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It is a strange characteristic of human nature that men tend to appreciate least those things which are closest to them. Just as familiarity with a landscape is likely to blind us to its beauty, so we are prone to be least understanding of those great spiritual values of which we speak constantly, by which ostensibly we live and to which avowedly we give our highest devotion. It is not that we are not sincere about our ideals; it is rather that we have allowed ourselves in such cases to be dulled by our familiarity.

Our understanding of our own American democracy seems to me to be a perfect case in point. Here we are, all of us, people either born or reared in the American tradition. The signs of democratic government and its outward manifestations surround us on all sides. Its spirit moves through the very air which we breathe. And yet I venture to say, but few of us have taken the trouble to ask what this democracy which we know so well really is in essence, or what its ultimate objectives are.
Now, as never before, is it necessary for us to shake ourselves from our placid acceptance and to re-discover the soul of the society of which we are a part. This need for a reawakening is especially acute at the present moment. For democracy today is under violent and persistent attack. All through the nineteenth century, up to the end of the World War, most of us assumed serenely that democracy had won a permanent place among the societies of men, that lands which were democratic would remain so forever, that lands which still had not evolved so enlightened a system of living would eventually but inevitably attain it. And yet in 1936, there are any number of lands which have rejected democracy without having tried it, or which have experimented with it and then pronounced it wanting. And even in countries possessed of a long sustained democratic tradition, there are those who insist that ours is not the best pattern for social living. We who love the American tradition are under a moral obligation to understand it more clearly if we are to be able to preserve it against the challenge from without and from within.
Upon all who love freedom there is imposed the duty of a rededication to it. This duty is especially present for members of minorities, religious and cultural groups. For it is my firm conviction that the welfare and the liberties of all minorities, whether they be minorities of color, minorities of faith, or minorities of culture, can be preserved only by preserving the democratic system.

The essence of democracy, it seems to me, can be stated in one sentence. Democracy is that method of organizing society which proceeds from the assumption of the equality of all human beings and which takes for its goal the providing to each individual of an opportunity to attain to the fullness of life. It is the human personality, each human personality, which in a democracy is the end and purpose of the machinery of government. For in the American system, the state is not an end in itself. It is an instrument by which the ideal equalities of men are preserved and through which they seek collectively to make available to each other, life, liberty and the pursuit of happiness.
It is no accident then, that democracy alone of all systems of government insists upon civil liberties for the individual. For unless each person enjoys freedom of speech, press, and conscience, he cannot attain to the fullness of life, and it as a full life for the individual to which democracy is dedicated. It is no accident either that democracy had historically pioneered in state-maintained institutions for popular education. A Government which is devoted to enhancing the life of the individual must endeavor to make available to him those cultural riches which will enable him to reach his full human stature. It is no accident that our own democracy in recent years has moved forward in the effort to guarantee economic security to its citizens. For without the spiritual ease which only economic safety can accord to the individual, the individual is prevented from realizing his best potentialities. This is democracy in a nutshell, a pattern of living which preserves basic liberty for all of us and which, fixing the individual as its goal, seeks to enable him to find his own self-fulfillment wherever his heart and conscience dictate.
In the light of this description it is not hard to see why we owe to democracy the full measure of our devotion. An enlightened self-interest, as well as the highest ideals of human living, would demand that we give our intelligence and our strength to that system of government which preserves basic human rights for all of us and which strives to make available opportunities for a complete life to each of us.

The democratic system is the one system which is able to maintain and safeguard the rights and the liberties of the individual even in time of severest stress. America has but recently gone through a trial of fire and starvation during which our democratic system was strained as rarely before in its career. Our government met the crisis, not by restricting liberty, but by enlarging it. Freedom of speech, press and conscience continued to be the rule in America. It is a rule that even here is occasionally violated, but the conscience of America and the temper of Americans is making progress in conquering intolerance. We have continued to encourage minority groups to maintain their special religious and cultural interests. This is the proof of democracy. In the worst crisis of modern times, it and it alone, has preserved individual and group freedom.
But more than that, out of this crisis has come a great good. We have learned that political freedom is not enough without economic security. We have discovered that prejudice against minority groups is intensified during periods of economic constriction. We have set our hand to making impossible in the future what has happened in the past, an economic collapse. We have, therefore, in effect, set out to enlarge the liberties of the individual and to protect still further the rights of minority groups.

I have spoken of the protection of the rights of minority groups under American democracy. To be sure, there is one factor which all of us must bear in mind. Underlying the rights of minority groups are certain basic obligations. It goes without saying that it is expected of members of minorities as of all Americans that they shall give their primary political and social loyalties to the American community, that they shall participate in the
cultural life of our people. When I speak of minorities, I do not envisage self-contained vacuum sealed groups that feel that they have no share in our common destiny. But granted this basic community's interest in political and social, life and in cultural enterprises, each minority has a full right under our way of living to pursue the additional religious or cultural objectives to which it is devoted.

Thus far I have examined with you but one side of the case. I have spoken of what democracy does for the individual and the group. But the relationship is by no means one-sided. The process which I have described is not in one direction. It is rather reciprocal. Because democracy gives abundantly, it receives richly. It has always seemed to me that only a democracy can enlist the loyalty and love of human beings. Only in lands like America where the individual knows that it is his government which has made it possible for him to be free in mind and action, only under systems such as ours where each minority group knows that
the state is a friend and servant of itself, only under such circumstances does the government win from its citizens a long sustained gratitude and devotion.

America is thus repaid by its own citizens for its devotion to their liberties. And there are other compensations as rich, as deep and as full of meaning. Centuries ago the great law-giver, Moses, insisted that it was not by bread alone that man lives. We, too, as Americans are interested in more than material things. If we love our country truly, we want more than political stability for its government, economic security for its citizens and personal liberties for each other as individuals. We want America to be the seat of a rich and variegated culture. We should like America to produce great music, art, and literature. We should like our civilization to take its place with those which all through history have sustained rich spiritual traditions and have transmitted them enlarged to generations to come. We who are concerned with American cultural life know that democracy is its friend. Only in a society in which
the individual is free can he express his individual personality in creative contributions to our common culture. But, it is here especially that minority groups have their special place. American tolerance is no sterile and unproductive attitude. From each group to which our society gives freedom, come gifts to our total life.

America has been no mere melting pot, reducing all to an average. It has been more truly a fertile field upon which the precious seeds of many cultures have been sown to grow sturdily, to blossom and bear fruit. Those who came, often to escape restriction and even persecution, have brought treasures with them.

We are richer for having shared in the aspirations and the beauties of many religions; our literature has been invigorated by contributions that trace inheritance to many old-world treasuries of learning; our character has been moulded by the centuries of experience of a score of other lands. Men from many lands have had the opportunity to embroider upon the texture of our basic Anglo-Saxon civilisation and to give additional color and variety to its design.

We, too, the American Jews, have our contribution which we are making together with kindred groups. Through us there moves into the common treasury of American life the song and the art, the belief and
the morality, the poetry and the literature of our four thousand year old tradition. It is no little thing that we bring to America, the attitudes of an Amos, the dream of an Isaiah, the gentle humanity of a Hillel, the philosophy of a Maimonides. Centuries ago an epigram was struck off which has been preserved to us both in the New Testament and in the Talmud. That epigram had it, "As one measures out to others, so it shall be measured to him." America grants freedom, and in return to its altars, individuals and groups alike carry the most precious expressions of their spirits.

As I see it, there are two conclusions to be drawn for us as American Jews from this discussion. The first of these is so obvious as to be a truism; namely, our duty to American democracy. I am not saying to you that we should be loyal to American ideals merely because we are Jews. There are ten thousand reasons for love and devotion to America and its democratic tradition which have nothing to do specifically with the fact that we are Jews. But
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America best not by abandoning our Jewish tradition
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serve Judaism, but when all the reasons have been
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himself, his group, America and all mankind.
JOINT
BROTHERHOOD
MEETING

AUDITORIUM THEATRE
DECEMBER 20, 1936
8:15 P. M.
PROGRAM
HARRY KAIRYS, Presiding

Music
UNDER DIRECTION HUGO WEISGAL

BEETHOVEN: - - - Hymn to Night
MENDELSSOHN: - - - For Ever Blessed
MOUSSORGSKY: - - - "Prayer" from Boris Godounov

Presenting the Speaker
JUDGE ELI FRANK

Address
"Religion in Citizenship"
HON. HENRY MORGENTHAU, Jr.
SECRETARY OF THE TREASURY OF THE UNITED STATES

Music
WAGNER: - - "Sailors' Chorus" from Flying Dutchman
LOVY: - - Hallelujah — Psalm 150
THIS MEETING IS SPONSORED JOINTLY BY THE BROTHERHOODS OF THE FOLLOWING SYNAGOGUES:

Agudas Achim
Baltimore Hebrew
Beth Tfiloh
Beth Yehudah
Chizuk Amuno
Choferz Chaim
Har Sinai
Har Zion
Lubawitz Nusach Ari
Moses Montefiore
Oheb Shalom
Ohr Knesseth Israel
Petach Tikvoh
Shaarei Tfiloh
Shaarei Zion
Shearith Israel
DEMOCRACY AND MINORITIES

It is a strange characteristic of human nature that men tend to appreciate least those things which are closest to them. Just as familiarity with a landscape is likely to blind us to its beauty, so we are prone to be least understanding of those great spiritual values of which we speak constantly, by which ostensibly we live and to which avowedly we give our highest devotion. It is not that we are not sincere about our ideals; it is rather that we have allowed ourselves in such cases to be dulled by our familiarity.
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And the second conclusion is this: we serve America best not by abandoning our Jewish tradition but by maintaining it. For if my reasoning is valid, America realizes its purpose to the full when the individual avails himself of his liberties in order to find self-fulfillment. What is more, each minority group through its unique contributions serves to enrich the whole of American life. There are a host of reasons why a Jew should seek to preserve Judaism, but when all the reasons have been enumerated not the least among them is this, that through loyalty to Judaism, the Jew can best serve himself, his group, America and all mankind.

ooo-ooo
Augustine (O - gũs'- tun): one of the four great fathers of the Latin Church. His father was still a pagan at the time of his son's birth; his mother, Monica, was not only a Christian but a woman of great piety. For a time the son seemed impressed by his mother's teaching - but he gradually turned to the interests of the world. His father, noticing his early promise, destined him for the brilliant and lucrative career of a rhetorician, but Augustine passed from one field to another - unable to find satisfaction anywhere. In the summer of 386 he definitely felt that a voice spoke to him "Put ye on the Lord Jesus Christ and make not provision for the flesh to fulfil the lusts thereof." In the late summer of 386 his conversion took place and on the Easter following, having been rejoined by his mother - he was baptised and admitted to the Catholic Church. His great talents were turned to the service thereof and he became priest, assistant bishop and bishop; for thirty-four years he preached and wrote - his "Confessions" and "The City of God" being his best known works.

Thomas Aquinas (Â - kwÉ- nás): born in Italy in the province of Naples in 1227. He was educated at the University of Naples - and went from there - at the age of seventeen - to enter one of the convents of the great Catholic Order of Dominicans (known as Order of Preachers, O.P.). Because of his taciturnity and stolidity he was student-named "great dumb ox of Sicily," but in 1257 he received his Doctor's degree from the Sorbonne. His lifetime was spent as student lecturer in theology and writer in the interest of his
Dominican friars - always refusing the proffered tributes of high honor which more and more frequently were offered him. He was made a Saint in the Catholic Church in 1323 and was declared to be one of the outstanding "Learned Doctors of the Church." His great book, known as the "Summa," is the summary of knowledge in relation to religion.

Dante (dän'-tä): born in Florence, Italy in 1265 and regarded, by the Italians, as the creator of their poetical language and father of their poetry. In 1301 - while on a mission to the Pope, in which he sought to have excesses of Charles VIII in Florence checked, he was exiled. From that time on - as he wandered from place to place in northern Italy little is known of his life. Although the decree of exile was lifted in 1318 he did not return to Florence; in 1320 we read of him in Ravenna and a year later - just after his return from an embassy to Venice he died. His great work is "The Divine Comedy" which narrates his dream journey through Hell, Purgatory and then Heaven; he describes the companionship of Virgil as he journeys through Hell and Purgatory but the beloved Beatrice is his imaginary companion through the happy spheres of Heaven.

Amos: in the Bible, an Israelitish prophet of the 8th century B.C. He was born near Bethlehem and when he reached maturity - became a shepherd. Though himself a Judahite, he had been prophesying in the northern kingdom, when his activity was brought
to an abrupt close by the head priest of the royal sanctuary at Amazrah, who bade him escape to the land of Judah and get his living there. This he refused to do saying "No prophet am I; no prophet's son am I; a shepherd am I, and one who tends sycamore - figs. Yaweh said to me "Go, prophesy against my people Israel." The Biblical book of Amos is characterized by great symbolic vision and biographical narrative. He was the first to picture God of Israel as judge with primal demand for justice in economic, international relations.

Isaiah (יוֹסָּה): the greatest, and both in life and in death the most influential of the Old Testament prophets. The two great political events (the Syro - Israelitish invasion under Ahaz, and the great Assyrian invasion of Sennacherib) called forth the spiritual and oratorical faculties of this great prophet and quickened his insight into the future. He lived at Jerusalem, and, at one time, exercised great influence at court - where he would even venture to address a King unbidden and utter the most unpleasant truths unassailed and in the plainest fashion. Presumably, therefore, his social rank was far above that of both Amos and Micah. The high degree of rhetorical skill displayed in his discourses implies a long course of literary discipline, not improbably in the school of some older prophet.

Hillel (יהוֹלֵל): a Jewish Rabbi, of Babylonian origin, who lived at Jerusalem in the time of King Herod. Because of his great learning and his rare qualities he was numbered among the recognized
leaders of the Pharisaic Scribes. The epithet "ha-zaken" (the elder) proves him to have been a member of the Sanhedrin, a position he held for nearly forty years. He was especially noted because he gave a definite form to the Jewish traditional learning; he laid down seven rules for the interpretation of the Scriptures, and the ordering of the traditional doctrines into a whole - affected some two-hundred years after Hillel's death - was probably likewise due to his instigation. He has lived in the memory of posterity as the great teacher who taught and practiced the virtues of charity, humanity and true piety.

Maimonides (mim-'mon'-i-das): the common name of Rabbie Moses Ben Maimon who lived from 1135 to 1204. His life falls into three epochs, which may be typified by the towns in which they were passed, namely, Cordova, Fez and Cairo. He was born in Cordova and his early years were passed in this town which had then just passed the zenith of its glory. His father trained him in the branches of Hebrew and Jewish scholarship; after Cordova was conquered in 1148 the position of the orthodox Spanish Jews became intolerable and after ten years of hardships, wanderings and escapes, Maimonides decided to take his family out of the country. He settled in Fez. The ten years spent there were devoted to the stimulation of religious feeling on the part of his brethren. In 1165 he left for Egypt; Cordova had given him great learning; Fez had given him humanity; and now in Cairo - he was given prominence at court and in the Jewish community and soon became the centre of almost world-wide influence over Jewry through his monumental writings and dominating personality.
He died in Cairo in 1204 - amid universal sorrow and veneration and to this day he is considered the great exponent of reason in faith and toleration in theology.
Attached is the first speech written by Dr. Steinburg on Democracy and Minorities., prepared in connection with the speech the Secretary plans to give in Baltimore, December 20, 1936.
It is a curious anomaly of human character that we tend to understand least those things which are closest to us. Our very familiarity with landscapes is likely to obscure to our eyes the real meaning for us. I feel that this kind of blindness has a fundamental significance. A blindness which springs from over familiarity plagues among other things our understanding of our own democracy. Here we are, all of us, people either born or raised in the American democratic tradition. The signs of democratic government, its outward manifestations, are around us on all sides, and while only a few of us have taken the trouble to ask what democracy is in essence and what its ultimate objectives are, a fuller understanding is necessary for all of us at the present time than ever before in this modern world for democracy today is undergoing an acute and persistent change.

All through the nineteenth century, up to the outbreak of the World War, the feeling generally among most of us was that democracy had won its permanent place as an ideal system of government among all enlightened people. And yet in 1936, there are any number of lands which have experimented with democracy and rejected it. Those of us who love the spirit of America most have come to understand more articulately what
that spirit implies for we are going to be able to preserve it against the challenge which comes from other systems of living. This deeper understanding of democracy is a pre-requisite for all of us as American citizens. It is of especial interest for us who are Jews, members of a minority religious and cultural group, for it is my firm conviction that the welfare of all minority groups whether they be minorities of color, minorities of theology, or minorities of culture, that the welfare of such groups is best served by democracy.

Indeed, it is only democracy which preserves to the individuals or groups of individuals, freedom of self-determination, so surely then as each person can expect intelligent and social freedom only in a democracy, so surely are the interests and interests of all minority groups associated with self-preservation. And it is no accident that democracy alone of all the systems of government allows freedom to the individuals, and to the minority groups, such as ourselves, for understand, this is the essence of democracy.

If one must epitomize, democracy is in one phrase, a system of society which takes for its goal the fullness of life to each individual. It is each human personality which has an ultimate goal of democracy. That is why democracy is closely associated with civil liberties, for unless the individual enjoys freedom of speech, press, and conscience, a full life is impossible to him, and it is his full life to which democracy is dedicated.
That is why democracies have historically been associated with states supporting popular education, for if a society devotes itself to educating the individual, it must endeavor to make available to that individual those cultural treasures which will enable it to attain its high stature and that is why our own democracy has moved ahead and accorded a high measure of economic security to its citizenry for without the social and mental ease which can come from economic security, the individual is prevented from realizing himself to the fullest.

The attainment of a greater measure of economic security is of course of great importance but if prejudice is against all minority groups, it tends to create intensity and as a result of economic restrictions it does not reach the attainment of social security with its effect upon group relations which leads me to assert that the welfare of minority groups is inextricably associated with democracy.

The issue is deeper and larger. However, if the purpose of a democratic system be the individual and if that individual wishes to associate himself with other individuals in minority, religious or cultural associations, then democracy by its very theory must and does sanction such associations. What that means is not hard to understand. It means that every person who has an individual belief or interest or ideal, or any groups which have any belief or interest or ideal are
securing its right to this individual in a democracy. And now contrast this with the predominating theories of other antidemocratic societies. In some lands of the world, the official theory of the state is that the whole of society has pointed toward the state as the ultimate objective. Every individual, every movement, must ultimately serve the state and anything which diverts either energy or attention from the interest of the state is regarded as illegitimate. In such a government there can be no freedom of speech, press, conscience, or self-determination. Nor can there be in such a society free associations of minorities for religious and cultural purposes, for each such association is regarded as a diversion of attention from the state. It is no accident that it is just in such societies that religious and cultural bodies have found themselves repressed and it is no accident either that in democracies such as ours, the individuals and groups alike have been allowed rights and privileges to the fullest.

And even in the past six years when American went through a trial of fire and starvation and when our democratic system was strained as rarely before in its career, none of us was asked to sacrifice any part of his ideals, convictions, or his personal liberties.

At the very time, when in non-democratic lands, under the pressure of economic tension, individuals were compelled to surrender their personal freedom and groups were and still
are persecuted because of religious or cultural objectives, in this land where the economic strain was as fierce, the rights and the opportunities and the freedom of no one, individuals or groups, have been touched.

But the process does not merely work in one way. What democracy does for the individual or minority groups, by its very character individuals and minority groups alike repay democratic societies for the opportunities which they have enjoyed. It seems to me that only a democracy can really enlist the loyalties and loves of people. It may be possible for skilled orators to speak against backgrounds which have been carefully rearranged to whip the masses into clamorous assent but no human beings once they are restored to society can continue to give devotion to a governmental system which deprives them of all basic freedom, and in America where the individual has always been free to speak his mind critically on governmental affairs, in America where each minority group has been encouraged in his own special field, from all of them have come a full measure of devotion and concentration to that American life which has come to all of us.

Because America has created liberty, it has won love and loyalty from all but the return to democratic systems is not merely a matter of devotion. It is not alone that a democracy must by is very character be better or more reasonably
loved. A democracy must ultimately also be richer culturally for only in a society in which the individual is given a large measure of freedom can the individual himself impress his individual personality in cultural creativity. What is more, each minority group encouraged in maintaining its own set of values in return, makes its contributions to the totality of America's spiritual life.

Through the Roman Catholic traditions, there speaks to the soul of America, an Augustine, a Thomas Aquinas, and a Dante, and the life of each American is the richer because of it.

The heritage of the American Indian, the colorful vivacity of Latin traditions, the patient depth of Scandinavian cultures, each of those has been added to our basic Anglo-Saxon civilization and woven together into a unified pattern of infinite richness and variety.

From every minority religious and cultural group gifts are offered, contributions are brought to the common fund of American spiritual life, and as for us, as Jews, we too, we feel are offering our contribution to that America which accords us group freedom together with our kindred groups. From us there moves into the common treasury of American life, the message of faith and the ideals of the great prophets of old, the wisdom of Jewish sages of the Middle Ages, the song and ark, the belief and the morality of our four thousand year old traditions.
As I see it, there are two conclusions which follow for us as Jews. The first of these conclusions is an obvious one. It evolves upon us as American Jews to give American democracy, love, loyalty, and devotion. I do not wish to be misunderstood. I, as a Jew, am not saying to you, as Jews, that it is because we are Jews, that we should be loyal to American democracy. That loyalty we owe on historical and ideal grounds without regard to our Jewishness. But let no one make any mistake. It is only under a democracy that we and members of other minority groups can have any expectation of a free pursuit of our special ideals.

And the second conclusion is briefly this. That we serve America best by maintaining our contact with our traditions for if my contention has been a valid one, America realizes its purposes if the individual avails himself to the fullest of his freedom. What is more, each minority group through its unique heritage can serve to enrich the totality of American life. Again, I want to emphasize that one ought to have Jewish loyalties. There are a host of reasons but when all reasons are enumerated, not the least, is the adherence on the part of Jew to Judaism. If this is so, they serve America best.
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But the process does not merely work in one way. What democracy does for the individual or minority groups, by its very character individuals and minority groups alike repay democratic societies for the opportunities which they have enjoyed. It seems to me that only a democracy can really enlist the loyalties and loves of people. It may be possible for skilled orators to speak against backgrounds which have been carefully prearranged to whip the masses into clamorous assent but no human beings once they are restored to society can continue to give devotion to a governmental system which deprives them of all basic freedom, and in America where the individual has always been free to speak his mind critically on governmental affairs, in America where each minority group has been encouraged in his own special field, from all of them have come a full measure of devotion and concentration to that American life which has come to all of us.

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And the second conclusion is briefly this. That we serve America best by maintaining our contact with our traditions for if my contention has been a valid one, America realizes its purposes if the individual avails himself to the fullest of his freedom. What is more, each minority group through its unique heritage can serve to enrich the totality of American life. Again, I want to emphasize that one ought to have Jewish loyalties. There are a host of reasons but when all reasons are enumerated, not the least, is the adherence on the part of Jews to Judaism. If this is so, they serve America best.
DEMOCRACY AND MINORITIES.

