4.87-11/16ths.
- H.M.Jr: Yes.
- L: I mean we're trying to watch that and see if it will go up itself naturally a little bit it would be much better than to try to force it.
- H.M.Jr: Archie.
- L: Yes.
- H.M.Jr: I've been thinking it over since I talked to you - I wouldn't force it.
- L: Right. Well then I'm very much better satisfied.

H.M.Jr: No, I wouldn't.

L: O.K. I mean if it shows any sign of weakness at all I - I mean we won't let it dip at all.

H.M.Jr: I repeat if the English did 21 million in two days....

L: Yes.

H.M.Jr: .....they're playing ball.

L: Well that's what I kind of felt. I wouldn't want them to feel that we're taking advantage of anything.

H.M.Jr: No, I thought the thing over and I would keep on just as we have.

L: All right then. Well then we'll work it that way. It looks a little bit better anyway.

H.M.Jr: If there's any weakness I'd step in....

L: Oh yes, we'll step in very hard on any signs of weakness.

H.M.Jr: But as long as they're playing ball that way I wouldn't try to push it.

L: Fine. Well I'll feel much better satisfied myself on it.

H.M.Jr: I had time to think it over and I - while I was shaving.

L: (Laughter) I see.

H.M.Jr: And, while I was shaving, I thought the thing over and decided that I'd only buy if there was any weakness and then buy very hard.

L: Fine. Well you didn't shave yourself into a lather anyway. (Laughter)

H.M.Jr: What?

L: Well you didn't shave yourself into a lather anyway.

H.M.Jr: What?

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- L: I say you didn't get yourself into a lather on it anyway.
- H.M.Jr: No, and I didn't cut myself.
- L: (Laughter)
- L: Mr. Taylor is giving me an awful boo on that pun.
- H.M.Jr: An awful boo?
- L: Boo he says. (Laughter)
- H.M.Jr: What about the market tomorrow?
- L: The market tomorrow? The market tomorrow - France will be closed and the United States will be closed but Great Britain is open.
- H.M.Jr: Well then, Archie, what I would suggest is that you work until one.
- L: Yes, well I think we want to watch the silver market tomorrow.
- H.M.Jr: That's all right.
- L: Yes, well O.K. then, we'll plan to do that. We'll work up till one o'clock and everything will be closed by then.
- H.M.Jr: Right.
- L: O.K. sir. Now Mr. Taylor is here. Do you wish to speak to him a moment?
- H.M.Jr: Just tell him what I said and see if he has any comments.
- K: He's been listening.
- L: All right, sir. I'll - I'll tell him everything on that.
- H.M.Jr: See if he has any comments.
- L: Right.
- K: (Aside to Mr. Taylor: "Have you any comments?")

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H.M.Jr: Wait a minute - I'm waiting.....

L: Yes.

K: Just right.

L: He says, "Just right".

H.M.Jr: Just right.

L: Yes sir.

H.M.Jr: And (pause)

K: Are you waiting?

H.M.Jr: Yes.

H.M.Jr: Hello

L: Yes.

H.M.Jr: Let me talk to Mrs. Klotz a moment.

L: O.K.

November 10, 1938

Mr. Bewley came in to see Mr. Taylor at 11:30. Mrs. Klotz and Mr. Lochhead were also present.

The following conversation took place:

Mr. Bewley: Well, the first thing was that the Chancellor wants to tell Mr. Morgenthau that he had no suggestion to make on the new draft announcement which seems fully to meet the case. If Mr. Morgenthau will tell Mr. Chamberlain when he is going to issue his announcement, Mr. Chamberlain will issue a statement at the same time in the terms which he has already told you. I think you have got more or less a draft of it. And Mr. Chamberlain is telling the French Government the same thing.

Mr. Taylor: We haven't heard back yet from the French Government, because we were not going, as you recall, we were not going to discuss it further with Belgium, Holland and Switzerland until we had your answer and the French answer. We rather expect that sometime today.

Mr. Bewley: Yes.

Mr. Lochhead: Probably it will be tomorrow, because he is just going to be back today.

Mr. Bewley: You can always take it for granted they have no observations. I can't imagine they would have.

Mr. Taylor: Not entirely sure about that.

Mr. Bewley: Oh, well, there may be something.

Mr. Taylor; Some technicalities are involved in there.

Mr. Bewley: Then I suppose, in fact this -- the issuance of an announcement is likely to be at least a week off still?

Mr. Taylor: Yes.

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Mr. Lochhead: Possibly more.

Mr. Taylor: The preliminary impression we got, which isn't the official one, was that they question whether any change in the October 13th announcement might not be interpreted to have an unfortunate interpretation in France.

Mr. Bewley: Oh, I see.

Mr. Taylor: Not a question anywhere else. They are having their troubles, as you know.

Mr. Bewley: Yes.

Mr. Taylor: And they had that a little in mind. I don't think it means anything, so we will see how it turns out.

Mr. Bewley: Wait and see. Anyhow there is no reason to keep Mr. Chamberlain on his toes? There will be reasonable delay?