It is a curious anomaly of human character that men tend to appreciate least those things which are closest to them. Just as familiarity with a landscape is likely to blind us to its beauty, so we are prone to be least understanding of those great spiritual values of which we speak constantly, by which ostensibly we live and to which avowedly we give our highest devotion. It is not that we are not sincere about our ideals it is rather that we have allowed ourselves in such cases to be dulled by our familiarity.

Our understanding of our own American democracy seems to me to be a perfect case in point. Here we are, all of us, people either born or reared in the American tradition. The signs of democratic government and its outward manifestations surround us on all sides. Its spirit moves through the very air which we breathe. And yet I venture to say, but few of us have taken the trouble to ask what this democracy which we know so well really is in essence, or what its ultimate objectives are.

Now, as never before, is it necessary for us to shake ourselves from our placid acceptance and to rediscover the soul of the society of which we are a part. This need for a reawakening is especially acute at the present moment. For democracy today is under violent and persistent attack. All through the nineteenth century, up through the completion of the World War,
most of us assumed serenely that democracy had won a permanent place among the societies of men, that lands which were democratic would remain so forever, that lands which still had not evolved so enlightened a system of living would eventually but inevitably attain it. And yet in 1936, there are any number of lands which have rejected democracy without having tried it, or which have experimented with it and then pronounced it wanting. And even in countries possessed of a long sustained democratic tradition, there are those who insist that ours is not the best pattern for social living. We who love the American tradition are under a moral obligation to understand it more articulately if we are to be able to preserve it against the challenge from without and from within.

Upon all who love freedom there is imposed the duty of a rededication to it. This duty is especially present for members of minorities, religious and cultural groups. For it is my firm conviction that the welfare and the liberties of all minorities, whether they be minorities of color, minorities of theological belief, or minorities of culture, can be preserved only by preserving the democratic system.

If one must epitomize the whole of democracy in one phrase, the following, it seems to me, tells the story. Democracy is that method of organizing society which proceeds from the assumption of the equality of all human beings and which takes for its goal the providing to each individual of an opportunity to attain to the fullness of life. It is the human personality, each human personality, which in a democracy is the end and
purpose of the machinery of government. For in the American system, the state is not an end in itself. It is an instrument by which the ideal equalities of men are preserved and through which they seek collectively to make available to each other, life, liberty, and the pursuit of happiness.

It is no accident then, that democracy alone of all systems of government insists upon civil liberties for the individual. For unless each person enjoys freedom of speech, press, and conscience, he cannot attain to the fullness of life, and it is a full life for the individual to which democracy is dedicated. It is no accident either that democracy had historically pioneered in state-maintained institutions for popular education. For a government which is devoted to enhancing the life of the individual must endeavor to make available to him those cultural riches which will enable him to reach his full human stature.

It is no accident that our own democracy in recent years has moved forward in the effort to guarantee economic security to its citizens. For without the spiritual ease which only economic safety can accord to the individual, the individual is prevented from realizing his best potentialities. This is democracy in a nutshell, a pattern of living which protects basic liberty to all of us and which, fixing the individual as its goal, seeks to enable him to find his own self fulfillment wherever his heart and conscience dictate.

In the light of this description it is not hard to see why we owe to democracy the best full measure of devotion.
An enlightened self interest, let alone the highest ideals of human living, would demand that we give our intelligence and our strength to that system of government which preserves basic human rights for all of us and which strives to make available opportunities for the largest life to each of us.

We, who are Jews, members of a minority religious and cultural group and those of our non-Jewish fellow Americans who are also members of minority groups, for us there is an additional reason for maximum loyalty to democracy. For understand, it is only under a system of living such as ours that the minority group, no less than the individual, can enjoy the largest liberty. The encouragement of minority associations is an integral part of the democratic pattern. It flows naturally from its very character. Since the goal of democracy is the individual, the individual is merely exercising his personal right when he enters into a minority religious or cultural association. What that means is not hard to understand. It means that any group of people who maintain non-conforming beliefs or ideals has the right to engage in group activities for the perpetuation of these ideals. Perhaps we shall understand the more clearly what I am trying to say if we consider for a moment the theories upon which certain anti-democratic societies operate. In some lands the official theory of the state has it that the goal of the social process is not the individual but the state itself. Once the state has been set up as the ultimate objective of all human effort there can be no guarantee of liberties for
The democratic system is the one system which is able to maintain and safeguard the rights and the liberties of the individual even in time of severest
America has put recently gone through a trial of fire and
the individuals. Each person can logically enjoy freedom of speech, press, conscience, or self-determination only to the extent to which this freedom serves the interests of the state. What is more, under such a government, minorities logically have no place. For each minority association, each loyalty aside from that to the state, must be regarded as a diversion of energy and attention from the state itself. As such, it must, by the momentum of the theory, come to be regarded as a disloyalty.

The touchstone by which we can judge the two theories is the experience of the past six years. In every non-democratic land the individual has been denied personal liberty. In addition, minority churches and minority cultures have been repressed and persecuted. America, too, went through its trial of fire and starvation during which our democratic system was strained as rarely before in its career. But to no one was there denied freedom of speech, press, and conscience. No individual was asked to surrender any part of his liberty in thought or expression. And every minority group was encouraged to maintain its special religious or cultural interests. This is the proof of democracy. In the worst crisis of modern times, it and it alone, has preserved individual and group freedom.

But more than that, out of this crisis has come a great good. We have learned that political freedom is not enough without economic security. We have discovered that prejudice against minority groups is intensified during periods of economic constriction. We have set our hand to making impossible in
the future what has happened in the past, an economic collapse. We have, therefore, in effect, set out to enlarge the liberties of the individual and to protect still further the rights of minority groups.

I have spoken (at some length) of the rights of minority groups under American democracy. To be sure, there is one factor which all of us must bear in mind. Underlying the rights of minority groups are certain basic obligations. It goes without saying that it is expected of members of minorities as of all Americans that they shall give their primary political and social loyalties to the American 

Community

that they shall participate in the cultural life of our people. When I speak of minorities, I do not envisage self-contained vacuum sealed groups that feel that they have no share in our common destiny. But granted this basic community's interest in political and social life and in cultural enterprises, each minority has a full right under our way of living to pursue any additional religious or cultural objectives to which it is devoted.

Thus far I have examined with you but one side of the case. I have spoken of what democracy does for the individual and the group. But the relationship is by no means onesided. The process which I have described is not in one direction. It is rather reciprocal. Because democracy gives abundantly, it receives richly. It has always seemed to me that only a democracy can enlist the loyalty and love of human beings. (It may be possible for a skilled orator who speaks against...
carefully prearranged stage settings, who plays with the passions and frustrations of an unhappy people to whip these people into a frenzied loyalty to himself and into a clamorous assent to unreasonable doctrines. When the frenzy is over and when sanity is restored, when these misguided masses discover that they have been deprived of all liberty, can it be expected that they will still be devoted to either the individual or the system which has enslaved them and which keeps them in bondage by brute oppression.) Only in lands like America where the individual knows that it is his government which has made it possible for him to be free in mind and action, only under systems such as ours where each minority group knows that the state is a friend and servant of itself, only under such circumstances, does the government win from its citizens a long sustained reasonable gratitude and devotion.

America (them) is repaid by its own citizens for its devotion to their liberties, And there is another compensation, as rich, as deep, and as meaningfully. Centuries ago the great law-giver, Moses, insisted that it was not by bread alone that man lives. We, too, as Americans are interested in more than physical things. If we love our country truly, we want more than political stability for its government, economic security for its citizens and personal liberties for each other as individuals. We want America to be the seat of a rich and variegated culture. We should like America to produce great music, art, and literature. We should like our civilization
to take its place alongside of those which all through history have sustained rich spiritual traditions and have transmitted them enlarged to generations to come. We who are concerned with American cultural life know that democracy is its friend. Only in a society in which the individual is free can he express his individual personality in cultural creativity. But, it is here especially that minority groups have their special place. American tolerance is no sterile and unproductive attitude. From each group to which our society gives freedom, come gifts to our total life.

From the Roman Catholic tradition, for example, there come to us the reasoning of an Augustine or Thomas Aquinas, the accents of a Dante, the solemn chants of medieval cathedrals. The life of each American is the richer because of it.

The heritage of the American Indian, the colorful tradition of Latin groups, the patient depth of Scandinavian cultures, each of these had had the opportunity to embroider upon the texture of our basic Anglo Saxon civilization and to give additional color and variety to its design.

We, too, the American Jews have our contribution which we are making together with kindred groups. Through us there moves into the common treasury of American life the song and the art, the belief and the morality, the poetry and the literature of our four thousand year old tradition. It is no little thing that we bring to America, the attitudes of an Amos, the dream of an Isaiah, the gentle humanity of a Hillel, the philosophy of a Maimonides. Centuries ago
an epigram was struck off which has been preserved to us in the
new Testament, the sacred text of the Christian, and in the Tal-
mud, the storehouse of Jewish learning. That epigram had it,
"As one measures out to others, so it shall be measured to him."
America grants freedom, and to its altars, individuals and
groups alike carry the most precious expressions of their spirits.

As I see it, there are two conclusions to be drawn for
us as American Jews from this discussion. The first of these
is so obvious as to be a truism; namely, our duty to American
democracy. I do not wish to be misunderstood. I am not saying
to you that we should be loyal to American ideals just because
we are Jews. There are ten thousand reasons for love and
devotion to America, which have nothing to do specifically with
the fact that we are Jews. But let no one make any mistake. It is only
in a democracy that we and other minority groups can confidently
expect the privilege of pursuing freely our special group
ideals.

And the second conclusion is this: we serve America
best not by abandoning our Jewish tradition but by maintaining
it. For if my reasoning is valid, America realizes its purposes
to the full when the individual avails himself of his liberties
in order to find self-fulfillment. What is more, each minority
group through its unique contributions serves to enrich the
whole totality of American life. There are a host of reasons why a
Jew should seek to preserve Judaism but when all the reasons
have been enumerated, not the least among them is this, that

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through loyalty to Judaism, the Jew can best serve himself, his group, America and all mankind.
Attached is copy of the second speech written by Dr. Steinburg, prepared in connection with the Secretary's address in Baltimore, December 20, 1936.
RELIGION IN THE MODERN WORLD

Somewhere in the Bible there is a phrase which has stayed with me ever since I first came upon it some years ago. The ancient psalmist speaks of his epoch as a time when the foundations are being torn down. Had he been living today, he could not have more accurately characterized our own age. For ours is a time when foundations are torn down. In our day as rarely before in history traditional beliefs, values and institutions are being challenged. Conflicting theories and doctrines wrestle confusedly with each other in every area of human interest. The very social structure which seemed built for all times creaks under the strain of economic crisis and is buffeted by the winds of new strange doctrines. It is natural in a time like this when all else seems so uncertain that men shall turn for guidance and inspiration to the great religions which deal with the eternal and the unchangeable.

There is no question in my mind that religion has a unique service to perform at the present time for the distracted, bewildered sons of men. It is then with a sense of special
privilege that I join in your deliberations this evening, that I add my voice to yours who seek to preserve and to vitalize religious faith at a time when it is most needed. I recognize, of course, that I am neither theologian nor moralist but a layman, that I am much less at home in religious discussion than I am in budgets. I shall say what I am about to say with some trepidation. No one, I hope, will take my utterance as an authoritative expression of religious theory. But I do know that religion means certain things to me as a human being, things which it seems to me are indispensable for the happiness of the individual, and I should add, indispensable also if mankind is to overcome the problems which face it, and if society is to evolve through these labor pains into a newer, larger life. It is of what religion means to me that I would speak to you this evening.

At this very moment when I stress the indispensability of religion for the modern man, religion itself is also under attack. It too is involved in the chaotic flux of the 20th Century.
With all else in modern life it is being challenged. My assertion then of the need for the religious spirit is not one that springs, I protest, from blindness. I too am aware of the opinions of those who hold that the day of faith is over. I too have read the ominous prophecy contained in Matthew Arnold's "Dover Beach."

"The sea of faith was once too at the full and round earth's shore
Lay like the folds of a bright girdle furl'd
But now I only hear
Its melancholy, long, withdrawing roar,
Retreating to the breath
Of the night wind, down to the vast edges drear
And naked shingles of the world."

Despite these ugly forebodings, it still seems to me that religion offers to man a satisfaction of certain basic human wants, the stimulation of certain inevitably human ideals, that so long as man is man he will feel these wants and aspire toward these ideals. In other words, so long as man is man he will have his religion.

But turning from religion as an abstraction to its concrete manifestations, what has it to offer to us in the modern world.
I should say, first and foremost, a faith in the meaning of life. There are, it has always seemed to me, ultimately only two philosophies. One has it that the whole of this strange universe in which we live is but a "tale told by an idiot, full of sound and fury, signifying nothing." The other position, the religious position has it that behind the world and moving through it is infinite Intelligence, Will and Design. Man cannot tell himself that the first theory of life, the theory of universal chance, is the true one without destroying the sense of the significance of life generally and of the individual particularly. But he who believes that there is more than brute chance at work in the flow of events, he knows by virtue of that belief that the whole panorama of the universe, that the whole drama of mankind, that all these represent the working-out of a great cosmic pattern. He knows further that his own life, infinitesimal though it be, has somehow its place in the entirety; that without his personality and his efforts a thread will be missing from the tapestry of God. To feel that
one's life is meaningful, that human history is meaningful, these are conditions for serenity. It is such inner peace which represents the first contribution of religion to modern man.

But this feeling of meaningfulness has vast implications for conduct. A man cannot tell himself that mankind is the product of chaos, that all human ideals — the love of goodness, the appreciation of beauty, the search for the truth — that all these alike are accidental by-products of an accidental machine without affecting his attitude toward the human scene. No one can get himself much excited about that which in his eyes has no meaning. There is precious little logic to self-negation and self-sacrifice on behalf of mankind once mankind and its ideals are regarded as purely the product of chance, created by chance and doomed to be destroyed by chance. But he who knows that there is meaning in life, for him life takes on earnestness, for him there is reason to lay his own life aside for that which has larger meaning than his own personal existence. All through the ages
men have insisted that religion is necessary not alone for the individual but also for society. It is not hard to understand why. For faith is the one great impetus to socially-centered conduct.

And there is a third value to religion. There is a third hunger of the human soul to which religion ministers. All of us want beauty and poetry in life, all of us desire the richest and the highest emotional experiences. And to each human being religion brings its offerings of beauty. Its rituals do more than express in outward manifestation inner theologies and moralities. They are in addition a poetry of life. The symbols of religion, its external expressions, all these are rhyme and rhythm in the midst of an existence which would otherwise be dreary prose. Different individuals will react differently to different rituals, and each of us will tend to be best attuned to those symbols and religious forms in which he has been reared. The Catholic will tend to respond most directly to the rituals of his church. The Protestant will feel most intensely the
forms of his. We Jews will respond most positively to the
symbols of our religious life — the Scroll of the Law, the
ram's horn of the New Year Day, the eight-branched candlestick
of the Festival of Rededication. But to Catholic, Protestant
and Jew respectively, his religion brings warmth and color,
a fuller emotional life, a richer set of aesthetic experiences.

All of these considerations impel me to believe that
religion has an unchanging place in the hearts of men. But
there is another function which religion fulfills, one which
from the point of view of the relations of man to man is the
most important of all. And that is the ethical attitude which
all the historical religions of the western world alike seek
to inculcate. From what I know of these religions, there
seems to me to be one moral assumption which all of them make
together, and that is that each human being is of infinite
moral worth. It is this which Scripture seems to imply when
it holds that man was created by God breathing His spirit
into the dust. From the point of view of religious teaching
then, each human being has within himself a spark of the
divine. He is therefore sacred, precious and of incalculable
significance. This postulate leads at once to vast moral
implications. For if each human being be sacred, then his life
must be secure against violence, his being is too precious to
be used as a tool; it is rather an end in itself. Any form
of exploitation or oppression is a denial of his true dignity.
Nay, more, if each human being be a sanctuary of the divine,
then the flame which burns within him must be given an op-
portunity to show forth its light. He must be free in thought
and action. There must be accorded to him the opportunity to
develop his inner potentialities to the full. The providing
of the basic economic conditions which allow for a higher
spiritual life, access to the great treasures of culture,
these belong to each human being by right because he is more
than so much physical stuff, because there is a spark of the
divine within him. It is inevitable then with this assumption
of the infinite worth of the individual that religion stand,
as it has historically, ever vigilant against violence and
exploitation, ever sympathetic to the enlarging of the oppor-
tunities for every human being to live a fuller spiritual life.

And this leads me naturally to a field in which I am much more at home, that of the problems of social organization. It has always seemed to me that here religion and democracy join hands. For what is democracy if it be not the attempt to work out in practice this very principle of religion. If one must epitomize democracy, the following is its character-
ization. It is that method of organization society which proceeds from the assumption of the equality of all human beings and which takes for its goal the providing to each individual of an opportunity to attain his maximum stature.

It is the human personality, each human personality which in a democracy is the goal of the machinery of government. For in the American system the state is not an end in itself. It is rather an instrument by which men seek to preserve their ideal equalities and through which they strive collectively to make available to each other the oppor-
tunity for personal self-fulfilment. It is no accident
then that democracy insists upon civil liberties for the
individual. It is no accident that democracy has pioneered in
state-maintained institutions for popular education. It is
no accident that our own democracy in recent years has striven
to afford greater economic security to its citizenry. All
these alike are instruments by which democracy fulfils its
purpose -- basic rights to all alike, the maximum
opportunity for the largest life to each. And in fulfilling
this function, democracy is realizing the social morality
of religion.

I wish you then God-speed from the bottom of my heart and
every success in your collective efforts. I do this first
because I am a member of the same religious group as you,
because your tradition is mine, because we cherish the same
sanctities, because we hold together not alone Jewish theology
and morality, but also the four thousand year old culture of
the Jewish group. But I wish you God-speed and success not
alone because of our common Jewishness, but also because all
religions uniformly are making their contribution to the
enrichment of life. We, the members of the Jewish group, are working hand in hand with the religious communions of our non-Jewish fellow Americans. First, to give each human being a feeling of the meaningfulness of his existence. Second, to give momentum and drive to socially-centered living. Third, to enrich each other's lives with the poetry of ritual and symbol. And last of all, to teach each other to reverence each other's personalities and to make available one for the other the largest spiritual opportunities.

In all religious work there is that which makes for good citizenship. But in this matter of respect for the human personality those who maintain the cause of religion are doing not alone the sacred labors of religious morality but also the sacred labors of democracy. For political democracy is religious social idealism expressed through the machinery of government. He who builds religion then fortifies the spirit which has made democracy, which preserves it in these troubled days, and which will cause it to live purified and strengthened for untold generations yet unborn.
Attached is Gaston's draft of speech for the Secretary to be delivered in Baltimore, December 20, 1938.
Mr. Chairman, Judge Frank, Men of the Brotherhoo ds of Baltimore and Honored Guests:

I am touched by the cordiality of your reception here tonight and the generous words which your eminent and beloved fellow-citizen, Judge Frank, has spoken to you in my behalf. It is not a mere formal expression of courtesy when I say that I welcomed the opportunity afforded by the invitation which Mr. Kairys extended to me and that I am happy to be with you.

I don't ordinarily enjoy public speaking, and if I did, I would have had little opportunity in the last three years to gratify any desire of that kind I might have had. My work has kept me very closely at my desk; it has demanded that I conserve my time and it has consumed about all the energy that I had at my command.
I have missed opportunities for friendly contacts with groups of people. I have missed particularly opportunities to meet with and to talk with men of my own faith.

It is a happy augury to be able to speak particularly to the Jewish community of Baltimore as the guest of the associated Brotherhoods of the Temples and the Synagogues. In every approach to civic problems, to social problems, to National problems, we need the accent on the word "brotherhood."

It seems to me that out of the confusion of religions in the world we are getting a certain amount of clarification of essential ideals on which all can agree. Among the first of those common concepts is that of the brotherhood and interdependence of all men and their mutual responsibility for and to each other. It is a concept that is as old as our faith. It is a light for the pathway of humanity that our people have always carried.
We shall not need to fear the force or weight of any criticism if each of us humbly does his part to keep that light shining. In a world torn as this one is still torn by every form of dissension and by every storm of doctrine that would destroy that ideal, we need to do that much. We must do it.

The ideal of brotherhood doesn't need new statement. It needs only practice and interpretation. The times are always new. Social and economic changes go on rapidly. We are in the midst of changes that seem to us as epochal and as revolutionary as any that have ever occurred in the world. Our energy and our inventiveness create new social problems much faster than we can solve them. They create new problems for government.
But so gradual and so imperceptible are most changes that we are a long time in recognizing that we have a new situation and that it requires new treatment. Problems of social organization and problems of government have become old before we realize that they are difficulties that we must face and conquer to save ourselves from destruction.
As methods of living and methods of producing change, so government has to change. It has to meet new needs. We shall be helped to make wise changes by a common-sense view of the business of government. The business of government is to manage common affairs that can't be managed by us individually. The extent of these common concerns grows as people widely separated geographically become more and more dependent on each other. Their extent grows as people gather in great cities and great industrial areas where old habits of community living and community responsibility are lost and the doctrine "every man for himself" becomes the rule of life. It is a bad doctrine, but one which grows out of circumstances -- new circumstances that require a restatement of the old and wiser doctrine of social responsibility -- the doctrine of human brotherhood.
We hear many peevish protests about a new paternalistic attitude on the part of government. I don't myself believe in a paternalistic government. I don't think we have ever had one or will have one. But I do believe in a fraternalistic government, a government which is a democratic association of free men and in which all citizens recognize their dependence on and their responsibility to their brothers.
The fact is that the extreme expression of liberty of action represented by the words "every man for himself" has never worked well in the world. It is one of the glories of humanity that it has never been the prevailing rule of human conduct. There is no successful self-made man. There is no self-made man. None of us gathers wealth or honor by his own efforts alone. Good is that which benefits the family, the community, the Nation; evil is that which injures them.
There was a time when the helpfulness of neighbors was the one palliative of social distress. We still can't get along well without good neighbors, but we are long past the point where the helpfulness of those who live next door or a few miles away can deal effectively with all social distress. And we have found in the last few years that voluntary associations, however wide in their scope, are not adequate to meet all relief needs.

But when I speak of the doctrine of human brotherhood as the only right approach to the problems of government and the problems of life I am not thinking merely of feeding the hungry and finding work for the unemployed. Those are responsibilities we can not shirk, but we have many others.
It is not a new thing for governments to lay down rules of business conduct. They have always done it, and as business has become more complicated the rules have become more numerous. But that is true also of following any occupation. The rules and technique of industry -- rules not made by government but the evolution of the industry itself -- are also far more complicated. The essential thing to ask about any rule of government is whether it is necessary, whether it serves a useful end, and whether it is just.
We may even have to revise our ideas of what is just. If we had certain governmental rules of conduct -- of business conduct -- which seemed to us fair and to grant approximately equal opportunity to all and under those rules we found that all the property of the country and control over all its resources were steadily being gathered into the hands of a very few, who had almost complete economic control over all their fellows, would we not revise our idea that those rules were just? Would we have patience with the argument that these were natural laws and could not be changed?
It is folly to say that questions such as these are not the concern of government. Of course they are.
The primary and the eternal concern of government is to safeguard the opportunities and the welfare of all its citizens. That is not being paternalistic. That is fulfilling the purpose without which government would have no reason for existing.

But we shall need more than the intention to safeguard the interests of all our people in order to do it effectively. We must learn how to do it.
Merely to agree on the direction in which we want to travel will not take us there. We must explore the way. It is a path across a trackless wilderness such as some of our forefathers have taken in the past. We have stars to indicate our course, but we have no map of the terrain. We don't know what lies beyond the forest and over the hills, for no man has traveled this way before. This is but a manner of saying that we must feel and grope and spy out our way toward better social controls and better methods of government suited to the times in which we shall live.
We have problems of the protection of the producer and the protection of the consumer. We have problems of unemployment caused by changes in methods of production or shifts of industry from place to place or by unbalanced production. We have problems of maintaining the steady flow of production, of utilizing without disastrous breaks the labor and resources that are available to bring us all the necessaries and comforts of life that we need. We have problems of want and problems of curbing the economic power wielded by great concentrations of wealth. We have the eternal problem that we have never solved, the problem of preventing the senseless and profane waste of human lives in recurring wars.
We are not going to find the right answer to any of these problems by any cheap and easy ready-made solutions. They are problems of method and practice, not of abstract philosophy. The solutions of them are in the future, not in the past. But I am convinced that many minds will make more progress with them than one mind or a few minds. That is to say that I believe democracy has a better chance of finding the right answers than any form of dictatorship. I am encouraged in that belief not only by reading the history of governments but by looking at the condition of the world today.
There is a cynical saying that we learn from history only that history teaches us nothing. It is not a true saying. We do progress. We do build on the trials and errors of the past. And one clear light shines from history. It shows us not only that the doctrine of human brotherhood is the only sure foundation on which good government can be based, but also that democracy is the only method by which we can make progress toward our goal.
I have spoken in a broad way of the problems of government, but the problems themselves are not so important as the method we employ in dealing with them. To meet the same or similar problems other methods than the method of democracy have been tried and they have not worked. They have created evils greater than those they sought to overcome. Benevolent dictatorships have a way of turning themselves sooner or later into the most oppressive tyrannies. Even if this were not so, there is a fundamental evil in all dictatorships, no matter how well-intentioned. It lies in their denial of the sacred and essential right of the individual to freedom of action and freedom of expression through which alone is the cultural and moral growth of humanity possible.
I think none of us are sufficiently conscious of the great boon that our American democratic tradition is to us. We do not value it highly enough and we do not sufficiently hold it securely in mind as the foundation upon which all our attitude toward political and social problems must be based.

Upon all who love freedom there is imposed the duty of a rededication to it. This duty is especially important for members of minorities, religious and cultural groups. For it is my firm conviction that the welfare and the liberties of all minorities, whether they be minorities of color, minorities of theological belief or minorities of culture, can be preserved only by preserving the democratic system.
The essence of democracy, it seems to me, might be stated in one sentence. Democracy is that method of organizing society which proceeds from the assumption of the equality of all human beings and which takes for its goal the providing to each individual of an opportunity to attain to the fullness of life. It is the human personality, each human personality, which in a democracy is the end and purpose of the machinery of government. For in the American system the state is not an end in itself. It is an instrument by which the ideal equalities of men are preserved and through which they seek collectively to make available to each other life, liberty and the pursuit of happiness.
It is no accident, then, that democracy alone of all systems of government insists upon civil liberties for the individual. For unless each person enjoys freedom of conscience and expression he cannot attain to the fullness of life, and it is a full life for the individual to which democracy is dedicated. It is no accident either that democracy has historically pioneered in state-maintained institutions for popular education. For a government which is devoted to enhancing the life of the individual must endeavor to make available to him those cultural riches which will enable him to reach his full human stature.
It is no accident that our own democracy in recent years has moved forward in the effort to guarantee economic security to its citizens. For without the spiritual ease which only economic safety can afford to the individual, the individual is prevented from attaining his best potentialities. This is democracy in a nutshell, a pattern of living which protects basic liberty to all of us and which, fixing the individual as its goal, seeks to enable him to find his own self-fulfillment wherever his heart and conscience dictate.
In the light of this definition it is not hard to see why we owe to democracy the full measure of our devotion. An enlightened self-interest as well as the highest ideals of human living, would demand that we give our intelligence and our strength to that system of government which preserves basic human rights for all of us and which strives to make available opportunities for the largest life to each of us.
I have spoken of what democracy does for the individual and the group. But the relationship is by no means one-sided. The process which I have described is not in one direction. It is rather reciprocal. Because democracy gives abundantly, it receives richly. In a land where the individual knows that it is his government that has made it possible for him to be free in mind and action, where each group knows that the state is its friend and servant, the government wins from its citizens a reasoned and sustained gratitude and devotion.
America thus is repaid by its own citizens for its devotion to their liberties. And there are other compensations as rich, as deep and as meaningful. Centuries ago the great law-giver Moses insisted that it was not by bread alone that man lives. We, too, as Americans, are interested in more than physical things. If we love our country truly, we want more than political stability for its government, economic security for its citizens and personal liberties for each other as individuals. We want America to be the home of a rich and variegated culture. We should like America to produce great music, art and literature. We should like to have it lead the way to better patterns of living. We should like our civilization to take its place with those which all through history have sustained rich spiritual traditions and have transmitted them enlarged to later generations.
We who are concerned with American cultural life know that democracy is its friend. Only in a society in which the individual is free can he express his individual personality in cultural creativity. It is here especially that minority groups -- racial groups, religious and cultural groups -- have their place. American tolerance is no sterile and unproductive attitude. From each group to which our society gives freedom come gifts to our total life.

From the Roman Catholic tradition, for example, there come to us the reasoning of an Augustine or Thomas Aquinas, the accents of a Dante, the solemn chants of medieval cathedrals. The life of each American is the richer because of them.
The heritage of the American Indian, the colorful tradition of Latin groups, the patient depth of Scandinavian cultures -- each of these has had the opportunity to embroider upon the texture of our basic Anglo-Saxon civilization and to give additional color and variety to its design.
We, too, the American Jews, have our contribution which we are making together with kindred groups. Through us there moves into the common treasury of American life the song and the art, the belief and the morality, the poetry and the literature of our four-thousand-year-old tradition. It is no little thing that we bring to America the attitudes of an Amos, the dream of an Isaiah, the gentle humanity of a Hillel, the philosophy of a Maimonides.

Centuries ago an epigram was struck off which has been preserved to us in the New Testament, the sacred text of the Christian, and in the Talmud, the storehouse of Jewish learning. It reads: "As one measures out to others, so shall it be measured to him."

America grants freedom, and to its altars individuals and groups alike carry the most precious expressions of their spirits.

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December 21, 1936.

The Executive Committee of the Open Market Committee of the Federal Reserve system met with the Secretary at 11 o'clock.

Those present were:

Secretary Morgenthau,

Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System,

Joseph A. Broderick, Member of the Board of Governors,

E. S. Szymczak, Member of the Board of Governors,

E.A. Goldenweiser, Director of Division of Research and Statistics, Federal Reserve Board,

George Harrison, President, Federal Reserve Bank of New York,

M.J. Fleming, President, Federal Reserve Bank of Cleveland,

W. Randolph Burgess, Vice President, Federal Reserve Bank of New York,

Wayne C. Taylor, Assistant Secretary of the Treasury,

D.W. Bell, Assistant to the Secretary.

C.B. Upham, Assistant to the Secretary.

The Secretary wanted to discuss two matters with the committee:

(1) the partnership of the Treasury and the Open Market Committee in the purchase of bonds to maintain a steady market; (2) contemplated action to sterilize future acquisitions of gold.

Mr. Morgenthau referred to the partnership arrangement which had been entered into by him and the Open Market Committee with respect to purchase of Government securities in the market. The arrangement as originally agreed upon was that the Treasury would do the daily buying and, and at the end of the day Mr. Burgess did not want to participate the Treasury would take all purchases, but if Mr. Burgess did wish to participate for the committee the purchases would be divided half and
half. He added that soon after the December 15th issue the Open Market Committee decided to discontinue the arrangement and while there was no inconvenience to the Treasury in taking all purchases at that time, there might be some difficulty on a day when the market was bad and substantial purchases were necessary if the partnership cooperation were not effective.

Mr. Morgenthau and Mr. Burgess agreed that if it were necessary some day to purchase up to $50 million there would not be much time for telephonic consultation.

Mr. Eccles said that they had been discussing the matter somewhat and he would like to have Mr. Burgess give his opinion of a satisfactory manner in which to operate the partnership and at the same time give protection to both parties.

Mr. Szymczak interjected the remark that the Open Market Committee must operate "under the law".

Mr. Burgess said that for the two organizations to operate in the market at all they must act in agreement. The responsibility of the Open Market Committee is that of bank of issue and is accordingly for the money market which now is the same thing as the Government bond market. They must see that there is not a disorderly market. It is their responsibility to buy to support the market whenever there is an indication of disorder. When market conditions are really bad they ought to be prepared to make all the necessary purchases or to take them on a 50-50 basis, or, if the Treasury prefers, to step aside entirely.

The Treasury problems are two, Mr. Burgess said. (1) maintenance of an orderly market, in their case restricted to the Government
market and (2) the investment of various funds. These investments are made properly even when the market is not disorderly and at a time when there is no excuse for the bank of issue being in the market. The only question is to determine whether purchases made are for investment or to maintain an orderly market.

Mr. Morgenthau and Mr. Burgess agreed that so far there has been no disagreement between them on that. If there is a discussion and difficulties arise and the New York bank must go to the Open Market Committee for direction, it will cause delay in the split-second decisions that are necessary.

Mr. Eccles said that he could see the Secretary's position and understands that he wants to know the support that he could reasonably expect.

Mr. Morgenthau said that he must have smooth operating machinery in times of emergency when quick action is necessary.

Mr. Eccles said that the machinery is running smoothly because the New York bank has been authorized by the committee to purchase up to $50 million.

Mr. Morgenthau said that $50 million was not enough. He indicated that after the Federal Reserve had dropped out of the partnership agreement during the days when investment purchases were being made he had suggested that the Treasury take all purchases last Friday and Saturday and carry the entire burden until this meeting and this discussion had taken place. He said that never before had he felt that he was the Secretary of the Treasury and Mr. Burgess was the Federal Reserve Bank and it leaves the Secretary with a feeling that he is not free. Heretofore, the Open Market Committee has not counted. Whenever
it has been necessary to support the market on bad days, such as the President's GreenBay speech, the Treasury has acted.

Mr. Burgess said that formerly the Reserve Bank was free to buy notes only and Mr. Harrison indicated that they have different authority now.

Mr. Morgenthau said that the Treasury has carried the bond market for three years as evidenced by the constant character of the Reserve Bank portfolio. If we are to go on, Mr. Morgenthau said, he wanted to feel comfortable -- with no straining of relationship between him and Mr. Burgess. He said that if the Federal Reserve really wanted to go along and enjoy their bond account he would like it but that he wanted bad weather friends as well as good. Otherwise, he will carry the bond market alone. Frankly, he said, if the market is bad, will you stick with me or will you get cold feet in the event, for instance, that we have to buy a couple of hundred?

Mr. Taylor interposed to say that it seemed to him the Federal Reserve did not want to exhaust their buying power on ordinary trust fund purchases.

Mr. Harrison made the point that if they did they would be competing with the Treasury and pushing prices up.

Mr. Eccles said that the old Open Market Committee had had its hands tied because each bank could determine its own participation. The new committee has ultimate power. The Executive Committee has been given certain powers for interim purposes. It can increase bond holdings up to $600 million from the present mark of below $400 million. It is also authorized to decrease the portfolio by $250 million. Mr. Burgess, as manager, can exchange up to $50 million and his authority
could be increased at any time by the committee. Mr. Burgess had regarded $50 million as sufficient without consultation.

Mr. Eccles said his understanding was that whenever Mr. Morgenthau and Mr. Burgess agreed that the market needed support Mr. Burgess had authority to participate up to $50 million.

Mr. Morgenthau asked if he was correct in his understanding that the decision as to whether the market needed support is between Mr. Burgess and himself, or whether it would be necessary for Mr. Burgess to discuss the matter with Mr. Eccles or others. In other words, will Mr. Burgess be given authority to say which days he will participate and which days he will not?

Mr. Eccles agreed that he would.

Mr. Harrison said that the only difficulty would come when Mr. Morgenthau thought the bond market needed support and Mr. Burgess did not and in that case Mr. Burgess would have to get in touch with the committee.

Mr. Morgenthau replied that that would not be necessary because he would take care of the whole thing if that happened.

Mr. Burgess indicated that when he was acting for the Treasury he could sometimes buy on his own judgment and have his action approved afterward.

Mr. Morgenthau then asked Mr. Eccles if it was necessary for Mr. Burgess to consult with him and Mr. Eccles replied that the only time it would be necessary to consult with him would be when there was a disagreement between Mr. Burgess and Mr. Morgenthau.
Mr. Morgenthau then referred to the second matter up for discussion. For a month, he said, we have been talking about gold as it affects the system. We have felt that we ought to do something to remove gold as an influence on excess reserves so that the system could take action irrespective of that influence. The two staffs have cooperated in consideration of the matter. The only objective which the Treasury has is to remove the influence of gold on excess reserves. The Board and the Treasury finally agreed on a method and the President has agreed. It is proposed to move at once to sterilize all gold that the Treasury buys for a period as long as all three deem wise. Turning to Mr. Eccles, he said, is that a correct statement?

Mr. Eccles replied that that is "about it". Gold imports have been an increasing worry to the reserve system and to the banking system as a whole, as well as the Treasury. The responsibility of the Federal Reserve System becomes increasingly difficult as long as gold goes into excess reserves. To exhaust their unused powers would not be effective if more gold imports flow into excess reserves. The system would have to go to Congress for more powers either to increase reserve requirements further or to sell their debentures in the market. There is real objection to the use of either of these devices. The expense of higher reserve requirements would mean that the burden on member banks might be such as to drive some of them out of the system. The Treasury proposal is, Mr. Eccles said, to prevent gold from entering the banking system at all. Treasury operations and those of the Stabilization Fund have been responsible for bringing gold in. The price has been pegged at $35, and that is why gold comes. The only objection which the Reserve System could have had to the proposal
might have been as to its discretionary nature, but since the Treasury agrees to take all gold and sterilize it and to permit all outgoing gold to flow from the sterilized gold, the reserve system is satisfied. It freezes the present banking picture. If the time comes when the Federal Reserve system feels that it should not be operated automatically or that the Treasury feels that it ought not be continued, action will be taken only after discussion and accord between the system and the Treasury, so that there will be no conflict in the operations. Under those conditions Mr. Eccles thinks that because the present gold movement is extraordinary and not normal it is better for the Treasury to do as proposed than for the system to meet the problem in some other way which would involve legislation, discussion, delay and expense.

Mr. Szymczak asked if operations were to begin at once and Mr. Eccles said as soon as the mechanics could be arranged.

Mr. Morgenthau said he planned to announce it this afternoon, effective Wednesday or Thursday.

Mr. Eccles said the sooner it is done the stronger their position will be, because the longer action is delayed the more gold will flow into excess reserves.

Mr. Eccles said that if the operation is automatic and continuous the Federal Reserve system will be left in a better position to deal with this problem if the Treasury acts immediately.

Mr. Szymczak stated his understanding that it will be in no way related to credit control which seemed to receive general assent.

Mr. Harrison asked if operation would be automatic both ways, in and out, and Mr. Morgenthau said yes.

Mr. Harrison said that it is clear something has to be done. He
had thought we might wait until January but the question of timing
is one to which he has not given much thought. One consideration is
important and that is the effect on the minds of our partners in the
gold arrangement abroad.

Mr. Morgenthau said Mr. Taylor was going to meet the representa-
tives of the five countries at 5 o'clock and explain it to them.

Mr. Harrison continued that in the past gold movements have been
price level corrections. He hopes that the foreigners will not be
given the impression that this is a permanent American policy -- that
we are letting gold come into a mouse trap and not affect our price
level.

Mr. Eccles said that this is what other countries are doing and
it is a part of the managed currency mechanism.

Mr. Harrison said that if there is no implication that our price
level won't go higher, he would like to have that said.

Mr. Morgenthau said that the foreigners gave us no explanation
of what they did internally and cited the action of the British last
week in retiring a part of their fiduciary issue.

Mr. Burgess said that he regarded the action as a great advantage
and that it was a pretty good setup safeguarded well. He agreed with
the point Mr. Harrison made and said that the time may come when the
gold accumulation may be a political target and ought to be permanently
absorbed into the banking system but that this method of dealing with
it in the meantime is satisfactory.

Mr. Harrison said that he thought it the best plan of any of
those which he had been able to think of. Federal Reserve bank deben-
tures would be too costly, he thought.
Mr. Burgess commented on the timing of the announcement and said that he was surprised it was coming so soon. If it is done before reserve requirements are raised it may be more difficult to raise them. Moreover, he wondered if the foreigners ought to know about it before it is done.

Mr. Morgenthau said that he looked at it as an internal problem. Mr. Burgess said he thought that he and the Secretary would be operating in the market together tomorrow. He and Mr. Harrison thought that the action would be bearish on the Government bonds.

Mr. Eccles expressed the view that since the prospect of inflation would be reduced he thought it would be favorable to the long term bond market.

Mr. Goldenweiser agreed that while the impact on the market for a day or two might be fairly heavy, the long term effect would be good.

C.B. Upham.
THE SECRETARY OF THE TREASURY
WASHINGTON

The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction.

APPROVED:

Franklin D. Roosevelt
The White House
December 21, 1936
THE FEDERAL GOVERNMENT TONIGHT MOVED TO RESTRICT EXCESS RESERVES OF FEDERAL RESERVE BANKS.

SECRETARY MONGENTHAU, AFTER A CONSULTATION WITH PRESIDENT ROOSEVELT, ANNOUNCED THAT GOLD COMING INTO THIS COUNTRY FROM ABROAD AND NEWLY MINED DOMESTIC GOLD PURCHASED BY THE GOVERNMENT WOULD BE SET ASIDE AS INACTIVE.

A NEW FUND, CREATED TO PURCHASE THIS GOLD, WILL BE FINANCED BY SALE OF TREASURY NOTES EACH WEEK.

UNDER THE OLD ARRANGEMENT FOREIGNERS, WISHING TO PURCHASE AMERICAN PRODUCTS, EXCHANGED THEIR GOLD FOR U. S. DOLLARS. THE FEDERAL RESERVE SYSTEM PURCHASED THE GOLD FROM OTHER BANKS AND TURNED THE METAL OVER TO THE TREASURY, RECEIVING GOLD CERTIFICATES IN PAYMENT. THESE CERTIFICATES, REPRESENTING PAYMENT OF $35 FOR EVERY OUNCE OF GOLD INVOLVED, AUTOMATICALLY BECAME A PART OF THE RESERVE SYSTEM'S EXCESS RESERVES.

FISCAL AUTHORITIES SAID $8 WORTH OF CREDIT CAN BE EXTENDED FOR EVERY $1 OF THESE RESERVES. IN THE FUTURE THE GOLD WILL BE PURCHASED THROUGH THE SALE OF TREASURY NOTES AND THESE NOTES WILL NOT BECOME A PART OF THE EXCESS RESERVE STRUCTURE.

THE TREASURY'S MOVE WILL NOT HAVE THE EFFECT OF FREEZING CREDIT POTENTIALITIES AT THE $24,000,000,000 MARK OF TODAY. IT WILL, HOWEVER, REDUCE THE AMOUNT OF ADDITIONAL EXCESS RESERVES PILED ON TOP OF THE PRESENT TOTAL BY THE AMOUNT THAT IT WOULD HAVE BEEN SWELLED BY CONTINUED PURCHASES OF GOLD UNDER THE SYSTEM SCRAPPED TODAY BY THE GOVERNMENT.

SENIOR ELMER THOMAS, LEADING MONETARY EXPERT ON CAPITOL HILL, SAID THE MOVE WAS A "WISE" ONE.

"IT OBVIOUSLY IS INTENDED TO SAFEGUARD THE COUNTRY FROM ANOTHER UNCONTROLLED AND DANGEROUS CREDIT BOOM AND A WILD STOCK MARKET WHICH AIDED IN BRINGING ABOUT THE COLLAPSE OF 1929," THOMAS TOLD THE UNITED PRESS.

12/24--EB10P.
The following statement was made this afternoon for release in morning newspapers Tuesday, December 22, 1936:

"The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

"This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction."

This decision was taken after careful consideration and consultation with the Governors of the Federal Reserve Board and was approved by the President. This information, and necessary background, was also given to the Financial Attachés of the British, French, Belgian, Holland and Swiss Governments here this afternoon for transmittal to their respective Treasuries. This action will not affect in any way the mechanics of the movement of gold to or from the United States and other countries.

It is contemplated that this mechanism will commence to function within the next day or two and will apply to all new gold acquisitions both imported and domestic. These acquisitions will be shown on the
Cable for Cochran.

daily statement of the Treasury as inactive gold in the General Fund.
This method of handling gold will continue in effect until circumstances
indicate that a change in policy or method is desirable. In meeting
with foreign Treasury attaches it was emphasized that this move was
domestic but that we desired to inform Treasuries of cooperating
countries so that they might fully understand background and technical
aspects of move.
December 21, 1936.
9:10 A.M.

Present: Mrs. Klotz
       Mr. Upham
       Mr. Locnhead
       Mr. Opper
       Mr. Gaston
       Mr. Oliphant
       Mr. Bell
       Mr. Taylor
       Mr. White
       Mr. Haas

II. Jr: "It seems to me that the main objective should be to construct the accounts in such a way that gold operations of the sterilized type shall appear in the accounts in a manner easily to be distinguished from gold operations of the traditional sort, and that the Stabilization Fund operations shall be confined to transactions which clearly affect either foreign exchange values or the domestic monetary situation. For this reason I would have the following classes of gold transactions, and those only, pass through the Stabilization accounts:

"1. Purchases of foreign gold and sales of gold to abroad, whether or not these operations are sterilized.

"2. Purchases of domestic gold, if these purchases are sterilized, i.e. if no gold certificates are issued to pay for them.