Mr. Taylor: It certainly will not be before next week and just what part of next week, we don't know.

Mr. Bewley: Then the other telegram is in answer to the Secretary's question whether we had any special information about France -- why the franc was so weak. The reply to that is that they have no special information only they say in most European centers there is a marked feeling of pessimism about the immediate future of the franc. They think this is based partly on French internal political differences, whether correctly judged or not, and partly on the unsatisfactory Budget position and remark that return of confidence is a slow process, which hardly seems necessary. On the other hand, they think that economic condition of France really is improving, in their view. Wholesale prices have risen from 80 to over 100 during the last calendar year and have risen 10 points since devaluation. Costs have increased, but they think the 40-hour week is only very partially in operation in fact and they offer that it is obvious that devaluation will make all the difference to tourist trade, which is very important to balance of payments, and their general

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conclusion is they see no reason why the Bank of France could not hold its position.

Mr. Taylor: Fine.

Mr. Bewley: I imagine you knew pretty well all that before, but that's their view.

Mr. Taylor: Very helpful to have that point of view. That tourist effect won't take effect ...

Mr. Bewley: . Until Spring, I imagine.

Mr. Taylor: Yes, not until the Spring. But it certainly should be a very important factor.

Mr. Bewley: It certainly should, later on.

Mr. Taylor: I don't think there is anything to add to that, except thanks very much, as usual. We have been watching your silver market with considerable interest.

Mr. Bewley: I was going to ask you about that. Is there anything more about that? It is not a mystery, is it? I suppose it is just speculation that Mr. Pittman is calling a meeting?

Mr. Taylor: That might be one of the reasons.

Mr. Lochhead: I think it is your Indian friends who have started all the fund. The price rise started on Bombay.

Mr. Bewley: Started on Bombay?

Mr. Lochhead: It does not take much to start a rumor.

Mr. Taylor: Has Hong-Kong cleaned up their stocks?

Mr. Bewley: I have not been told at all.

Mr. Taylor: I know they have sold quite a bulk, but I haven't the least idea how much.

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Mr. Lochhead: If anybody pays a premium for silver they can withdraw it from the United States. It has all happened in a couple of days. It just shows they still want to speculate.

Mr. Bewley: Yes, quite. There is nothing in their agreement which forces them to send it to you? They can send it where they like?

Mr. Lochhead: No; nothing. They can take advantage of the best market.

Mr. Taylor: It may be simply a reflection of general industrial recovery.

Mr. Lochhead: I do think the buying of commodities ...

Mr. Taylor: Commodity prices have been pretty generally strong.

Mr. Bewley: Yes, quite.

Mr. Taylor: It may be a reflection of this.

Mr. Bewley: Well, I suppose before election there was a certain amount of fear that the Republicans, if they got in, would abolish legislation altogether.

Mr. Taylor: Yes; silver was a little weaker than reasonably during that period.

Mr. Lochhead: Yes; went down to 43 cents in the London market just before election.

Mr. Bewley: I imagine there was nervousness.

Mr. Lochhead: Yes; some nervousness.

Mr. Taylor: This probably isn't nervousness, but it may be the Chinese and Mexicans can take advantage of that market. I think they would be very foolish if they didn't.

Mr. Bewley: When does the Silver Agreement run out? Next year, sometime?

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Mr. Lochhead: Two years or more.

Mr. Bewley: Two years. I was only guessing, because the Agreement was only made in 1933 and I thought it was sometime before it was ratified.

Mr. Lochhead: The only outside influence on that is the Indian Government's agreement not to sell more than their amount. They are the only ones, as far as you can see, there. Spain has never sold any silver, but had the right to. We are taking care of our own people and that was the main part of the Agreement as far as I can see. The United States was committed to purchase up to 25,000,000 ounces a year and as long as we are purchasing 50 to 60,000,000 million ounces ...

Mr. Bewley: The Canadians are buying a lot and the Mexicans?

Mr. Lochhead: Canadians are buying under their agreement and the Mexicans are buying under the agreement. But that is comparatively small. The Bank of Canada, I think, has to take that over under their laws. They are responsible for silver purchased in Canada, you remember.

Mr. Bewley: Yes.

Mr. Taylor: We may have to split our Government bonds up four to one!

Mr. Bewley: I think that is all, isn't it?

JR

GRAY

London

Dated November 10, 1936

Rec'd 5 p.m.

Secretary of State,  
Washington.

523, November 10, 4 p.m.

FOR TREASURY.

The British economic position now shows too noteworthy features: with production booming in the heavy industries and with a noticeable picking up in textiles and on consumer goods industries, the general rise in world prices and the British trade balance position assume a new importance.

Home Production: Iron and steel output showed a marked recovery last year and continues to mount. Taking 1930 monthly averages as 100 the pig iron production index stood at 126 for September as compared with 103 in September 1935 and the steel output index stood at 168 as compared with 140 in September 1935. Even in the coal industry with its curtailed export markets production ahead of a year ago as is shipbuilding activity.