"If the Treasury should in the near future at any time depart from its new policy of sterilizing gold movements, whether domestic or foreign, under the recommendation I here make, domestic gold transactions would not affect the Stabilization accounts.

"It seems to me that by carrying some of the domestic gold transactions through the Stabilization accounts the prestige of the Stabilization Fund is increased and also the logic of its
operations made clear. It seems to me, moreover, by excluding from the Stabilization account non-sterilized domestic gold transactions a certain contact is kept between the Stabilization Fund operations and the general Treasury operations so intimate that any proposal to take the Stabilization Fund out of the Treasury would at once appear to raise all sorts of administrative difficulties.

- This is Viner -

"An additional, though admittedly minor, advantage of the proposal I make here would be that the 1/4 of 1 per cent profit which would accrue to the Stabilization Fund from its gold transactions would result only from transactions involving an influence on the foreign exchange value of the dollar or transactions involving a deliberate domestic credit control operation, and so having some relationship to the purposes and functions of the Stabilization Fund.

"It seems clear to me, however, that no operating or economic difference is involved in any of the proposals which are under consideration, and that the sole significance attached to the issue, aside from bookkeeping convenience, is one of making the accounts reflect as clearly as possible the monetary nature of the various types of gold transactions. Under my proposal only new types of gold transactions pass through the Stabilization Fund, and if we should revert to non-sterilized transactions they will appear in the Treasury accounts in the same manner as they did before the adoption of the new policy. The change in the accounting, therefore, will be limited to transactions in which there is also a change in the operation."

Dan, for God's sake tell me what he means.

Bell: I don't know.

R.M. Jr.: It's too much for me. I don't get it.

Lochhead: Well, he says foreign gold and newly mined gold should pass through the Stabilization Fund to the extent it is sterilized, but if neither is ster-
ilized, if a particular shipment of either foreign gold or newly mined gold is not sterilized, then it oughtn't to go through the Stabilization Fund.

Gaston: You're dealing with net movements anyway, so that any isolated shipments would be out, I should think.

H.M.Jr: I think his suggestion is absolutely nuts.

Gaston: I don't think there's anything in it at all.

H.M.Jr: Well, let Bell read it for a minute.

(Bell reads memorandum)

H.M.Jr: Now are you ready?

Bell: As I get it, he recommends that all foreign transactions in gold, whether sales or purchases, whether sterilized or not, would go through the Stabilization Fund, and that all domestic transactions, only sterilized, would go through the Stabilization Fund; the transactions that are not sterilized would go through the General Fund.

Taylor: Which for the present means that all transactions would go through.

H.M.Jr: Just too complicated. I'm sorry he isn't here, I mean I can't see any merits in that thing.

Bell: Well, his proposal in effect is just what's been advanced as one of the propositions.

H.M.Jr: No, isn't it entirely new?

Bell: Only so far as domestic - and as I understand, you intend to sterilize gold, so if you do his proposition in effect is just the one proposition that's been advanced by Mr. White and Mr. Oliphant.

H.M.Jr: Well, state it again. I don't think I understand. What does Viner say?

Bell: Well, Viner says that all foreign transactions
in gold will come through the Stabilization Fund, whether sterilized or not, or whether purchases or sales. Get that?

H.H.: Yes.

Bell: That all domestic transactions will go through the Stabilization Fund, only if sterilized, and -

H.H.: I see.

Bell: - and if they are not sterilized they will go through the General Fund. But, as the proposition before says sterilize all gold, whether domestic or foreign, then it boils down to being the same proposition that we have been talking about.

White: May I give his justification for that position, Mr. Secretary?

H.H.: Yes, go ahead.

White: He feels he wants to give a logical defense of that transaction, even though it may not affect anything you may do in the near future. But in the case you may be asked as to why you are doing this -

H.H.: Yes.

White: - you will have this defense. So far as the foreign gold is concerned, whether you are going to sterilize it or not, it definitely has an effect, a possible effect, on exchange rates, and therefore logically ought to be handled through the Stabilization Fund. With regard to the domestic gold, however, he would say there may be some doubt as to whether or not that properly should be handled through the Stabilization Fund, but there can be no doubt, or certainly much less doubt, that gold which is to be sterilized has some effect on credit, and therefore ought to be handled through the Stabilization Fund.

That leaves only one element of which some question may raise, namely, gold which is not going to
be sterilized and which is produced at home, and he said with regard to that there appears to be no logical justification for handling that in the Stabilization Fund and therefore it ought to be handled the same as at present, even though you don't contemplate any such transaction in the near future.

H.M.Jr: George, before my press conference I want you to come in about a quarter of four and I want the figures of how they've been running. I'd go back and show me how they've been running on an annual basis three years back; that is, gold that comes in, foreign gold net, you see, on an annual, and domestic gold; then give it to me on a monthly basis for this year, domestic and foreign. Will you?

Haas: Yes, sir.

H.M.Jr: See, I mean just have those figures. Go back three years and then start the first of the year and give it to me monthly, domestic and foreign, separately, see? Then a combined figure.

Haas: You're planning on announcing it publicly?

H.M.Jr: Four o'clock this afternoon.

Well, let me put it this way. I've changed my — I understand none of you agree.

White: Oh yes, we do. There's five of us agree.

Haas: I've got some comment. Haven't heard from me for three days.

H.M.Jr: Go ahead then.

Haas: I am somewhat familiar with the discussion from what Harry just told me. Originally it was all understood that the gold could be handled right through the General Fund, but it was decided to channelize it through the Stabilization Fund. Now, if you take and also consider that the gold, whether coming from abroad or coming from
domestic sources, has the same effect on the banking -

H.M. Jr.: Has the what?

Haas: - has the same effect on the domestic banking structure, increasing excess reserves - now if you take a piece of it, the foreign, and leave the other standing out, the immediate question would be "Why did you do that? Why go through this channelizing process for Exhibit A? How easily it could all have been handled right through the General Fund." And I think it would make a very - for instance, up on the Hill when you are asking for renewal of it - "Here's the functions." "You don't need that Exhibit A. The domestic gold -

H.M. Jr.: Your - what conclusions do you have?

Haas: The conclusion is I'd put it all in the Stabilization Fund.

Bell: But your Stabilization Fund is operating in the foreign field and not in the domestic, and the General Fund can't operate in the foreign field.

Haas: Well, I'm, say, a Senator, and I'll say, "Yes, you are, but you don't need it even to operate in the foreign field."

Bell: You mean the General Fund?

Haas: I mean the Stabilization for that purpose.

Taylor: The General Fund can do that.

Bell: But it isn't; well, maybe it could, I don't know.

Haas: We faced that problem. I remember the Secretary said, "I want to channelize it through," and that was the thinking at that time.

Bell: The General Fund could operate in the foreign field if you confine it to gold, but it can't operate in sterling and francs like the Stabilization Fund is doing.
Taylor: As far as gold, it could.

Bell: As far as gold, it could.

a.M.Jr: Let's put it this way: let's give everybody who's got something new to contribute over the weekend - who's got any new thoughts on this thing? See? Herbert, Bell said you were quite vile on Saturday.

Bell: Vile for Gaston.

Gaston: Well, in the first place, I don't think the problem is of any great importance one way or the other. But what I said the other day was that it would be difficult for you to make an explanation of your action in handling the domestic transactions through the Stabilization Fund. I asked what answer you could make if you were asked why you put it through the Stabilization Fund, and I said that the candid answer would have to be - either would have to be (a) that you did it in order to show an additional profit for the Stabilization Fund; but if you decided not to take that profit on the domestic operations through the Stabilization Fund, that throws that reason out, and then the only other reason that I see left is that you did it in order to increase the prestige of the Stabilization Fund, not for any practical reason, but just to make it appear that the Stabilization Fund was important in that field.

As a matter of practical operation, you are just going through some unnecessary bookkeeping.

Haas: I don't think - I think there's an answer to that.

a.M.Jr: Well, give it.

Haas: The answer is that all gold, whether it comes from Europe or from our domestic mines - you are trying to work out a system whereby you would neutralize its effect on the excess reserves. In its position, coming out of the mines or coming from Europe - from that angle - from insulating the domestic economy, as it was called, or the domestic banking situation, the effect of the gold is the same whether it comes
From the mines over here or from Europe. I remember when Stewart and Warren and Sprague were down and Warren went back to try to write a statement -

R.M. Jr: Where's that statement?
Hass: I gave it to - I gave it to Gaston.

R.M. Jr: Well, Gaston -
Gaston: I've got it somewhere. I've got it.

R.M. Jr: Well, you better send for it, because that will be the next thing to -

Gaston: I didn't think that Warren's statement needed to be considered.

White: I'm sorry that Viner wasn't there when Warren asked that specific question.

Hass: It illustrates one point.

R.M. Jr: Anyway, don't lose this argument, because you are answering Herbert.

Hass: When he was confronted with the words "import and export" he said, "You can't use those words. You have to use 'influx and efflux.'" He talked about the gold coming in and he used those words rather than "imports and exports" of gold. I'm just giving this to illustrate the way his mind was running on it.

R.M. Jr: Well, let me tell you now I've been talking about this thing. Certainly no one is more interested in the Treasury. Now, we're talking here in this room and I think that - and the way I - I feel that we are possibly permitting ourselves to be influenced - to be a little bit too Treasury-minded and give this thing to the Stabilization Fund. I mean the handling of the domestic gold - thinking too much about the Stabilization Fund and the future of the Treasury.

Now, the way I understand the mechanics of this thing - got it, I mean, from Bell - the foreign
gold that the Stabilization Fund buys, which is
the least of the gold which comes in from abroad -
after you reach the 200 million dollar point, you
then take, say, 5 million dollars of it, turn it
over to the General Fund and it is then the decision
for the General Fund whether they are going to take
5 million dollars and go to the Federal Reserve
System and deposit 5 million dollars worth of gold
certificates or whether they are going to the open
market and buy 5 million dollars worth of gold.

Now, the gold that comes in from abroad, which is
the bulk of the gold, and imported by private banks -
that is brought to the mint and again the decision -
they have to be reimbursed by the General Fund and
the decision is again the General Fund's whether
they will go to the Federal Reserve and deposit
5 million dollars worth of gold backs or go to
the open market.

Now what we are taking now - leaving gold that
comes in through the private banks - but now say
that we'll take that and route that through the
Stabilization Fund. Then the Stabilization Fund
in turn will go back to the General Fund and get
its money.

Now on the domestic gold - the domestic gold
now is handled and it gets paid through the General
Fund, who gets its gold backs - gives its gold backs
and gets its money in that way.

Now as to the complexity of this thing - all of this
money, whether it is all cleared through the Stabili-
zation Fund, it would go to the Stabilization Fund
and then back again from the General Fund, and the
Stabilization Fund would have to be reimbursed by
the General Fund anyway, and the decision where the
General Fund gets its money from is purely a
General Fund decision.

Now, the way the set-up is now all he does is
decide, "Instead of going to the Federal Reserve
and depositing gold backs, I'm going to go to the
open market and finance money." And that's this
whole thing that we are discussing.
Now, the thing that I am fearful of — as I say, what I am saying is absolutely triple secret, and I don't want ever anything to leak out of here. Up to Friday the thing that I was thinking about was that by clearing this — all of this thing through the Stabilization Fund, we were stepping ahead, and that the possibility of the Federal Reserve encroaching on our prerogatives or the possibility of the Federal Reserve taking the Stabilization Fund away from us, or some of the other things it was in danger of.

Now, the thing that I am fearful of, and the thing that I told Bell this morning — that I have never done since I've been here — I have never done — you can call it a "fast one," I've never been tricky, I've never exceeded my authority. Now, per example: The Federal Reserve begins to worry about this expansion. They're going to have this and that. Immediately they get a bad reaction. They immediately get — Eccles is building up a resistance against himself which is unnecessary. Why? Because he doesn't know how to handle his own problem, and therefore he is talking in terms that frighten people. Why are we having this — all this Government bond selling in the last couple days? People are frightened at what Eccles said up in Boston, because they realized that he and the Board don't know where they are going.

Now, the thing that I don't want is to make a move which doesn't on the surface make sense. Now, to do this thing, which finally I understand — I didn't understand because it hadn't come up before, but we'd only been talking in terms of foreign gold and not domestic, so it had never been explained to me before this morning. If I route this thing — we'll just use — we'll use the example, the gold that the Guaranty Trust brings in — into the Stabilization Fund, and from the Stabilization Fund into the General Fund, and then the General Fund goes to the open market. People will say, "Why is Morgenthau doing this?" Now, they won't argue, "Is what he is doing right?" I think that most of the people will say what we are doing is good sound economics. But this — back-tracking on myself and looking at it through this extra
thing, the fact that it is difficult to understand and difficult to explain, people will say, "There is something that - there's a trick, there's a trick." See? And when Eccles wakes up to what I've done and when Mr. Gardner explains to him what I've done, he's going to begin to kick like a steer, because he - he doesn't - he's agreed to this now for reasons I don't understand any more than - well, I can understand why he didn't want it, but I can't understand why he's agreed to it after all the arguments he gave against it.

But I'm fearful that people will say, "There's a trick." Now we've got - the Treasury's got the confidence of the people. They believe in me personally. If we handle this thing through the General Fund and the General Fund goes to the market, I can explain it: "Mr. Bell carries in his General Fund the item 'Sterilized Gold.' We'll show how much gold is sterilized. There's no mystery about it." And I'm not - there will be another group that say that when I handle domestic gold through the Stabilization Fund - there will be some people say I'm exceeding my authority - I'm doing something which is unnecessary, I mean.

And while I did all this arguing the other day, I'm just - I'm just - I like - I mean at this stage of recovery it isn't necessary to do it. Now, I've argued the other way, but I've had time to think about it and I've had time to really have this thing explained to me. And now - I mean we'd be going through a complete extra motion in order to give something to the Stabilization Fund, which is unnecessary.

Now, the other argument which Bell had, which is a very good one. You fellows say there is the fear that the Stabilization Fund will be taken away from us. Well, no one is ever going to argue about taking the General Fund away from the Treasury. I mean they're never going to do that. And if the domestic gold is handled the way it is now, not any change, and no one is ever going to take away that, then - and let's say the Federal Reserve can say, "We can do that." Then the other argument is, "How
can you do it? How are you going to handle domestic gold?"

Now, I can explain this thing. I can take this thing now and explain it so that my boy can understand it, so that any high school graduate can - I can't explain the other thing.

Oliphant: Well, under your thought there, the three types of gold: the gold which we buy direct, the gold we get through Chase Bank, and then the domestic gold - now, what about the gold that you bought direct?

H.M.Jr: How do you mean?

Oliphant: The gold that heretofore has been bought through the Stabilization Fund in London.

H.M.Jr: What I'd do is very simple. I'd do all three just the way we are doing it now. I wouldn't change a bit.

Oliphant: Well, you understand, do you, that the General Fund has plenty of authority to buy gold abroad and buy sterling with which to pay for gold abroad. Then I raise the question why do you justify -

H.M.Jr: I don't know that it has that. My thought is that I wouldn't change anything.

Oliphant: Well, does the public know about the way the Stabilization Fund has been buying gold?

H.M.Jr: They will know it; on Thursday we transfer 50 million dollars from the Stabilization to the General.

Oliphant: Then you will have to explain why you are handling your direct purchases one way and the - your Chase Bank gold -

H.M.Jr: Well, it is very simple. The purchases of gold by the Stabilization Fund are for only one purpose, and that is to stabilize the currency.
Oliphant: Of course, Chase gold has exactly the same effect.

H.M.Jr: Not entirely, not entirely.

Oliphant: You mean that gold movements don't?

H.M.Jr: No, because certainly there is - there must be some of it in exchange for goods and services.

Taylor: Same thing.

Oliphant: There's no difference.

Taylor: No difference between domestic gold, gold that comes in through the Chase, or gold that is purchased by the Stabilization Fund.

H.M. Jr: Well, I'll put it the other way around. You argue why we should change what we are doing now.

Oliphant: Well, I'm going to clear up that one point, that there is the authority to do it through the General Fund.

H.M. Jr: Through what Act?

Oliphant: That is that old Act of 1867, remember, enacting the Reserve Act.

H.M. Jr: Oh, you mean to go back on what we had in the R.F.C.?

Oliphant: Now it is in the Gold Act of 1934. The Secretary of the Treasury is authorized to purchase gold at home or abroad. It was put back in again.

H.M. Jr: Well, let's say why should we change the three methods of purchasing gold? Why should we change from the way we are doing it now?

Oliphant: May I before I answer that clear up one other point? The document - I want to be sure we are thinking about the same thing as far as Eccles is concerned - the document that we discussed with Eccles did have the purchase of this foreign gold through the Stabilization Fund. Do you recall that?

H.M. Jr: What document?
Oliphant: We had him over here one day and gave him a one page document.

Bell: The document that had the transaction "X buys gold."

H.M. Jr: Oh.

Haes: I think he asked did that include domestic, and I think if you look up the record we said yes, and the title "Acquisitions" -

H.M. Jr: But that is unimportant, what we told Eccles. I mean what we are trying to do is make up our own mind.

Oliphant: I'm getting at this question of whether or not it is tricky. I'm addressing myself to whether or not there is anything tricky about it.

H.M. Jr: Yes

Oliphant: In the first place, I think that's very important, the whole thing that is laid out there.

H.M. Jr: Somebody get that sheet.

Gaston: Eccles' question was addressed to whether you were going to sterilize domestic gold or not. It wasn't directed to the question of how you were going to do it, but were you going to sterilize domestic gold also. That's what he wanted to know.

H.M. Jr: Well, go ahead, Herman.

Oliphant: I think you will find we discussed it with him.

H.M. Jr: Well, let's say we did. Then what?

Oliphant: Then the other thing that you referred to, that this was a possible stretch of power. That ought to be perfectly clear. It is no stretch of your power, because the Stabilization Fund specifically authorizes you to buy gold - I mean the Act.

H.M. Jr: Well, what does the Act say?
Oliphant: That you are authorized to buy gold.

H.M.Jr.: Where?

Oliphant: "For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the Fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section."

Now, it says "deal in gold and foreign exchange" - to "deal in gold" so as to include both purchase and sale of gold.

H.M.Jr.: All right.

Oliphant: Now, notice all I am addressing myself to is the question whether or not there is any trick in it if you decide you want to put it all through there.

H.M.Jr.: Well, the trick is in this, Herman. You are taking - let's confine ourselves to the domestic gold - you are taking the domestic gold and running it through the Stabilization Fund, where now it is being bought every single day and has been bought for many decades through the mint to the General Fund. And when that - I take it - I don't know just where they branch off, but somebody's got to pay for that gold that comes into the Denver mint, doesn't it? What, Dan?

Bell: Yes, the Denver mint pays for it by a check on the Treasury of the United States.

H.M.Jr.: Now, if we ran it through the Stabilization Fund, where would you begin to by-pass?

Bell: It might be paid for at the same place, but the Denver mint would draw a check on the Stabilization Fund instead.

H.M.Jr.: Instead - instead. What? (to Oliphant)

Oliphant: (Nods affirmatively)
H.M. Jr: And then the Stabilization Fund, buying all gold, would have to go back to the General Fund to get reimbursed. Is that right?

Bell: When it turns the gold over to the General Fund, it would be reimbursed. That's right.

(Sheet entitled "Sterilizing Future Acquisitions of Gold" is handed to Secretary)

H.M. Jr: Now, which is it? "A. The Fund would buy all imported gold. B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury. C. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market."

Yes, you see at that time we weren't talking about it.

Haas: Yes, we were.

H.M. Jr: Well, it isn't here, George.

Haas: I know it isn't here and - but it's my mistake, and -

White: That was - I'll try to explain why -

H.M. Jr: I beg your pardon, but -

White: The very next sentence -

H.M. Jr: Show me there is anything in there.

White: I'm sorry. I - I didn't -

H.M. Jr: Show it to me. That's the whole point that Bell made, that this thing is -

White: But let me call your attention to the fact that sheet was brought in here to make -

H.M. Jr: Now listen, please tell me where it says about buying domestic gold.
White: It does in the title - "Sterilizing Future Acquisitions of Gold" - and the question of buying domestic gold came up in the discussion. It was not used as an illustration here -

H.W. Jr: No

White: - because -

H.W. Jr: Now listen, White - now, this is terribly important.

White: I think so, and that's why I want to -

H.W. Jr: When this thing was written, we were not talking about sterilizing domestic gold.

White: May I have two minutes and illustrate that point?

Haas: You're right on that, but -

Bell: That's the reason, I think -

H.W. Jr: That's why I didn't understand that thing.

Bell: That's the reason, I think, the Secretary was a little confused on Friday when we were talking about domestic. When we first started discussing this with Professor Williams and Professor Viner, we confined our discussion to imported gold and we talked about the Stabilization Fund handling imported gold, and we came into this room and agreed upon policy with respect to imported gold.

Then, when we got into the discussion with the Federal Reserve people, the question, as I recall, was asked, "Do you intend to handle or take care of domestic gold?" and not, I don't think, with respect to the channel which it goes through. But they were asking about the policy because the domestic gold has the same effect on bank reserves as imported gold. I don't think anybody cared so much about the mechanics.

White: May I say just a few words, Mr. Secretary, on that? Everything that Mr. Bell says is quite so, with one difference. In the other room the question was
But what was the answer to that question?

White: I'm coming to that. I want to make the whole issue clear. And in the title to this, it was specifically not - not sterilizing future imports - but we changed "imports" to "acquisitions" to include domestic gold. Now, when it came to a question of illustrating this, there was some difference of opinion which illustration we should take. It was decided to use one illustration, namely, that of Chase Bank or some other bank importing gold.

That was as the sheet came here. During the discussion and after the discussion, Viner raised the point why not include domestic acquisitions as well - I mean the domestic newly mined gold as well as imported gold. Eccles says, "Yes, exactly; that's a good idea." And he did very definitely. He approved of it and so did Goldenweiser. He said, "Yes, by all means; not only domestic gold, but silver ought to be handled the same way."

H.M.Jr: But the point that I make is the point - Friday, why I was confused and everybody else in this room was confused, because we had never worked out a thing like that for me showing the ways we could handle domestic gold.

White: That's true.

Bell: I don't think White has quite answered the question as to why not include domestic gold which was asked in the other room. The answer to that question was that it was not within our terms of reference.

H.M.Jr: Not within our terms of - ?

Bell: Of reference. We were specifically authorized and directed to consider imported gold. He said that this plan that we outlined was flexible enough to
include domestic gold, but your directions to us were that we should consider the plan to take care of imported gold.

A. E. Jr: But I still think - I mean we - we got here - we all got mixed up on Friday when you tried to explain this thing.

Now I - I just - I think that one of the - I just feel this way - let's put it this way. This morning I feel that running this all through the Stabilization Fund - I'll put it - I've got another reason why I don't - I'd be overreaching. I mean I'm going too fast, that I subject myself to criticism that I'm grabbing. I wonder if we don't accomplish just as much if we do the thing - now, the thing that I have told Eccles five times, and God I was sincere about it - was that I had only one thing in mind on this thing, and that was to remove the Treasury from the control of the excess reserves. And he kept telling me that he didn't want us to dominate excess reserves through our sterilizing gold, and I went over and over it again, and I said, "Eccles, I can't get it in here. That is just what I am not wanting to do. I want to remove the Treasury from the position that we are the gold lock on your emergency brake, and your emergency brake is the excess reserves. All I've got in mind is I want to remove the Treasury from that position, so that you can function." And I said, "That's all I get."

And he changed. He kept saying all the time, "Well, we want you to say that from now on the Federal Reserve is in control of domestic economy," and he no longer says that. He's withdrawn his position. Now he's changed. He no longer tells me that. That isn't the condition; he doesn't make any conditions. Now I say to him, "I want to do one thing. I want to take gold and sterilize it so that it doesn't dominate your excess reserves situation, and that's all I want to do."

Now, as to the Stabilization, I just wonder if - the whole thing, very simple - if we take two kinds of gold, the gold that the private banks and the domestic gold, and run that through the Stabilization
Fund, which is unnecessary to accomplish what I want - am I not moving a little bit too fast and don't I start a barrage of criticism, which is entirely unnecessary at the time, against the Treasury and against me personally? Now, that's the whole thing. And can I maybe accomplish what I want the next three months, six months, a year from now? I mean I can make this announcement tonight of what I am doing.

And incidentally, you've heard the latest thing - Mr. What's-His-Name - Eccles' man, publicity man -

Gaston: Thurston. Elliot Thurston.

M.M. Jr: - came over to see Mr. Gaston and told Mr. Gaston that he'd like to suggest to Gaston - just that he'd like to suggest that Mr. Eccles should be permitted to come to my press conference. So Gaston said it was a swell idea, he wondered where he got it.

Uliphant: You having invited him before.

M.M. Jr: Yes, yes.

Lochhead: Very strongly you invited him.

M.M. Jr: Right in front of the President.

Bell: Yes.

M.M. Jr: When we were at the White House.

Bell: Said that he suggests for him to come over to your press conference at four o'clock Monday afternoon. You said, "Don't answer right away, think it over over the weekend. But you can come in."

White: Mr. Secretary, may I attempt to answer? I think you've got several strong premises, namely: You don't want to appear to be overreaching; you don't want to appear to acquire anybody's powers that possibly belong elsewhere; you don't want to appear to be going too fast. Those are all strong arguments.
M.M.Jr: Excuse me - can you hold it? They are not arguments, they are intuitions. They are not arguments and there is no -

White: And I think the strongest support of those intuitions is the fact that you have them - I mean the mere fact that they arise in your mind and possibly in several of the other men's minds, is strong supporting evidence that possibly they will arise in other people's minds irrespective of the merits of them.

But I think that before a final decision is made - I think we better examine each of those three and see how much basis they have. That doesn't alter the fact that that intuition may arise and that doesn't alter the fact that you may make your decision on the basis of the fact that that thought has arisen. Possibly that will overweigh any reasoned interpretation. Nevertheless, I think we ought to go through the reasoned interpretation to see how much basis there is for that.

With regard to the overreaching, this power, this acquisition of domestic gold is something that has got nothing to do at all with the Federal Reserve Board. It is an inter-Treasury operation. You are handling the gold one way; you have decided to handle it another way. The only sense in which it is - and I think that is what you had in mind - that it may be said it is an overreaching, is that you are attempting to increase the prestige of the Stabilization Fund.

Now, when it is put that way, I think you are quite right, but I'm not sure that that is the way I would put it, and I don't think that is the way some of the rest of us would put it. It is not a question of enhancing the prestige of the Stabilization Fund; it is a question of enhancing rather the significance or the importance -

M.M.Jr: Hello (on phone - has conversation)

Go ahead.

White: This will take a couple of minutes. I want to get the thought through. It enhances, not the
prestige of the Stabilization Fund - that very way of putting it seems to involve a grasping, a reaching, an attempt to slip something over; but it is rather an attempt, as I say, to em-
phasize a new Treasury function - a new Govern-
ment function, not a Treasury, because we agreed 
Saturday, whether - now sincerely it is hard to 
say; it is hard to divorce oneself from one's 
complete history - but we felt that whether the 
Stabilization Fund were in the Board or in the 
Treasury, our conclusion would have been the 
same, because the new function is one which has 
been introduced by the Stabilization Fund - by 
the Gold Reserve Act of 1934, something new which 
the Government is going to do; namely, it is going 
to buy and sell gold, it is going to engage in 
operations to stabilize the exchange value of the 
dollar. And, as Oliphant put it, we merely use 
a short-cut term and when we say Stabilization Fund 
we describe this whole new philosophy with regard 
to monetary control and monetary credit.

On the question of domestic acquisitions of gold, 
I think Viner answered it very, very well. I asked 
him to put it down in writing, but I guess he 
forgot. The answer, which I can describe but not 
very well, is, if one were asked, "Why do you have 
the Stabilization Fund handle domestic gold?" - it 
is this: that all gold has a definite effect on the 
domestic credit situation, which in turn relates 
to the exchange value of the dollar and the whole 
monetary mechanism; the decision has been made that 
there shall be some act of handling that incoming 
gold, wherever it comes in, in such manner as to 
either sterilize it or not, as the decision is 
made. Never mind who makes it, whether it is made 
by both people or by one, but as the decision is 
made to sterilize it or not, the act of steriliza-
tion will take place. And that whole new concept 
is a function of the powers granted under the 
Gold Reserve Act. That the simplest way to handle 
this thing is to tie it all up and route it through 
the Stabilization Fund, to use Wayne Taylor's 
expression. It all comes into the Stabilization 
Fund, all gold now, because of the new function 
which is granted the Government through the Gold
Reserve Act. Somebody takes a look at it - the Secretary of the Treasury or the Board of Governors takes a look at it and decides this gold will be sterilized, or all gold will be sterilized at this time. Next time they may decide that only part of this gold shall be sterilized; at another time, that none of it shall be sterilized. But all is routed -


White: That is not the important thing, for this reason; the General Fund is to be regarded merely as a warehouse, Mr. Secretary.

H.M.Jr.: But it isn't that; it isn't that. There is where you're wrong.

Oliphant: Turn it around. Let's say gold starts to move out.

White: Well, it is a warehouse in this sense, that -

H.M.Jr.: But you're wrong.

White: But it is a warehouse in its -

H.M.Jr.: The warehouse is the General Fund.

White: That's exactly what I said.

H.M.Jr.: I thought you said Stabilization Fund.

White: No, the General Fund.

Oliphant: I think it is an accident. I think you will see that that is an accident if you will envisage an outflow of gold, a big outflow of gold; that is, two billions of gold, that can flow out.

H.M.Jr.: Herman, I'll give you your chance.

White: Well, I'm through. I say the General Fund is the warehouse.
H.M. Jr: Now White, let me just say this. I think I am thinking clearly. What we are all thinking about and in complete agreement is that the Treasury should be the warehouse of the gold.

White: True. The warehouse. I want to emphasize that word.

H.M. Jr: Now, we all agree that we should handle the gold, and that when the decision should be made whether gold should go out or whether we should build up excess reserves through putting gold in, again it is a Treasury decision.

White: All right.

H.M. Jr: Now, there is no disagreement on that, and we will have the sterilization of gold. That is the big thing. Now, there will be no criticism, generally speaking, when the Treasury makes this move, see? The thing that I am afraid of is that there will be criticism of the mechanics. Now, when they begin to examine how we do this thing - smart boys, Wall Street Journal, some of those boys - they begin to examine things and they may begin to criticize this thing on account of the mechanical method that we have, where they won't criticize it if we do this thing on the whole.

Now, why spoil this thing? I'm the Secretary of the Treasury. The Treasury all belongs to me. Whether it goes to this bureau or that bureau is - it doesn't make any difference; I'm the boss of both of them.

White: I think you've got a strong point with that, and -

H.M. Jr: Now, just a second - and the thing that I am fearful of this morning - Now, everybody - nobody is more jealous of our prerogatives than I am, but this is a bureau and in one of his capacities he (Bell) is a bureau, and what we are talking about is the back-and-forth between these bureaus. Now, I know I'm arguing against myself Friday, but I didn't understand this thing.

White: That's quite all right.
H.W. Jr: But what I am fearful - then I'll stop and somebody else can argue this thing - somebody take a pin and stick a hole in one of the cogs. They'll say, "You've stuck in an extra wheel that you don't have to have," and they'll pick on that cog and lose sight of the whole policy because one extra tree has been planted.

Now, maybe I am overemphasizing this thing. I can explain this thing on the Hill, off the Hill, any place, as a policy, because I know it is sound. But the thing that I am fearful of is that I am sticking in an extra cog and I wonder if it is worth while.

White: Well, the mere point that others may have fears is the strongest point in it, because what you are dealing with is the public and the public will react, not on any careful reasoning, but on hunches or feelings or superficial examinations, and there is that attitude therefore that must back the point that you are raising, and you may come out with that.

But there is one other point that I'd like to raise. You say it is not a matter of very great importance whether it is one way or the other. I think that is understating the case. I don't think it is vital, but I don't think it is a matter of little importance. And for this reason, Mr. Secretary: that you are introducing - by your sterilization of gold you are doing something which the Government - the Treasury, rather, has never done consciously. It is something new; you are stepping in and you are saying, "We are now going to exercise some control. We are going to assist the Board (if you like) in the exercise of some control over the credit mechanism." And the answer is that you wouldn't have possibly thought in those terms at all, I don't think, unless the whole episode of 1934, the creation of the Stabilization Fund and everything else, was raised.

Therefore, your act now bears a very close relationship to the Gold Reserve Act; more than that, it bears a very close relationship to the whole changing concept of banking control, which
is epitomized by the creation of the Stabilization Fund.

Therefore, to bring it home now, if you use all the powers granted in the Gold Reserve Act and relate them through the Stabilization Fund, transfer them through, I think it serves to emphasize in the minds of the public and the world in general that this part of the larger monetary policy which is going forward. And that reason is much simpler, I think, than the terms in which you put it. You merely are transferring gold through the Stabilization Fund. I don't think it is even necessary to go to any technical explanation. It's gold; that's what you're handling. You are handling it through the Stabilization Fund. You are sterilizing gold through the Stabilization Fund. Now, if that argument isn't worth much, then I hold that your fears ought to be the guiding factor. I'm through.

H.M.Jr.: I can argue on your side. I don't know that we even have to say how we are sterilizing.

Taylor: I don't think we do have to say it.

Gaston: I'd like to make just a word or two of comment on what Harry White said. He says it is not merely a matter of the prestige of the Stabilization Fund, it is something deeper and more important than that. And as he explains it, I get that he is speaking not merely about the prestige of the Stabilization Fund, but about the permanent status of the Stabilization Fund, and it seems to me that what is being proposed here is an enlargement of the functions and the status of the Stabilization Fund over what they had heretofore and what appears to be contemplated in the law. You are proposing to erect the Stabilization Fund into a monetary control authority. Now, so far as there are monetary control functions in the Treasury Department, they do not belong to the Stabilization Fund. It isn't contemplated, as I see it, in the Gold Reserve Act that they shall repose in the Stabilization Fund.

The monetary control authorities, so far as they
exist in the Treasury Department, are the functions and the authority of the Secretary of the Treasury, and not of the Stabilization Fund.

So far as I can see, the reasons for re-creating this new status and this new prestige for the Stabilization Fund - I don't think they are very valid. You are attempting to enlarge the monetary authority of the Stabilization Fund to concentrate pretty largely the monetary powers of the Treasury in the Stabilization Fund.

And it seems to me that if anyone should advance very seriously, and if their arguments should be taken very seriously, this idea of the creation of a monetary authority separate from the Treasury Department, such as Mr. Vanderlip proposed, why, this process of trying to isolate all monetary functions in the Stabilization Fund would be an excellent preparation for that situation.

But actually here you are setting up a fiction when you try to say that the Stabilization Fund is going to exercise this power of sterilization of gold. The Stabilization Fund has no such powers. It can't sterilize gold. The gold has got to be sterilized by the General Fund of the Treasury Department. The Stabilization Fund, as I see it, is a fund, a sum of money, and an agency through which the Secretary of the Treasury can carry on certain types of transactions which he did not have other appropriations to carry on, and for which he needed certain enlarged authority, which was given to him through the Stabilization Fund in the Gold Reserve Act. It is a trading agency and not a monetary control authority.

M.H.Jr: Let me - may I ask you a question, Herbert. After all, when this thing is through you've got to front for me on this thing, don't you?

Gaston: To an extent, yes, sir.

M.H.Jr: You see, I hate - I have never done these things in a hurry before, not until I felt that my own crow was pretty well agreed that I'm right. And
I don't feel that yet, and if necessary I'd rather postpone it 24 hours, see, than to have the people feel, Oliphant and White and everybody, that I'm not doing — that they are not with me. I mean I don't — I mean I'd rather delay the thing 24 hours than to have the thing — what I am getting at is this — and I am perfectly willing, because nobody knows about it; I can delay the thing until Tuesday or Wednesday, if necessary. But you know — I mean the first thing — the first part, we've got this question of sterilizing gold, which is in itself a big thing to explain. How important do you feel the mechanical way of handling this thing is — I mean as a part of explaining it.

Gaston:

I think the mechanical way of handling it does not need to enter into the explanation at all. This preliminary rough draft doesn't mention the Stabilization Fund at all. I don't think it is desirable to mention the Stabilization Fund at all. I don't think this is important. I think it is important that when we announce we are going to do it, we be definitely sure of how we are going to do it.

I think that this whole question — well, it is either important or unimportant. I don't think it is important. And if it is not important, then I should say go along in the present way of doing things, because you are just putting yourself to an unnecessary amount of bookkeeping. That's the point if it is unimportant. If it is important, then it is important for these reasons that Harry White has advanced, and I don't think they are valid reasons.

Meas:

Then Herbert is way back at the beginning of this; not to do it through the Stabilization Fund at all.

Gaston:

Do it just exactly as it is being done now. The ordinary routine gold that comes in in the normal way through the banks I think should be handled through the General Fund. The Stabilization Fund engages in certain types of special transactions abroad and should go on doing it just as it is.
As a matter of fact, your first transaction will be in the General Fund, because Archie will have to get, say, 50 million dollars the very day that this thing starts to function, and that will be in the General Fund.

Oliphant: I'd like to ask you, Mr. Secretary, how you'd feel about this situation if there was no gold at all in the Stabilization Fund and there was a two billion dollar - no gold at all and two billion dollars.

H.M. Jr: Well, don't ask me trick questions, don't ask me trick questions.

Oliphant: I don't want you to answer. I'll use that as a text and talk about it. If you started out with two billion dollars of buying power this morning -

Bell: Credit instead of gold.

Oliphant: - credit, I think the whole picture would look different, and I bring that up because I want to see what this thing looks like over a longer period of time. It is more or less an accident that we start this morning with a limited buying power in the Stabilization Fund. And with one swing of gold in the other direction, with a billion dollars of gold moving out, we might very well say, "Well, that will be Stabilization Fund gold." And then it seems to me you do see the Stabilization Fund, in that view of it, as the normal, natural place through which this stuff will pass.

H.M. Jr: Well - oh, go ahead; I thought you had reached a period.

Oliphant: It seems to me, in terms of your own thinking, long term thinking, about the Stabilization Fund,
too much importance should not be attached to
the more or less accidental circumstances
that at the moment there is a relatively slight
buying power in the Stabilization Fund.

H.M.Jr: Doesn't influence me at all; doesn't influence
me at all, Herman. I mean it doesn't influence
me at all.

Oliphant: And that's the reason - it is because of that
that we talk of "hocus-pocus."

H.M.Jr: Let me go around a minute. I don't want to be
rushed. Who wants more time? Now, we've got an
Open Market Committee at 11, when we are supposed
to explain this thing. Now, I'd just as leave
take that time and use that to throw it into their
thinking, but I think this is a Treasury matter
and I'd hate to have the Open Market Committee
of the Federal Reserve Board into this thing.

Haas: May I say something? - try to clear this thing?

H.M.Jr: You've got to talk awful fast, though. Go ahead,
George.

Haas: The whole thing we are in a debate here about is
a matter of - in substance, just about Treasury
accounts. That's all it amounts to. The essent-
ial thing that you are going to do is you're
going to sterilize gold, and you might make an
announcement and not indicate your mechanics at
all. You can say, "Well, that's up to Bell;
there's several ways of doing it," and then get
the press reaction. If there is no reaction, as
you anticipate, then go ahead and do it any way
you want; you are free. But you at least have
taken care of the doubt you have had. You see,
you haven't moved when you were in doubt. I'm
fearful of that; I don't think you should do that.
But that may be one way of handling it. Then if
you think your press is all right, you can do any
way you want.

H.M.Jr: What do you think (to Oliphant)?
I don't want any more time on it. I'll tell you why. I think that - unlike Gaston, I think it is of tremendous importance - the difference in the future development of the country. I think that the values involved, though, are so subtle that it all depends on what your intuitive judgment is, and I don't think we'd advance it any by further consideration.

But I don't want - I've been a little bit more aggressive than usual; you listen more patiently. But unfortunately I'm fighting time. The reason that I argued against myself was that I only had explained to me walking down this morning, because we never had really - there was a blind spot; and the blind spot was that in this thing you fellows went along in your discussion but you didn't carry me along on how you are going to handle domestic gold and I only got it this morning. You had those discussions in the other room, but you didn't carry me along.

But, as I say, I can shove the 11 o'clock meeting until 2:30. I don't want to move on this unless you - I'm perfectly willing to say to my own crowd, "Let's do it as is, then wait until we get the extension of the Stabilization. After we've got the extension of the Stabilization Fund, then maybe let's transfer this thing, or even any time."

Well, don't you want 24 hours more for yourself?

No, I'm satisfied; personally I'm satisfied. I'm satisfied. If we can do this thing, then subsequently we want to transfer the whole thing into the Fund, why, it's all right.

Providing you don't specify how you are going to do it so that you will appear to be changing later.

I won't specify.

Say we'll handle it - part of it through the Stabilization Fund and part of it through the General Fund.
Gaston: I've got a sample release if you'd like to look at it. (Hands sheet to Secretary)

H.M. Jr: "By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces his intention, beginning on this day (Tuesday, December 22, 1936) and until further notice, to take such action with respect to net additional acquisitions or releases of gold by the Treasury Department as will offset approximately any increases or decreases of the reserves of the member banks of the Federal Reserve System, which would otherwise be the consequence of such gold transactions.

"Net acquisitions of gold will be offset by the sale of Treasury bills in an approximately equal amount. Conversely, any net outflow of gold will be compensated by the redemption of bills or other Treasury obligations.

"The purpose of these operations is to protect the exchange value of the dollar and safeguard the requirements of internal prosperity by preventing disturbance of the monetary and credit system through gold transactions. The gold influx of recent months has created bank reserves in excess of current needs, and it is believed that their further increase would not contribute to the national welfare. On the other hand, it is believed to be desirable to provide additional means for neutralizing any possible ill effects of any future outflow of gold in considerable amounts."

I'd say it sounds about 90 percent all right. I think if you fellows would all adjourn and weigh each word in there - There's only one thing. "By authority of the President and after consultation with the Board of Governors" - that's all right, I think - and nothing is said there how to handle it.

What we can do is this. I'm seeing this man - I've got an 11 o'clock meeting which I want Taylor and
you two (Bell and Upham) to attend. Now, right after it, if you fellows would like to meet and discuss the thing, I'm free.

Oliphant: That will be about 11:15?

M.N.Jr: Oh no, about 12 o'clock.

Oliphant: Oh, that's an hour meeting. I'll be ready about 12 o'clock.

M.N.Jr: We'll meet again and then we can once more take one more look at the thing and if everybody - just wait a minute - the thing that I value more than - out of the eight or ten people, if one or two says no, but after all we're divided about five and five. And then we've got this legal and economic - those people, and I want to make perfectly sure that they are happy; and if they are not happy, we'll wait one day, we'll wait two days, and let you work on it. But I'm not going to move on this thing until you people tell me you are satisfied; see? And let's look at it again at 12 o'clock. Now, if you're not satisfied, we can postpone it for a week from today. It's too important, and if you're not perfectly satisfied I'll postpone it a week from today.
Hello
Dr. Burgess.
Hello
Hello sir.
What's going on?
Well the market's a little better to-day.
A little better.
The - about the same as yesterday's close.
Ah-ha.
And no great activity. The tone is a little better.
Well I thought to-day. I want to try something out -
that I'd only buy the 2½.
Only buy the 2-1/2.
Nothing else.
There a little out of line with the other bonds.
Higher or lower?
They're higher. You see - we - we held them a
little while the rest of the market went down.
If you take your list there - they yield on last
night's closing 241.
Yes.
Now your '49-52's which is a year earlier maturity
and a high coupon for tax purposes yield 240....
Oh.
...On a tax exempt basis the new ones yield 285.
The '49-'52 yield 295.
I see.
B: So that they're - it isn't very much out of line.
H.M.Jr: Ah-ha.
B: But it's a little - a little high in relation to the bond.
H.M.Jr: Ah-ha. Well I'll tell you what you do. Do it - just keep the orders in there - let's say from now and call me at about 10 minutes past 12.
B: 12:10.
H.M.Jr: And let me know how it works. Pull out all the orders excepting the 2-1/2.
B: Pull out all but 2-1/2.
H.M.Jr: No I mean I want to leave orders in for the 2½.
B: Yes all but - have orders in for 2-1/2.
H.M.Jr: And let's just try that and see what.....
B: Now what we've been doing - what we did yesterday....
H.M.Jr: Yes.
B: Let me tell you that.
H.M.Jr: Yes.
B: We - we bought some 2-1/2's and had orders in for them....
H.M.Jr: Yes.
B: .....on a scale-down.
H.M.Jr: Yes.
B: And then we had some small orders for the other stuff. There are about six different issues. Only about 50 million at a thirty-second - just so there'd be bids in, you see?
H.M.Jr: Well I'd just like to - I'd like to test out the market for an hour.
B: All right. I don't think, as a matter of fact, you'll do anything at all.
H.M.Jr: Well I'd like to test it out.
B: Yes, all right.
H.M.Jr: And supposing you call me back at 10 minutes past 12.
B: All right.
H.M.Jr: And let's just see what, if anything, happens.
B: Very good.
H.M.Jr: Thank you.
B: All right.
December 21, 1936.
10:56 a.m.