Meanwhile, the delivery of raw cotton to mills on the basis of 1930 averages stood at 110 in September as compared with 97 in the same month last year; and rayon production

U -2- 523, Nov. 10, 4 p.m. from London  
production at 326 of the 1930 average as compared with  
240 in September 1935.

All these increases are reflected in larger railway revenues profits, bankers clearings, employment and retail sales. The building boom continues, the figures of plans approved being well in advance of 1935 through August and though the September figure, so far available, shows a slight drop on last year, this is not expected to indicate a general trend and in any case the general level of building activity remains high and is expected to continue to do so with slum clearance programs and industrial construction rapidly taking the place of the slightly slackening private construction of houses.

Export Trade: That the further recovery in 1936 is even more an internal recovery than in the two previous years is obvious from the fact that the first nine months of 1936 showed a total export gain over the corresponding period of 1935 of only 2.6% whereas in both the previous years the corresponding gains were of nearly 8%. Several significant features emerge on analysis.

The metal and engineering trades which contributed the greater part of the eight per cent increase in total British domestic exports in both 1934 and 1935 are now busy, in some cases overwhelmed, with work involved in meeting home demand for their products due to the general industrial recovery and recently to the great stimulus of the rearmament program

-3- JR #523, November 10, 4 p.m., from London.

program. These industries only show an increase of one per cent in the first nine months of 1936 as compared with the corresponding period of 1935; they have ceased to push on the export recovery at the pace which they set early in 1934 when they showed an export gain of fourteen per cent over the first nine months of 1933, and in 1935 the gain was one of  $16\frac{1}{2}$  per cent over the first three-quarters of 1934. The question arises will British exporters in their preoccupation with home orders lose some of their hold on exports markets to competitors in other exporting countries, or will they, if and when the abnormal rearmament demands subside, be in a better position than ever to push once more into the export field?

Meanwhile, the equally important textile and clothing group which lagged in the export revival in 1935, gaining less than two per cent on the previous years first three quarters, have this year increased by four per cent on the same period of 1935. This improvement is due probably in large part to the increased purchasing power in important export markets resulting from the rise in the prices of primary (#) and foodstuffs. The Trade Balance Position: While total exports have gained only by 2.6 per cent on the first 9 months of 1935 imports have increased by eleven per cent over the same period. The growing home industrial production necessitates increasing raw material imports, while

-4- JR #523, November 10, 4 p.m., from London.

while higher purchasing power resulting from fuller employment tends to increase food imports. Furthermore, imported raw materials and foodstuffs have risen more in price than export commodities. This change in terms of trade combined with the proportionately larger eventual home consumption of the goods imported has a marked effect on the trade balance position. Though the professed policy of the British Government is to foster just such a readjustment of price levels, in order to thaw the financial position of some of the dominions and certain foreign countries important as field of British investment and as export markets (as well as to have the British farmer) the now evident signs of a degree of achievement of this adjustment are coming at a time and in circumstances which make them not too welcome for three reasons as follows: (one) because it is adversely affecting the British trade balance position when export expansion is slackening largely for international reasons and imports are increasing; (two) because of the effect on production costs (directly through the cost of raw materials and index in the effect on the cost of living and possible pressure for wage increases) at a time when devaluation in gold bloc countries is expected to decrease the competitive advantage which

British

-5- JR #523, November 10, 4 p.m., from London.

British exporters have been enjoying; (three) because the British Government is to be a heavy spender on rearmament projects. If the general rise in prices of primary products and foodstuffs should develop speculative positions (now not outside the realm of possibility) there will be some anxiety here, though the former gold bloc countries will also have to pay the higher prices for materials and the increased purchasing power in countries producing primary goods and foodstuffs will tend to stimulate British exports especially of goods outside the rearmament field.

NPL:EMB

BINGHAM

JR

GRAY

Paris

Dated November 10, 1936

Rec'd 6:47 p.m.

Secretary of State,  
Washington.

1098, November 10, 5 p.m.

FROM COCHRAN.

The pressure on the franc which marked Thursday, Friday and Saturday of last week was somewhat lighter yesterday but is significant again today. Sterling is much in demand here and the Bank of France is providing it. On the other hand, the Bank of England is said to be selling dollars in London. French rentes are down about one franc. Purchasing of international shares is so heavy as to be interpreted as being a flight from the franc. Market operators find the atmosphere very pessimistic and think that the Bank of France can not long afford to surrender such important quantities of currencies as have been required the past few days. Various rumors have circulated to the effect that the franc would be permitted to move directly to the maximum legal limit of devaluation. Now there is even some gossip as to the possibility of exchange control.

BULLITT

NPL:EMB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 10, 1936, 7 p.m.

NO.: 1100

FROM COCHRAN. FOR THE SECRETARY OF THE TREASURY.

With regard to the final sentence of my telegram No. 1092 of November 7, 2 p.m., Minister Auriol has asked me to come to see him on Thursday, the twelfth, at noon.

BULLITT.

EA:LWN