H.M.Jr: Hello
Operator: Dr. Burgess.
H.M.Jr: Hello
B: Hello sir.
H.M.Jr: What's going on?
B: Well the market's a little better to-day.
H.M.Jr: A little better.
B: The - about the same as yesterday's close.
H.M.Jr: Ah-ha.
B: And no great activity. The tone is a little better.
H.M.Jr: Well I thought to-day. I want to try something out - that I'd only buy the 2½.
B: Only buy the 2-1/2.
H.M.Jr: Nothing else.
B: They're a little out of line with the other bonds.
H.M.Jr: Higher or lower?
B: They're higher. You see - we - we held them a little while the rest of the market went down. If you take your list there - they yield on last night's closing 24.1.
H.M.Jr: Yes.
B: Now your '49-52's which is a year earlier maturity and a high coupon for tax purposes yield 240....
H.M.Jr: Oh.
B: ....On a tax exempt basis the new ones yield 285. The '49-'52 yield 295.
H.M.Jr: I see.
B: So that they're - it isn't very much out of line.
H.M. Jr: Ah-ha.
B: But it's a little - a little high in relation to the bond.
H.M. Jr: Ah-ha. Well I'll tell you what you do. Do it - just keep the orders in there - let's say from now and call me at about 10 minutes past 12.
B: 12:10.
H.M. Jr: And let me know how it works. Pull out all the orders excepting the 2-1/2.
B: Pull out all but 2-1/2.
H.M. Jr: No I mean I want to leave orders in for the 2½.
B: Yes all but - have orders in for 2-1/2.
H.M. Jr: And let's just try that and see what.....
B: Now what we've been doing - what we did yesterday....
H.M. Jr: Yes.
B: Let me tell you that.
H.M. Jr: Yes.
B: We - we bought some 2-1/2's and had orders in for them.....
H.M. Jr: Yes.
B: .....on a scale-down.
H.M. Jr: Yes.
B: And then we had some small orders for the other stuff. There are about six different issues. Only about 50 million at a thirty-second - just so there'd be bids in, you see?
H.M. Jr: Well I'd just like to - I'd like to test out the market for an hour.
B: All right. I don't think, as a matter of fact, you'll do anything at all.
H.M. Jr: Well I'd like to test it out.
B: Yes, all right.
H.M. Jr: And supposing you call me back at 10 minutes past 12.
B: All right.
H.M. Jr: And let's just see what, if anything, happens.
B: Very good.
H.M. Jr: Thank you.
B: All right.
December 21, 1936
12:20 P.M.

Present: Mrs. Klotz
Mr. Upham
Mr. Lochhead
Mr. Taylor
Mr. Opper
Mr. Gaston
Mr. Oliphant
Mr. White
Mr. Haas
Mr. Bell

H.M.Jr: Now, after this other conference, does anybody feel we shouldn't go ahead on the lines we were talking: handle the gold by the Chase Bank, the Guaranty Trust, and the domestic through the General Fund, the gold that the Stabilization Fund buys we handle just the same as it is now. They will all turn the gold into the General Fund and get paid for it. The General Fund will go to the open market. Nothing will be said as to how we handle it; we'll ride along, and after a couple weeks we'll meet and talk it over again.

Now, let's take it easy. Let's go around.

Oliphant: (Nods affirmatively)
Gaston: Check.
Opper: Nothing to add.
White: All right.
Haas: No public statement - that is the decision?
H.M.Jr: Public statement, but no explanation as to the machinery.
Taylor: Except as it appears in the daily Treasury statement.
H.M.Jr: That's all. There will be no explanation as to what fund.
White: How will you answer the question, if it is put to you directly, as it may well be in the press?
conference, as to how you expect to handle that?

H.M. Jr: I'll tell them that is purely a Treasury matter. "And, as a matter of fact, we are going to give you boys much more information than we have given you before, because for the first time we are going to show on the Treasury statement how much of this gold" - don't like the word "sterilized" -

Bell: Inactive. We've used "inactive" for want of a better term.

H.M. Jr: — "how much of the gold is inactive." But I'll give no explanation. I mean they're used to that by now. The thing that we're talking about would be Greek to anybody else, because nobody knows of all this we've been talking about. They don't know what happens to the gold, how it is handled, whether it goes through the Stabilization Fund or it doesn't. I mean I won't give any explanation. And Eccles doesn't know the discussion that's been going on, so there won't be any mis-information.

Haas: O.K.

H.M. Jr: What?

Haas: It's O.K. with me, I say.

Lochhead: I agree.

H.M. Jr: I'm sorry - Wayne?

Taylor: It's all right.

Upman: It's all right.

H.M. Jr: Daniel W. Bell?

Bell: It's all right with me. I'm just still a little fearful about White's question. You say Eccles hasn't been in on this, but supposing they call upon Eccles to explain as to how this will operate and he will go into a great deal of detail.

Upman: Explain it the wrong way.
Bell: And he'll bring the Stabilization Fund -

H.M. Jr: At a quarter of four I'll tell Eccles that, as to anything about how this is handled, I'll handle it; the question as to the philosophy of domestic reserves and domestic credit, that's his baby.

Oliphant: That's right, emphasize the philosophy.

H.M. Jr: I see every reason why - I mean these people, I respect their thought. After looking at this thing for another two or three weeks, I may decide - after all, I've been on their side up to this morning and there are a lot of things that I am not sure about at all.

But the thing that - now, the thing that - Harrison's reaction and Burgess' reaction was the Government bond market will sell off very sharply tomorrow - and the other thing - which was a new one to me, which I don't think I agree to; I mean I think Government bonds should go up over a period of a week and stocks should go off.

Another thing - always interesting to get a central banker's reaction - Harrison says the Europeans might object because the gold coming over here should have the influence of putting our prices up, and by sterilizing this we aren't letting the gold from the Europeans do what the Europeans are sending it for.

I said, "Is that what they're sending it for?"

Haas: Sounds like gold standard.

H.M. Jr: Now, let's see this statement.

Gaston: I have two drafts here, and in both drafts we deliberately avoided giving any endorsement by the Treasury Department to the idea that the creation of additional bank reserves was necessarily a dangerous thing.
H.M.Jr: All right.

"By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces that he will from time to time take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department to offset approximately increases or decreases of the reserves of the Member Banks of the Federal Reserve System which would otherwise be the consequence of such gold transactions." - Is that the way you say it?

Gaston: We are offsetting the effect on the reserves.

H.M.Jr: "To this end, acquisition of gold will be paid for from the proceeds of the periodic sale of public debt obligations of the Treasury; and, correspondingly, reverse movements of gold will be compensated by the purchase or redemption of Treasury obligations.

"The purpose of these operations is to protect the exchange value of the dollar and to safeguard the requirements of internal prosperity by preventing disturbance of the monetary and credit system through gold movements. The gold influx of recent months has contributed to the creation of bank reserves in excess of current needs. The present is, therefore, believed to be an appropriate time to provide additional means for neutralizing any possible ill effects of any future outflow of gold in considerable amounts."

Now, where is this different from Draft 2?

Gaston: It is quite different. We approach it from a totally different angle.

H.M.Jr: "By authority of the President and after consultation with the Board of Governors" - I love that word "consultation;" I didn't know that's what it was called, but it's all right.

"By authority of the President and after
consultation with the Board of Governors of
the Federal Reserve System, the Secretary of
the Treasury announces his intention to augment
the supply of free gold in the monetary stock
held by the Treasury Department."

"Free gold" - is that what you call it?

Bell: It will be free gold if we pay for it.

Gaston: But it will be a dead asset.

Bell: All free gold is a dead asset.

Gaston: Until used.

Bell: Until used, yes.

Gaston: "This will be accomplished by the sale from
time to time of additional public debt obliga-
tions, the proceeds of which will be used to
defray the cost of additional acquisitions of
foreign and domestic gold.

"The purpose of these operations will be two-
fold: first, to protect the exchange value of the
dollar; second, to provide additional means for
safeguarding the domestic economy from any pos-
sible shock which might be the consequence of any abrupt
outward movement of gold in considerable quantity.

"The gold influx of recent months has contributed
to the creation of bank reserves in excess of
current needs and it is therefore believed that
the effect of additional acquisitions on bank
reserves may be neutralized from time to time
without ill effects on the monetary and credit
system."

Have you seen these, Bell?

Bell: I saw the one on this side in its rough form.
I like that one better.

HM. Jr: Which, the first one?

Bell: (Nods affirmatively)
The second one goes further to the side of not conceding any injurious effect of increasing the bank reserves by laying the whole emphasis on the purpose to accumulate this stock of free gold with the object of preventing any shock caused by gold shipments.

I think that is very wise, for the Secretary not to commit himself to that general viewpoint.

Well now, let me read again.

"By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces that he will from time to time take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department to offset approximately increases or decreases of the reserves of the Member Banks of the Federal Reserve System which would otherwise be the consequence of such gold transactions."

I think that gives a false impression. I mean it looks as though I was doing it just to offset the exact amount of the increase in the thing.

"To this end, acquisition of gold will be paid for from the proceeds of the periodic sale of public debt obligations of the Treasury; and, correspondingly, reverse movements of gold will be compensated by the purchase or redemption of Treasury obligations."

Well, that middle sentence is all right, isn't it? - this "acquisition of gold will be paid for from the proceeds of the periodic sale of public debt obligations of the Treasury; and, correspondingly" and so forth. That's just a straight statement. There's no argument about that.

"The purpose of these operations is to protect the exchange value of the dollar and to safeguard the requirements of internal prosperity by preventing disturbance of the monetary and credit system through gold movements."

- "unusual gold movements" -
M.M. Jr: We'll put that in.

"The gold influx of recent months has contributed to the creation of bank reserves in excess of current needs. The present is, therefore, believed to be an appropriate time to provide additional means for neutralizing any possible ill effects of any future outflow of gold in considerable amounts."

"Provide additional means" - what other means have we got?

Gaston: Well, the means that we have now is the gold held by the Stabilization Fund.

M.M. Jr: How many people have read these things? How many people have studied them? Who hasn't?

(White and Upper signify they haven't)

Uppham: I haven't seen the second one. I've seen the first one.

M.M. Jr: It seems to me that "A" covers more ground.

Oliphant: Well, I think this is an underlying question of policy that we ought to have your views on.

M.M. Jr: Well, I don't get it. I'm running downhill awful fast.

Oliphant: Well, there's a school of people around town that are very nervous and scared about this whole thing, increase of excess reserves. Now, until our staff can advise us competently and we know that that is a bad thing - who knows, maybe it's a good thing - it seems to me - well, you ought to make up your mind whether you commit yourself on it and join that group who are alarmed.

M.M. Jr: If you are asking for that, I'm not ready to commit myself.

Oliphant: That is the purpose of that second statement, the one you have in your right hand, to put it on the other basis, namely, that you are doing this because
this is a good time to accumulate against any possible shock.

White: Mr. Secretary, that is, I think, an important statement of your policy and I don't know whether - I know as far as I'm concerned I'd like a chance to examine it, if there's no hurry.

H.M.Jr: On which?

White: Some of us haven't examined either one.

H.M.Jr: You haven't seen them?

White: No. What I want to say -

H.M.Jr: Well, you can come in at three o'clock again.

White: Only need 15 minutes.

H.M.Jr: Let me say this. This is my position. George Haas said that he will at the proper time come in with a study of the excess reserves. He hasn't done it yet - can't do it until they tell him where the thing is distributed. And at that time I'd like to sit down with you fellows and talk about it. And until then my mind is absolutely wide open. But I certainly - if all of the people in this room haven't seen it, I'll take another crack at it at three o'clock.

Haas: May I take a minute right now, so you -

H.M.Jr: But I mean please let everybody in the room look at it and then come in again.

Haas: There's one thing, Mr. Secretary. We've been spending our time here talking about mechanics, and so forth, but the much broader and more fundamental consideration behind all this is this: that if the market, the people in the market, consider this move by you a move of tightening up in any way your easy money policy move, that you are taking the leadership now - the Reserve took it in August or July, now even the Treasury - there's so much talk around and if you should hit a psychology just right - And it disturbed me
a bit when Harrison said the effect on the bond market - and this man Warren, when he gets this thing, what he'll say. Now, if that is going to be the effect, if I were in your place I'd rather do nothing about it than have a thing like that happen.

H.M.Jr: Now wait a minute, George. I don't know who wrote this thing, but they are trying to put too much in this thing. That's why I can't assimilate it in five minutes. I think that the thing should be confined - may I see those statements? I mean you are trying to evolve a policy, and I can't evolve a policy.

I think this thing - I think we should simply say that - I mean whatever the technical language is - that we are simply taking steps - I use the word "sterilize" for a better word - taking steps to sterilize the inflow and outflow of gold so that it will no longer continue to be a direct influence on the excess reserves. And that's all.

Now, when it comes to the other thing, that's when Eccles steps in. That's all I'm trying to do; all the rest of this stuff I think is absolutely superfluous. I don't think this is the place. I'm going to say all we are doing is to sterilize gold when it comes in and goes out, so we remove it as an influence on the excess reserves.

Glipnant: Well now, putting it that way, I must point out that the public will take it that the Secretary is scared, worried about the size of excess reserves.

H.M.Jr: Oh no, I can say this verbally without any statement. But this thing - I don't know who wrote this thing - they are -

Gaston: That's all the first statement says. Of course, your first statement is going a great deal further than the second statement, and I just wonder whether you want to say that you are absolutely going to
offset the gold movements, that you are promising to do that.

H.M.Jr: I can't - I mean my God we've waited for this thing and then you give me five minutes before to do a thing. I mean I'll do this thing verbally. When we all get down to this - and everybody wants to get words in my mouth - and I'll say it verbally. I suppose I've got to have a formal thing signed by the President. What's the technical way of doing this thing? What's the technical language and all, without trying to put any policy in?

Bell: Well, of course, if you are going to handle it all through the General Fund, you really don't have to announce anything.

H.M.Jr: But I've got to send something over for the President to sign.

Bell: I don't know that the President has to sign anything. He'll know the policy you've adopted, but all you are doing is building up the General Fund balance, and you do that through borrowing in the market. Now, it is true that part of that balance is going to become a dead asset through this sterilized gold. Now, so long as you stick to bills and certificates of indebtedness, the President does not have to approve the public debt transaction. The minute you go over to notes or bonds to take money out of the market, then he does have to approve it. But this is such a far-reaching policy, naturally, you want to have his approval.

H.M.Jr: But why do I have to say anything - "By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces that he will from time to time take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department."

White: Period, exclamation point, end - absolutely. Doesn't commit you to any policy, doesn't imply
that you feel the excess reserves -

Haas: Mr. Secretary, if you'd like to -

R.M. Jr: I don't know who did this - I don't know who did this, but why drag in -

Gaston: Well, that is stating less than you stated a minute ago.

White: We were never given that question to decide, whether you shall take action with regard to the excess reserves. We only were given consideration of the question if and when you wanted it, would this be the method.

R.M. Jr: Now, I say - I'll go over it and underline this. "By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces that he will from time to time take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department." Period. And all the rest is out - just that much.

Gaston: The question then is what does appropriate action mean, what are you going to do?

R.M. Jr: I'll explain it, but in writing that's all.

Gaston: That first sentence just says that you will sterilize gold imports and exports.

R.M. Jr: That's what I'm going to do.

Gaston: That's what that sentence says. As you corrected it, I don't know.

White: That sentence says he will take appropriate action. That means that if the appropriate action at one time demands one course of action and at another time a different one - and he's not committing himself to any. And we have not had an opportunity to examine or pass upon whether this is the appropriate time to sterilize gold. You specifically eliminated that from our consideration, and
for that reason I feel strongly inclined to end the statement where you ended it.

H.M. Jr: White refreshes my mind what I said, the problem that I gave you fellows: what was the best way of doing this.

Oliphant: Not whether we should or not.

White: That's right.

Oliphant: Remember, we have never discussed as to whether or not it should -

H.M. Jr: And this "from time to time" makes it a 24 hour basis and this doesn't mean this is forever -

Gaston: - nor automatic.

H.M. Jr: Don't worry, Eccles will - I think this is plenty.

Haas: There is another consideration; just take a minute. So important - I don't like to take time on it, but it's this: Remember when Stewart was down he said the ideal instrument should be something you can try and pull back, where you don't tie yourself at all.

Bell: In other words, test it.

Haas: Yes, test it. And that is in line with this. I'm thinking out loud. Might you not do this thing and say nothing publicly? And if somebody says to you, "Does this thing have any effect on your easy money policy or affect your bonds?" - and then if it does have a hardening of the interest rates, then you stop and -

H.M. Jr: But my dear George, what I say here in this first sentence: "By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces that he will from time to time take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department."
Haas: That leaves you wide open. I mean that leaves you wide open to do anything you want.

H.M. Jr: Well, is that in accord with what you just said?

Haas: No, I'd just say that by even making a public statement you give it an importance that you wouldn't give it if you didn't make a public statement.

H.M. Jr: Well, you have to make a statement.

Oliphant: Well, assuming you have to make a statement, the language that you just said last has to be projected against a background. Now, what is that background? Several weeks of discussion - too much excess reserves, runaway situation, etc. If you just say what you said, it is going to be right against that background, and you join that group unless you hang on something else also: that this is a good time to accumulate gold to take care of any future outflow.

H.M. Jr: I'll say that verbally. When you put this: "By authority of the President - Henry Morgenthau, Jr., Secretary of the Treasury" - But the beauty of this thing is I come in here, just the way I said, to these people and I make a statement which is about a hundred words: Gentlemen, after a month's consideration, in consultation with the Federal Reserve Board, the Treasury has come to the decision that all gold coming in the United States and going out - for the time, that we'll sterilize it." Period. Then Mr. Eccles takes the ball and he makes his long talk.

Now, the chances are that what you are worrying about - nine chances out of ten it won't come up. Then Mr. Eccles takes it and says how he thinks this and that and the credit and all the rest of that. I say, "All we are trying to do is to remove ourselves from a position where we are dominating the situation. We are simply removing ourselves from the picture." Now then, Eccles will say, "We may or may not; we don't know." And the interesting thing is - some of you dropped the hint - this: that they don't even know.
I think it's all right. I mean I don't think this is the time to get worried about it. But the rest of this stuff here - I mean I've got to say something and certainly that thing there - that little sentence doesn't tie me any place.

White: Supposing a reporter asks you, "Why do you select this particular time to make your announcement, Mr. Secretary?" I'd like to hear your answer.

H.H. Jr: My answer to that statement is this: that we wanted to move once we had made up our mind what was the best machinery to handle this gold that is coming in, and as far as - after carefully studying the whole field we have decided this is the best machinery, and we thought once we made up our mind the quicker we acted, the quicker we would be able to remove this gold as an influence on the domestic situation.

Oliphant: May I be a newspaper reporter?

H.H. Jr: Yes.

Oliphant: Well, on - "Then on that statement I take it that you are uneasy about this increase in excess reserves."

H.H. Jr: "That's something you'll have to ask Mr. Eccles. That's Mr. Eccles' field. That's his responsibility."

Kass: And he says, "Yes, it's quite a show you're putting on this afternoon, to have the Treasury and the Federal Reserve Board," and people will say there must be something behind the scenes on this.

Gaston: That isn't the first question they'll ask. If that statement is made, they'll say, "What do you mean, Mr. Secretary? What action will you take?"

H.H. Jr: Well, I'm not going to let myself be frightened. I'm not - I've done this thing for a month. I've absorbed this thing; I understand what I'm doing. I'm willing to make that much statement. I'm willing to think on my feet as I go along.
I thought I'd have Eccles - I want him here when he talks so I can interrupt him. I want to know what he says.

And I don't think that this is nearly as important as a lot of other things that I've got. I'm ready to go ahead and take responsibility. But I don't feel that in any way - I mean you can sit here for the next ten hours and say things which may happen and which may not.

But I'm not - the thing - the main thing that I ask everybody in the room is, "Am I tying the President's or my hands?" That's the main thing.

Uliphant: I'd answer that no.

M.M. Jr: Well, that's all I ask you, because that I will not do. If I am tying his hands or my hands so that I can't get out of this thing and reverse my self tomorrow morning, at noon if I want to, then -

Meas: I think you can make that clear at the press conference like you do your other -

M.M. Jr: "What do you mean from time to time?" The answer is that we are still on a 24-hour basis.

Taylor: You've got another nice place as far as your cooperation between your Board and the Treasury goes, because you can refer back to the Board having made certain announcement in advance of the December financing; you are taking this action so as to leave the decks entirely clear for the Board, whatever action the Board may need to take about the domestic situation, as unaffected by these gold imports.

Meas: I think you are going too deep.

G.M. Jr: I personally - I mean I very definitely had a reason for having Eccles over here. Maybe I'm a sucker; haven't been so far. I think it is smart. I'm dumfounded that he came. I think it
is very smart. Now anything that Eccles says that in any way is embarrassing to the President or the Treasury - while he is sitting over there I can't interrupt him, but I can here.

And if this thing is too sharp a move, if inadvertently we ourselves are putting on a mess, we can change it. The President said, "You know, Marriner, the thing is maybe we'll want to put 100 million in over and above what we've got here. The time may come when we want to shoot 100 million into the System."

And let me ask you fellows this. I think that - I mean this is a good time - we are all - we have this - the present excess reserves are dropping, aren't they, on account of money going out?

White: Before Christmas, always.

Mass: Christmas circulation.

M.M. Jr: And I'd much rather do it when the thing is going down rather than when the thing is going up.

White: Because you've got the Christmas excuse in case -

M.M. Jr: Yes, yes. And another thing is we have had two or three days of a bad bond market, so the bond market technically ought to be in a good position. It's like all of these things; I suppose this has been going on here now for a month, and I am personally not afraid of it. The only thing, as I say, is I'd be terribly frightened if anybody held up his hand and you permitted yourself to be put in a corner. Now let's go back.

Eccles tried his best to put me in a corner and tried his best to be able to say that after we did this thing we were establishing, or through doing it we were establishing a policy that from now on the Federal Reserve Board would run domestic economy. He's not going to say that this afternoon and he's not going - didn't say it here. Now just look at the ground we've traveled. I tell you if
this thing didn't work tomorrow noon - I can turn somersaults. Huh?

Oliphant: I think everybody in the country, including the people who think that we haven't gone far enough even in the easy money policy, would agree that it is worth while and sound to get ready for a possible outflow of gold. Now, if you put it on that ground, it seems to me you would be on a non-controversial basis, wouldn't be joining the Lend-Lease crowd.

M.M. Jr: Well, Herman, fortunately it happens to be what I really believe. I've come through this depression; I've seen all this thing, and I - I'm not - we've seen so little prosperity that I want to be prepared for the rainy day, and the way to be prepared for the rainy day is to accumulate gold. That's what interests me. That's what you tell these people. I think we're all right.

Oliphant: We are if you are sticking on that ground.

M.M. Jr: well, you fellows will have to trust me again. Have I got your confidence, Mrs. Klotz?

Mrs Klotz: Yes, sir.

M.M. Jr: Thank you. - We'll just do this.

Gaston: If you don't mind, in that case we'd better have nothing written, because that just says nothing and you'll have to explain it verbally, and it would be better to explain the whole thing verbally. But as you did explain it verbally you go beyond what we say.

M.M. Jr: No, I disagree with you. I want something written. I want to sign it and I want the President to initial it, and that's what I want - I mean if that's technically correct. But I'm certainly not going to do this thing without signing it and having the President approve.

White: The very fact that there is that possibility that you may go beyond it in your oral statement makes
it important that that written statement be made.

Bell: I'd have the President's approval on the policy, certainly.

H.M.Jr: Well, will you see - I want you personally to go over it and I'll be back here at three, and if it's all right, I'll sign it and send it over there. I'm certainly not going to take this step without something in writing formally for the approval of Franklin D. Roosevelt.

Bell: I'd like to know if Clarence feels that the President should approve it.

Opper: The only point is if you wanted to be in a position to move in the direction of the Stabilization Fund without going back to the President, then we have a letter here which would accomplish that at this time.

H.M.Jr: No, listen, Clarence, anything that I do on an important thing like this, I only do it with the President's approval.

Opper: Well, for this it seems to me that only the President's approval is what you want. Just a general statement of policy.

H.M.Jr: That's what I want, and if Bell, who has to do it, has to be responsible for the handling of this thing, I want him to make sure that that is technically correct. He may want something else. But I want to sign it and I want to send it over there and let him O.K. it. And I don't want to go on any beyond the actual technical explanation.

Gaston: Well, you want more than that sentence. You do want to explain -

H.M.Jr: No, no - only if Bell wants to add something. Really it's up to Bell. And after Bell has written it let him fight it out with the lawyers and let them say whether it is legal. I mean I'd like for Bell to look at it and see whether
he needs anything else in it. After he's done it let him give it to Mr. Oliphant personally, and I'd like you all back here at three o'clock.
By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces that he will from time to time take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department to offset approximately increases or decreases of the reserves of the Member Banks of the Federal Reserve System which would otherwise be the consequence of such gold transactions.

To this end, acquisition of gold will be paid for from the proceeds of the periodic sale of public debt obligations of the Treasury; and, correspondingly, reverse movements of gold will be compensated by the purchase or redemption of Treasury obligations.

The purpose of these operations is to protect the exchange value of the dollar and to safeguard the requirements of internal prosperity by preventing disturbance of the monetary and credit system through gold movements. The gold influx of recent months has contributed to the creation of bank reserves in excess of current needs. The present is, therefore, believed to be an appropriate time to provide additional means for neutralizing any possible ill effects of any future outflow of gold in considerable amounts.
By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces his intention to augment the supply of free gold in the monetary stock held by the Treasury Department.

This will be accomplished by the sale from time to time of additional public debt obligations, the proceeds of which will be used to defray the cost of additional acquisitions of foreign and domestic gold.

The purpose of these operations will be two-fold: first, to protect the exchange value of the dollar; second, to provide additional means for safeguarding the domestic economy from any possible shock which might be the consequence of an abrupt outward movement of gold in considerable quantity.

The gold influx of recent months has contributed to the creation of bank reserves in excess of current needs and it is therefore believed that the effect of additional acquisitions on bank reserves may be neutralized from time to time without ill effects on the monetary and credit system.
The Secretary of the Treasury, after consultation with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action to neutralize the effect of gold movements on the reserves of the banking system.

This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of out-going gold movements in the reverse direction.

The purpose of these operations will be to protect the exchange value of the dollar and to safeguard the domestic economy by preventing undue disturbance of the monetary and credit system.

Approved:
By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces that he will from time to time take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department to offset approximately increases or decreases of the reserves of the Member Banks of the Federal Reserve System which would otherwise be the consequence of such gold transactions.

To this end, acquisition of gold will be paid for from the proceeds of the periodic sale of public debt obligations of the Treasury; and, correspondingly, reverse movements of gold will be compensated by the purchase or redemption of Treasury obligations.

The purpose of these operations is to protect the exchange value of the dollar and to safeguard the requirements of internal prosperity by preventing disturbance of the monetary and credit system through gold movements. The gold influx of recent months has contributed to the creation of bank reserves in excess of current needs. The present is, therefore, believed to be an appropriate time to provide additional means for neutralizing any possible ill effects of any future outflow of gold in considerable amounts.
MEMORANDUM OF CONFERENCE WITH

REPRESENTATIVES OF THE AMERICAN DISTILLING COMPANY.

MONDAY MORNING, DECEMBER 21, AT 9:30.

Present: Mr. Graves, and Messrs. Buck, Brown, and Seymour, representing the American Distilling Company.

Mr. Buck introduced himself as President of the Western Division of the American Distilling Company which, like the American Distilling Company, is a subsidiary of the American Commercial Alcohol Company.

Mr. Brown is president of the American Distilling Company, and Mr. Seymour is an attorney employed by the company.

Mr. Buck stated that the object of his visit was to find out the facts regarding a pending claim against the American Distilling Company for rectification taxes.

I advised Mr. Buck and his associates that although I had some knowledge of the case, I was not prepared to speak of it in detail, and that they should address their inquiry to the Commissioner of Internal Revenue, with whom, Mr. Buck stated, they had an engagement at 2:30 this afternoon.

Mr. Buck and his associates stated that they had been unable to get the information which they desired from the Bureau of Internal Revenue. I expressed my surprise at this statement inasmuch, as I said, as I knew that there had been repeated and extended conferences between Commissioner Helvering and Deputy Commissioner Berkshire and representatives of the company with regard to this matter. I advised Mr. Buck and his associates that the matter was still pending before the Commissioner of Internal Revenue, that there was nothing before this office which required attention, and that if they desired to have any further discussion of the case or secure any information with respect to it, they should address themselves to the Commissioner of Internal Revenue and not to this office.

Mr. Buck agreed that this was proper, but said that after they had had their conference with the officials of the Bureau of Internal Revenue,
it seemed likely that they would want to confer with Secretary Morgenthau, or his personal representatives, about the matter. To this I responded that I was sure that the Secretary would not disturb any finding made by the Commissioner of Internal Revenue in this or any similar case unless evidence were presented to him by the taxpayer that the Commissioner's finding was arbitrary or unfair, or that the taxpayer had not been accorded just treatment by the Commissioner.

The attached letter of introduction was left with me by Mr. Buck, with the request that I hand it to the Secretary.

After the conclusion of this conference, I received a telephone call from Senator Johnson's secretary, who advised me that she had been requested by the Senator to say that Mr. Buck was his personal friend and a man known to the Senator for many years, and one whose statements could be relied upon.

GRAVES.
My dear Mr. Secretary:

This letter will serve to introduce Mr. W. E. Buck, President of the American Distilling Company, who, I understand has an appointment with you.

Mr. Buck is one of the leading citizens of San Francisco, a Director of the San Francisco Bank and of the Anglo California National Bank. He is also a valued client of our institution. We feel sure that you can rely on any statements Mr. Buck may make and it is our pleasure to commend him to you.

Yours very sincerely,

H. R. Gaither
President

The Honorable Henry Morgenthau, Jr.,
The Secretary of the Treasury,
Washington, D. C.
H.M.Jr.: Hello
Jos. F. Guffey: Henry?
H.M.Jr.: Hello Joe?
G.: How are you this morning?
H.M.Jr.: Oh, I'm all right unless you knock me on the head or something like that.
G.: Have you plenty of cash in the Treasury?
H.M.Jr.: Oh we've got lots. What can we do for Pennsylvania?
G.: Nothing I just want to know if we have to raise any more this session. (Laughter)
H.M.Jr.: Pardon me?
G.: I was just wondering if we'd have to raise any more this session.
H.M.Jr.: Well if you let me write the ticket you won't except for the unemployed.
G.: That's what I agree with you on that too, Henry, what I called you about was this. Joking aside the our Collector of Internal Revenue from the Scranton District has resigned. We sent a recommendation up there for James Money to succeed him. I wish you'd hurry that through for us.
H.M.Jr.: I think I signed it.
G.: All right, that's fine.
H.M.Jr.: I know I signed it.
G.: All right, thank you very much. I should have waited a couple of days,
H.M.Jr.: No - I - I signed it over the week-end. How are you otherwise.
G.: First rate. How are you?
H.M.Jr.: Oh I'm fine.
G: I suppose you noticed what we did in Pennsylvania.
G: Well we're going to keep it there too.
H.M. Jr: Fine. I was wondering, Joe. Well I - I signed that Saturday.
G: All right. Thank you very much.
H.M. Jr: Thank you, Joe.
G: Goodbye.
December 21, 1936
3:00 P.M.

Present: Mrs. Klotz
        Mr. Upham
        Mr. Lochhead
        Mr. Taylor
        Mr. Oppen
        Mr. Gaston
        Mr. Oliphant
        Mr. White
        Mr. Haas
        Mr. Bell

H.W. Jr: "The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action to neutralize the effect of gold movements on the reserves of the banking system.

"This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction."

Bell: Now, that's a complete statement in itself.

H.W. Jr: "The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces" - well, where is this thing "by direction of the President"?

Bell: Well, you don't need "by direction of the President," but he approves that.

Gaston: We left it out because we thought it was giving too much weight to it and making it too -

H.W. Jr: "The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public
interest to do so, to take appropriate action

to neutralize the effect of gold movements on
the reserves of the banking system."

Well, that's the reason why we're doing it, huh?

"This will be accomplished by the sale of addi-
tional public debt obligations, the proceeds of
which will be used for the purchase of gold, and by
the purchase or redemption of outstanding obliga-
tions in the case of movements in the reverse
direction."

Now, does this satisfy you (to Bell)?

Bell: Yes, sir. That doesn't say, remember, that you
are going to do it tomorrow; you are just going
to do it when occasion demands it.

H.M.Jr: But we are going to announce -

Bell: Well now, there is some feeling in this group
that you ought to postpone the announcement
another day to think about it.

H.M.Jr: Who says that?

Hello? (On phone - has conversation)

Where were we?

Bell: I had just stated that there were some in the
group who felt that you should postpone it. I
think Mr. Oliphant -


(Haas and White raise hands)

H.M.Jr: Why?

White: Well, it's -

Haas: Go ahead, Harry.

White: If there is going to be definite promise of action
taken with regard to the incoming gold, there is an implication there that this action is being taken by virtue of the fact that the excess reserve situation is considered such that some action is necessary at this time, and it is felt by some of us that if you were not - you did not wish to take a position at all with regard to excess reserves and you would not take a position. Therefore, we didn't see why such position should be taken through this back door, because that inference will be drawn by financial writers and others, even though you may not wish to give it that slant when you make your statement.

In other words, why are you doing it at this time? What has happened that has called forth such action now?

If you want to make the statement in your left hand, that's perfectly all right - without taking immediate action, postponing such action for several days or a week or month, or until such time as -

H.M. Jr: George?

Haas: I've been at home for three days, and the more I think about it I feel that we get here in a group and work so hard on the problem that we might get our bearings with the outside setting a little disturbed, and I think that if - I first of all would like to have you lay off it for a day or two days to think it over.

H.M. Jr: You fellows make me tired.

Haas: I know it's -

H.M. Jr: I know, but George, good God, I can't help it if you sit home for three days.

Haas: I think it was a good thing. I think it would help out if some of the others would. I'll just express myself, Mr. Secretary, and I'm not infallible by any means.
H.M. Jr: Neither am I, but you've had a month on this thing.

ớt: It isn't the mechanism; that's all O.K., that's correct, Mr. Secretary. It's the question of the effect it might have at this time, particularly when you announce this thing and give it a number one importance - is what disturbs me on the whole thing. I frankly would feel better if you thought about it a day or two before you did it.

Oliphant: Well, Eccles can make speeches and talk and the wise people around the country will draw their own conclusions. But your connection with the President is such - and your connection with monetary matters - that anything you do or say will reflect the Administration's position on monetary policy, and since that action comes against the background of a month's agitation about excess reserves getting out of hand and all that sort of thing, the implication will be that is your opinion.

H.M. Jr: Well now, I think what I can do here is - what you try to tell me is that I shouldn't tie this action in with the excess reserves. Now, I cut it out of the other statement and I don't want it. But I think I can say this: "The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so" - now, from there on - "to do so, to take appropriate action with respect to net additional acquisitions" - now, can't we put this in here and get it right this way? - "to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department."

Oliphant: Well, I must point out to you that the whole discussion of it has only been in terms of the effect upon the excess reserves and that, as a part of the President's general free money policy - and I don't just think there is any way of phrasing it to escape the implication that this is the first step in your complete reversal of the President's monetary policy.
M.M. Jr: Well, Herman, you have also, if I may say so, had a month to -

Elliphent: Excuse me - this was submitted strictly on the ground of what would be the best way, but not whether or not we should do it.

M.M. Jr: Well, what's the use of - I'll do it, see? I mean there's no use. I'll come - I'll do it - I'll take responsibility. Now, we were over this and I'm not going to at 3:15 have some people say, "Because we didn't -" - then why do you say it now? I mean if this is something - why do you say it at all if you've just been asked on the legal side? I mean is it fair to me to say it at 3:15, 45 minutes before my press conference, if this is something you've been feeling right along? Now, what I am trying to say and what I am going to say is - and postponing it 24 hours won't help it. I mean on Friday it was 3 to 4, on Saturday it was the same thing, and here it is Monday and it's the same thing. I can't get you fellows to agree, so I've got to - I saw the President on Thursday or Friday, whenever it was, and he agreed.

Hell: I think, Mr. Secretary, the question you asked about "time to time" - that that phrase "whenever it is deemed advisable and in the public interest" is the same thing as "from time to time."

M.M. Jr: Isn't that synonymous - "whenever it is deemed advisable"?

Gaston: Yes - "whenever it is deemed advisable."

M.M. Jr: All right. "The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department."

"This will be accomplished" - and so forth.

(Reporter leaves to write up statement in final form, returns, and hands statement to Secretary)
H.M.Jr: Now let's read this again.

"The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

"This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction."

Now, does that satisfy you technically (to Bell)?

Bell: Well, I don't think it is a question of satisfying me technically in this statement. I'm not satisfied with that first paragraph. You say "take appropriate action with respect to gold" - now, what have you been doing in the last year with respect to gold? Have you been taking inappropriate action?

White: No, hasn't been taking any action.

Bell: I don't agree to that. He's been taking action that puts the gold into the System, very definite action.

Upham: It's the fault of the English, I think.


Upham: Can't you say "neutralize the effect" without saying anything about bank reserves?

H.M.Jr: Does it sound all right legally?

Oliphant: I think that language is good enough - is all right, because that goes into the hands of laymen and newspapermen and they will know what it means. I think it is rather a strange construction to say
that hitherto you've been taking inappropriate action.

H.M.Jr: George?

Haas: I think that statement is all right, if you're going to make one. I think we could stay at it for - well -

H.M.Jr: White?

White: I think the statement is all right. I still think, however, that the criticism that we have not brought this to your attention, which of course is quite justified, should not stand in the way of the reconsideration of the problem, because it's not too late to postpone it if you see fit.

H.M.Jr: All true, but nobody's raised anything yet, -

White: True.

H.M.Jr: - which makes me think what I am trying to do and which - I understand what I'm trying to do.

Haas: I'd feel better if you were alone and not with Eccles.

Bell: That bothers me too.

H.M.Jr: Well, how would you feel if I was alone and Eccles was alone?

Haas: Well, he's still going to be alone after he leaves you.

H.M.Jr: Well, as I said this morning, I wish we were all together, but I do think there is danger, after having said we'd do it - I think it puts me in the position of being "wiggly-wabbly." Herbert Gaston says this may stimulate a big inflow of gold; that is something which nobody can foresee. Somebody says bonds will go off tomorrow.

Haas: They might go up, you can't tell.

Lochhead: The bill offering today was about double prices
of last week. That's your bills; your short term bills went today at an average of .085; last week it was .039. And the long terms, .226, against last week .117. But I'm simply saying that the market was anticipating an increase in the Federal Reserve requirements and they are anticipating something being done in gold. It's all anticipated.

H.M. Jr: I'll tell you something. Every paper's got this thing, and the longer we don't do something the more uncertainty there is. All I can say is I've been in much more critical situations than this many, many times, and - Herman, you know me; I have no doubts, see? My instincts are all right on this, Herman.

Oliphant: Well, I'm perfectly satisfied as long as you make it clear that you haven't joined the hue and cry and that the President hasn't joined the hue and cry.

H.M. Jr: Well, Herman, that contribution that you have made will be uppermost in my mind.
FORM FINALLY ADOPTED

The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction.

APPROVED:

The White House
December, 1936
December 21, 1936.

The Secretary of the Treasury, after conferring
with the Board of Governors of the Federal Reserve System,
announces that he proposes, whenever it is deemed advisable
and in the public interest to do so, to take appropriate
action to neutralize the effect of gold movements on the
reserves of the banking system.

This will be accomplished by the sale of additional
public debt obligations, the proceeds of which will be
used for the purchase of gold, and by the purchase or
redemption of outstanding obligations in the case of
movements in the reverse direction.

APPROVED:

[Signature]
By authority of the President and after consultation with the Board of Governors of the Federal Reserve System, the Secretary of the Treasury announces that he will from time to time take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

APPROVED:
December 21, 1936.

The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action to neutralize the effect of gold movements on the reserves of the banking system.

This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction.

APPROVED:

____________________
December 21, 1936

The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action to neutralize the effect of gold movements on the reserves of the banking system.

This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction.

APPROVED:

__________________________
(Captain Forster
at the White House)

December 21, 1936.
3:40 p.m.

Forster: What he wanted was that the formal announcement should have nothing in it about his approval. He said of course there was no objection if anybody asked you to tell them that he had approved.

H.M.Jr: But in the release.

F: In the release — ah you needn't say...

H.M.Jr: You're quite right — the release is being cut now.

F: Ah-ha.

H.M.Jr: And there's nothing on it about the President's approval.

F: Ah-ha.


F: Yes.

H.M.Jr: But if the newspapermen say did I confer with the President does he approve I can say, "Yes" — is that right?

F: Yes, that's right.

H.M.Jr: Well he's perfectly right and that was the procedure I was following.

F: Well I told him I was sure that was what you intended.

H.M.Jr: And as a matter of fact this is purely a record as between the White House and myself.

F: Ah-ha.

H.M.Jr: So that I thought this was such an important matter that I shouldn't do it without the President's formal approval....

F: Ah-ha.

H.M.Jr: ....but the release will not carry his approval....
F: Ah-ha.

H.M.Jr: .....but just to repeat that I can say to the newspapermen, if I'm asked, ....

F: Ah-ha.

H.M.Jr: .....I did confer with the President and it met with his approval.

F: Yes sir.

H.M.Jr: Well we're in complete agreement.

F: That's right.

H.M.Jr: Thank you.

F: Thank you sir.
December 21, 1936.
5:03 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

H.M.Jr: Hello

H.M.Jr: Henry - this Grover Whalen?

Whalen: Yes.

H.M.Jr: Henry Morgenthau, Jr.

W: Oh how are you?

H.M.Jr: I'm fine.

W: I didn't want to bother you. Henry Gerard and I wanted to come in and see you for a moment tomorrow. We are going to be in Washington.

H.M.Jr: Well my trouble is - are (laughs) I'm in terrible shape tomorrow and I wondered if it was something we could do over the phone.

W: Well it's - it's about a case that both of us are interested in in connection with an action taken by the Department that was, we feel, a great crisis on a company that we're both interested in and we have to - an offer of compromise down there for two years and they were - it was recommended and finally we got a....

H.M.Jr: Is that that Commercial Alcohol?

W: No - no - this is Cot's - Cot.

H.M.Jr: Oh - perfume?

W: Yes, and this just simply wipes out the company pretty much as a result of the action of the Department and......

H.M.Jr: Well now Grover would you be representing them?

W: Oh I'm a director.

H.M.Jr: Oh.
W: I - I represent the French interests on the Board.
H.M.Jr: Oh.
W: And have been and Gerard....
H.M.Jr: I've - I've met Madame Cote and I can't hand her much.
W: (Laughter) Well I - I agree with you on that too but they've - they've had an unfortunate time in this country while - since he died.
H.M.Jr: Yes.
W: And of course this thing is a - is a net profit of about $900,000.....
H.M.Jr: Listen...
W: And this action has wiped it out to about $200,000.
H.M.Jr: Would you - have you seen Guy Helvering?
W: No - I - I haven't.
H.M.Jr: Would - would you mind seeing him first?
W: I'll be very glad to.
H.M.Jr: I tell you what I'll do. I'll make an appointment for you to see him.
W: Will you do that?
H.M.Jr: Yes, because I'm very much in a jam tomorrow.
W: All right.
H.M.Jr: And when you come down you just call up his office and you'll find you have an appointment to see him.
W: Well that's fine. I - I know that the administration doesn't want to harm a company to the extent that this is going to be harmed by this action.
H.M.Jr: Well if you - if you find - I mean if you don't get satisfaction from Guy Helvering you can always see me but what I'd like you to do is to see him first.
W: All right. Thanks a thousand times, Henry.

H.M.Jr: And if you'll call up you'll find you have an appointment with him.

W: I'm very grateful.

H.M.Jr: And as long as you don't send Madam Cote down it's all right.

W: (Laughter) All right, thank you very much.

H.M.Jr: O.K.

W: Bye-bye, Henry.

H.M.Jr: Good-bye.
H. M. Jr.: If you'll bear with me, I'll read this very short statement and I think you'll understand just why Chairman Eccles is here.

(Reads release 9-20) I might say that during the past month Chairman Eccles and I and our statistical staffs have been in constant conference over this very important subject and we finally did come to an agreement as to what the present course of action should be. We consulted with the President and he's approved the action which the Treasury has taken. Now I'd be very glad to answer questions as far as the Treasury's action is concerned, and Chairman Eccles is here, at my invitation, to explain the position of his Board.

Q. Isn't there a prohibition against this in the Gold Reserve Act? I've forgotten, but doesn't it say you can't deal in government securities, or is this an open market operation?

A. This is an open market operation on the part of the Treasury.

Q. On the part of the Treasury?

A. All this means that as we—from now on—any
gold that we buy will be put into an inactive fund and will show up in the daily statement as the exact amount of inactive gold, and instead of going to the Federal Reserve System, as we have to now, and securing the necessary funds there to pay for this gold, why, in the future we'll borrow whatever additional amount is necessary in the open market. That's what I was trying to say.

Q. Will those bills be quarterly or current?
A. No, they will be additional bills. I mean, if we buy $50,000,000 worth of gold we'll borrow an additional $50,000,000 worth of bonds.

Q. They will be weekly?
A. They will be weekly.
Q. It isn't going to be daily?
A. It isn't going to be daily. It will be weekly, and we will try to make it as uniform as possible. We will try to, if we're borrowing $100,000,000 worth of bills now we'll continue that $100,000,000 or start a new series so as not to be in and out too often; we'll try to make it as even as possible.

Q. When you buy the bills back, through what channel will you buy them back—directly or through the fund?
A. Most likely they will run off rather than buy back.

Q. That's true, but you mentioned the possibility. We might have to, but the chances are—If $50,000,000 worth of gold left the country, the chances are we'd just let $50,000,000 worth of bills run off.

Q. Do I understand, Mr. Secretary, that this is strictly a Treasury operation, exclusive of the stabilization fund.

A. This is a Treasury operation, exclusive of the stabilization fund. I mean, the stabilization fund is part of the Treasury.

Q. The only thing I'm not clear on is whether it would be correct to say the Treasury is undertaking this or the stabilization fund.

A. The correct thing to say would be the Treasury is undertaking this.

Q. I was going to ask, sir, if you acquire gold from the stabilization fund, it will actually be a purchase by the Treasury of gold from the fund.

A. If you don't mind, I'm not going to break that down, for the time being, but from the standpoint of the public, the public will know, which they don't now, every day through the daily statement the exact amount of gold that we purchase.
Q. And it will be known as inactive gold?

A. It will be known as inactive gold, or some term, if Danny Bell can think of a better one.

Q. That's effective today?

A. Well, it will take a couple of days to set up this machinery.

Q. Will you want to comment on what the publication of this information—what will be the result of that?

A. I think Chairman Eccles will talk on that; I'd rather let him explain that.

Q. Doesn't this bring your stabilization fund operation about the same as the British?

A. It isn't particularly comparable.

Q. They sold $65,000,000 of gold to get bills the other day, so they can do the same thing you're trying to do.

A. Well, if you don't mind, I'm not going to get in that. It isn't exactly the same, it's different, because our funds are set up differently—our fund is set up with two billion dollars of gold and their fund was set up with nothing. They borrowed money to set up their fund and we started with two billion dollars worth of gold—that's the big difference.
Q. Mr. Secretary, you will borrow directly and Treasury operation bills will not be sold as they are over there, out of the fund?

A. This will be a Treasury operation. As far as the public knows the bills will not be earmarked; it's just we borrow that additional amount of money against the gold we have bought and put it in the inactive fund.

Q. What maturity will these bills have, Mr. Secretary?

A. It depends on the market—maybe ninety days, 120 days, just where it appears to fit in best; it may be nine months.

Q. Will you have an issue of say $50,000,000 in order to have funds on hand to purchase the gold?

A. We might draw on the general fund for the first $50,000,000 and there might be a lapse there of two or three days; there might be a lapse of a week; we can't quite make the two things dovetail; the first fifty million, if it just didn't happen to come the right day we would draw on the general fund for that amount, and we would sell $50,000,000 the first day available.

Mr. Eccles: And replace it in the general fund.

Q. The sale of bills might come first?

H. M. Jr.: It might possibly. We're going to have this big gold wave coming and we want to build up the
general fund by $50,000,000 and we may add the
$50,000,000 a few days before; there will be a
difference of two or three days before or after.
Is that right, Danny?

Mr. Bell: Yes, Sir.

Mr. Eccles: It will come before or after.

H. M. Jr.: Before or after; I just want to say this: Under
the usual Treasury policy we have pursued since
we've been here, note when I say, "Whenever it be
deemed advisable, in the public interest," this
policy which we are putting into effect will be a
continuous one up to the time that the Federal
Reserve Board and the Treasury should consider it
wise to discontinue this action.

Q. You will not discriminate between individual ship-
ments of gold?

A. That's the point, but you men who have followed
the Treasury know that up to now we never have
said we are taking this action and this is final;
it's action which will continue until we decide
it's unwise; in other words, as you say, we
won't handle one shipment one way and one the
other, and I also pointed out that this also
includes domestic.

Q. Is this a part of your study of capital movements?

A. No, the report on capital movements is still in the
study stage.
Q. Would you care to review a few developments of the last three weeks or so that led up to this decision?

A. No, I think that it's a very important matter and something that Mr. Eccles, his board, his staff and people associated with me and my staff—that we have studied this thing in and out and looked at it in every possible way and invited economists in here to look at the thing, and after very careful study by both organizations, this is the result; now I'd like to have Chairman Eccles take it over.

Q. Can I ask the Chairman if he'll explain to us what effect this will have on the previous effect that gold had both on bank reserves and bank deposits? Will it do anything necessarily to prevent the increase of bank deposits?

Mr. Eccles: Let me make a statement covering the situation and it may answer some of the questions that you naturally would have. The Federal Reserve have certain powers to deal with excess reserves—

increase of the reserve requirements of the member banks, and also, of course, the sale of government securities which it sells in the open market. The power to deal with excess reserves from those two sources amounts to approximately four billion.
dollars. In other words, the Reserve System today, by using the power it has to increase reserve requirements by the additional fifty per cent, having already increased last year by fifty per cent, and selling the securities which it has, amounting to $2,430,000,000—given a total power to absorb excess reserves of four billion dollars, approximately. The amount of the excess reserves at the present time (well, that isn't so important)—the maximum amount of the excess reserves shortly after the new year when the currency circulation decreases, due to the large holiday business, will likely reach from two billion three to two and one-half billion of excess reserves. So that the Reserve System has adequate power and authority to deal with the maximum of excess reserves that are now in the System, without asking at this time for additional powers to deal with the problem. The Treasury's proposed action means that further gold imports and newly-mined gold will no longer become excess reserves or increase the reserves of the member banks. It means that gold imports, newly-mined gold and gold exports can be undertaken without having any repercussion.
upon the domestic credit situation. This reduces the problems of the Reserve Board in this matter. I think that covers in a general way --.

Is it true, sir, that imports of gold, although they will no longer increase the excess reserves, will continue to increase the bank deposits?

Mr. Eccles: That's right. It's impossible, of course, to keep them out of the bank deposit structure. However, that means that the effect is a dollar for a dollar. To the extent that they become excess reserves it means a possible expansion of from six to eight times the amount that comes in.

This shouldn't be construed as a move away from easy money or anything like that, should it, sir?

Mr. Eccles: No, it shouldn't in any way because there are adequate reserves in the Reserve System to simply deal with the excess reserves and there's adequate excess reserves in the System to influence the money market. I want to say this, too, that--I'm going to anticipate a question--I've jotted it down here so it wouldn't be misunderstood. I should say, to anticipate the question which I suppose should be in your minds as to what bearing this action might have on an indicated purpose of the reserve authorities to reconsider the problem of excess reserves early in the new year, I'd like to point out there's not necessarily any bearing other than the fact
that we will now be in a better position to
know what volume of excess reserves we'll have
to deal with in the future—whether at that
time or at a later period. Of course, what
the decision might be, I can not undertake
to predict, since it would depend upon the
factors which we can not judge with finality
this early. Nor could I, of course, under­
take to speak for the other members of the
Board whose views I could not attempt to fore­
cast.

Well, sir, could you tell us if there's a
meeting of the open market committee defi­
nitely set down for any date in the future?
No, not a definite date. The open market is
subject to call of the full committee and the
law requires it must meet at least four times
a year. That's a minimum that it must meet;
it can meet as often as it is called. The
executive committee is, of course, a smaller
committee and it meets as often as deemed
advisable and necessary in the interim be­
tween the meetings of the full committee.
Do you feel that this solves the capital
imports problem?
Mr. Eccles: I think this has nothing necessarily to do with the capital imports problem. It deals with the effects of that problem, but, of course, it in no way deals with the causes of the problem.

Q. Does that mean study is still being given to the causes?

Mr. Eccles: I think the Secretary answered that—that study is being given.

Q. This will be some cost upon the government?

Mr. Eccles: Yes.

Q. The interest rate has already reached the vanishing point, but it will cost, nevertheless.

Mr. Eccles: Yes, there will be some cost.

Q. I was wondering if this won't cause the interest rate to go up a little in the market for bills?

Mr. Eccles: Of course, that's anticipating a tremendous flood of gold.

Q. Do you think that the import peak has about been reached?

Mr. Eccles: Well, I wouldn't want to express an opinion as to that.

Mr. M. Jr.: I don't think anybody can answer that.

Q. How much gold has come in since 1933, approximately? Since the Gold Act of January 30, 1934?
H. H. Jr.: I've got it here, but—.

Q. Net by years; do you have it there?

A. Well I've got it—1934 it was $1,133,912; and 1935, $1,739,001; and for the 11 months of 1936 $1,059,419.

Q. That's net inflow each year, isn't it?

A. That's net.

Q. Mr. Secretary, can you add the amount of newly-mined gold to that? Would that be a factor?

A. We've got the newly-mined gold—we've got it on here. I haven't got a total but I can give you the way it has been running. The secondary gold runs about a million and a million and a quarter a month.

Q. That's dollars?

A. Dollars—a million to a million and a quarter dollars per month, and the domestic gold, newly-mined, has been running between twelve and thirteen million a month.

Q. Is secondary gold going to be handled this way also?

A. Everything.

Q. It's the fear of the acceptance of this gold for credit expansion, speculation and all that business that causes this action.
Mr. Eccles: Well, the gold that comes in adds to the deposits and adds to the excess reserves of the member banks and it's got to be dealt with either in this manner or by the Reserve System. The Reserve System would prefer to have it not enter the banking picture at all, so that there's no impact upon the domestic credit picture of gold imports or exports; it makes for a much more stable domestic credit control. So long as it isn't subject to the impact of huge foreign imports of gold or exports of gold, and so far as we have already in the System such an abundance of reserves, there's an adequate amount to take care of all possible domestic credit in addition. And as I stated the powers that the System have are such that they can now deal with the excess reserve problem with the Treasury dealing with this other aspect of it.

Q.

Mr. Eccles, was this problem anticipated when the easy money policy was inaugurated by the Administration?

Mr. Eccles: Well, the easy money policy has been in existence since about 1930, as I recall; there has been an easy money policy and the Reserve System started to buy bonds, I think, in 1930.
That's true, but it was peppe up a little bit in 1933, wasn't it?

Well, the Reserve System bought about six hundred million during—up until August, I think, of 1933—they bought a few hundred million, but most of the bills bought by the Reserve System was prior to the coming in of the present Administration—at least three-fourths of them were; they have only bought about one-fourth of their present holdings since that time and that was in the first half of 1933.

Mr. Secretary, as regards the technical status of this gold, by making it inactive, it won't be necessary to issue certificates against it, but technically they could be issued against it.

Dan, do you want to answer it?

Not so long as it's inactive. It wouldn't be inactive if we issued certificates against it.

It's not frozen by Congress or anything.

This administrative action taken does that.

And it could be rescinded tomorrow?

That's right.

You haven't been expecting easing of the reserves problem then?

How do you mean?
You have enough power and enough facilities to deal with the excess reserve problem; you have one asking the Treasury what the effect of this is to get the Treasury to get the gold imports off of your shoulders.

Mr. Eccles: It isn't a request of the Treasury, but it's a question of our both recognizing the movement of the capital and gold to this country and it simply is a problem that we are both interested in. We are interested in increasing excess reserves on the one hand and the Treasury is interested in it from a standpoint, I would imagine that they have got to buy it and it means selling—certainly it means selling something to be able to buy it. This is merely a matter of buying it. Now for the Reserve System to meet the excess reserve problem which they must do at some time, they don't want to use up all of the powers that they have without looking as to where they might get additional powers or what additional powers they may ask for. Now this meets the problem so that we're not in a position now where we feel we'll have to ask Congress at this time for further powers to increase bank reserve requirements.

On that point, sir, (this is a little bit outside of this conference) but do you think there's any
need for any authority to, in some way, get at the volume of deposits as distinct from the volume of bank credit, that you should be authorized in some way or other to endeavor to influence the volume of bank deposits.

Mr. Eccles: I don't just get the significance of your question.

Q. Well, I'll leave it go.

Mr. Jr.: May I just say this—as Mr. Eccles is my guest, if you're all finished on this question why I'd like—everybody is satisfied?

Mr. Eccles: I'm satisfied if they are.

Q. I'd like to ask one more question: What are you going to do about all the gold you already have?

Mr. Jr.: For the time being, nothing.

Q. Is it "as is"?

A. As is.

Q. These will be discount bills won't they, Mr. Secretary?

A. Yes.

Q. I'd like to ask one more question, Mr. Chairman. In your speech in Boston you suggested a tax on capital coming in—that and other new investments; are you still --

Mr. Eccles: I don't think that that's a part of this problem at all today; that speech speaks for itself; it was merely an expression of the problem and matters
That can't be considered immediately. That is, as to the type of tax or whether the tax would be practical, I didn't express an opinion.

All of this and the interview is for morning paper release?

H. M. Jr.: That's right.
FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 22, 1936.  
12/21/36

The Secretary of the Treasury, after conferring with the Board of Governors 
of the Federal Reserve System, announces that he proposes, whenever it is 
deemed advisable and in the public interest to do so, to take appropriate action 
with respect to net additional acquisitions or releases of gold by the Treasury 
Department.

This will be accomplished by the sale of additional public debt obligations, 
the proceeds of which will be used for the purchase of gold, and by the purchase 
or redemption of outstanding obligations in the case of movements in the reverse 
direction.

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Belgrade, December 29, 1936.

Subject: Communicqué of the Governors of the National Banks of the Balkan Entente States.

The Honorable
The Secretary of State,
Washington.

Sir:

As a matter of record and as of possible interest to the Department, I have the honor to transmit herewith a translation of the official communicqué issued at the close of a recent meeting of the Governors of the National Banks of the Balkan Entente. The meeting was held at Athens.

Respectfully yours,

Charles S. Wilson

Enclosure: Communicqué, Translation of.

File No. 851
CSR: HBB

Regraded Unclassified
Enclosure to Despatch No. 655 of December 21, 1936, from the American Legation in Belgrade - entitled:

Communicatie of the Governors of the National Banks of the Balkan Entente States.
(Translation)
Source: AVALA, December 21, 1936.

The Governors and their collaborators have examined all the questions included in the agenda in an atmosphere of complete mutual confidence. The four Governors are happy to state that they are in perfect accord in so far as concerns the questions affecting the scope of activity of the National Banks.

Considering that the monetary accord which binds France, Great Britain and the United States, and to which other countries have adhered, represents in all actuality a step toward the amelioration of the international monetary situation, and regretting that they cannot at this time adhere to this accord, the four Governors express their hope that the currencies of the principle powers may be definitely stabilised in the near future so that other countries, and especially the States of the Balkan Entente, may likewise associate themselves in this work of rehabilitating the currencies of the world. The four Governors have noted the difficulties which confront their national economic systems by reason of the low prices obtainable for the principal products of exportation and, in consequence, by reason of the valorisation of gold.

They have noted that to the monetary alignment, to which many countries have already adhered, must follow measures for relaxation (of economic restrictions) and for a progressive return to free trade. They recognize the need, and notably for those countries which have
already joined the monetary alignment, of progressively abandoning the system of clearings, or, at least, of modifying its structure.

They consider desirable that the question of foreign debts be regulated in accordance with the revision of the gold clause.

Special sections will be created in each of the four National Banks which will be charged with the examination of the economic and financial situation in the countries of the Balkan Entente and especially with the study of the possibilities of ameliorating and developing the economic relations already existing between the four countries.

The four Governors have examined the problems relating to their common activities within the framework of the Bank for International Payments. In this respect it would appear desirable that the Balkan Entente be represented in the Administration Council of this International Bank.
TO

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Dated December 22, 1936

To

The Secretary

From

Mr. Taylor

After going over the notes of the meeting yesterday afternoon with the Treasury Attachés and Representatives sent by the Legations which did not have Treasury Attachés available, I think it is probably better to present the report in the form of a memorandum, as we encountered some difficulty with accents, etc.

I opened the meeting by explaining the fact that the Secretary of the Treasury wished to convey through Diplomatic channels to the Treasuries of the countries cooperating in the monetary arrangements the information concerning action which had been decided on by the United States Government and to give the representatives here in Washington an opportunity to ask any questions which might be of interest in transmitting the information to their respective Governments. I emphasized the fact that the action was entirely domestic in character but that we wished to answer any questions which might serve as background.

I gave each of the foreign representatives a copy of the press release and then Lochhead and I answered the various questions which were asked. The questions mostly concerned how the gold acquisitions would be handled in our daily Treasury Statements, and how the acquisitions would be financed. In order to explain these points it was necessary to describe in some detail the manner in which gold acquisitions had been handled in the past and to compare our practice to that of certain other countries. I did so in rather general terms and also described the method of selling Bills in the
market and the amount of latitude possible in letting Bills run off, or acquiring outstanding Government obligations in case the gold movements were outward.

I also indicated that in case conditions changed, in consultation with the Federal Reserve authorities, we might change either the policy itself or the method so that gold might again flow into the Federal Reserve system, if such action appeared desirable.

As soon as the foreign representatives understood the mechanism and the fact that it was entirely a domestic problem, they expressed their appreciation and departed.

Those present at the meeting were:

Mr. Bewley - British Embassy
Baron van Breugel Douglas, Netherlands Legation
Mr. Jules Henry - French Embassy
Mr. Edouard Feer - Swiss Legation
Mr. Hellaert, - Belgian Embassy
Mr. Livesey - State Department.
OFFICE OF THE ECONOMIC ADVISER

Mr. Wayne Taylor. December 22, 1936.

My dear Mr. Taylor:

In Department's 543 to Cochran I inserted the words "or other representatives" which appear on page two, line two.

Those at the meeting reading from your right hand around the table were: Baron van Breugel Douglas, Netherland Counselor of Legation; Mr. Eduard Feer, Swiss Counselor of Legation; Mr. T. K. Bewley, British Treasury Attache; a Belgian whose name I do not know (not Prince de Ligne nor Mr. Walravens); (Livesey, Lochhead); Jules Henry, Counselor of the French Embassy.

Sincerely yours,
The following statement was made this afternoon for release in morning newspapers Tuesday, December 22, 1936:

"The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

"This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction."

This decision was taken after careful consideration and consultation with the Governors of the Federal Reserve Board and was approved by the President. This information, and
LMS 2-No. 543 to Amembassy, Paris.

and necessary background, was also given to the Financial Attaches or other representatives of the British, French, Belgian, Holland and Swiss Governments here this afternoon for transmittal to their respective Treasuries. This action will not affect in any way the mechanics of the movement of gold to or from the United States and other countries.

It is contemplated that this mechanism will commence to function within the next day or two and will apply to all new gold acquisitions both imported and domestic. These acquisitions will be shown on the daily statement of the Treasury as inactive gold in the General Fund. This method of handling gold will continue in effect until circumstances indicate that a change in policy or method is desirable. In meeting with foreign Treasury attaches it was emphasized that this move was domestic but that we desired to inform Treasuries of cooperating countries so that they might fully understand background and technical aspects of move.

MOORE, ACTING
(FL)

EA:FL
December 22, 1936.
(D.J. 11:45 a.m.)

Holland to be permitted to convert dollar balances into gold.

Washington. - Dollar balances which the Dutch Exchange Control may have acquired in its stabilization activities can be converted into gold in this country if the Dutch control & wishes to do so, officials said.

(DJ 11:53 A.M., 12/22/36)
Add Holland

The situation they pointed out is covered by Secy. Morgenthau's statement of Nov. 23 in which he declared that "Arrangements have been made by the U.S. for gold transactions on a reciprocal basis - between the U.S. and the Netherlands. Whether any dollar balances have been actually converted into gold for the Dutch control could not be learned at once but since the Treas.'s gold stock has shown no net decrease, there was considerable doubt whether any gold has been withdrawn for for. acct. through Dec. 19.

Whether the new mechanism announced this morning for neutralizing gold movements would be utilized to offset the effect of an earmarking for Dutch account in the immediate future was doubtful. Since the volume of excess reserves and bank deposits is considered to be large, the authorities might decide to let any gold withdrawal for Dutch account have a full effect on the bsg. structure without taking any neutralizing step.

The Treas. has discretion under the announcement made this morning to either act or refrain from acting on gold exports.
December 22, 1936,
9:26 a.m.

Eccles: Good morning Henry.

H.M.Jr: Good morning. I thought we got an awfully good press.

E: Well I saw the Post this morning. I haven't seen any of the other papers.


E: Well they usually do. They understand the subject better than most of them.

H.M.Jr: But I'm awfully pleased the way they handled it.

E: Well I'm - I'm glad you are.

H.M.Jr: Yes, I thought it went very well.

E: I - ah -

H.M.Jr: Let's see now how the bond market opens.

E: It's a difficult subject to handle.

H.M.Jr: Yes, it went very well I thought.

E: The - I've got a - a partnership arrangement satisfactory so we could both have a - the bond market ought to be taken care of.

H.M.Jr: Well nothing will happen this morning. I mean I don't look for any trouble.

E: Well I - I feel this way about it, sir. The real investors in bonds are going to interpret it as favorable at least after they get thinking about it a day or two.

H.M.Jr: Oh I think so.

E: And this - this means that - this means that six million buying securities are going to be protected.

H.M.Jr: I think so.
E: How did you like the show last night?

H.M.Jr: Pretty well. You sound as though you were still in bed.

E: No - no (laughs) I'm not in bed.

H.M.Jr: All right. Well I just wanted to say I - I thought we got a swell press. That's all.

E: All right sir.

H.M.Jr: Goodbye.

E: Goodbye.
Go ahead.

Hello.

Hello sir.

Where are you?

Well I'm at home with a cold.

Oh I'm sorry. Well who is going to carry on in your place in New York?

Ah Madison - Madison will be there. I've just been talking with him.

Have you given him some orders?

Yep - yep - I - I told him to put in a little heavier orders than we had in Saturday.

Yes.

Ah - now we'll - we'll have something in on the note and on the bonds we operate 50-50 with you, is that all right?

That's all right.

O.K.

Now - ah - ah - well just as soon as it opens I'll talk to Madison.

All right.

Is he going to handle it to-day?

He'll handle it.

Ah - which broker did you give it to?

Ah - we're working through the First Boston on bonds and through the Discount on notes.

I see.
B: Now we'll take care of the notes ourselves.

H.M.Jr: Ah-ha.

B: Ah - now I'll keep in touch with it right along.

H.M.Jr: I liked the publicity on it, didn't you?

B: I thought - I haven't seen many of the papers but I thought it was pretty good.

H.M.Jr: Times had the good story.

B: Yes.

H.M.Jr: Yes.

B: I think it's all right. What the market will do I just don't know.

H.M.Jr: You've got a bad cold?

B: No - not very bad but it's down my bronchial tubes a little. I'm going to stay home unless it gets bad. If it gets bad down there, I'll go down.

H.M.Jr: All right Burgess.

B: And in the meantime I'll keep in touch with it....

H.M.Jr: All right.

B: .......so you'll know I'm on the job.

H.M.Jr: Sorry you're not well.

B: And Madison will talk with you.


B: All right sir.
December 22, 1936.
12:40 p.m.

H.M.Jr: How is the market going?

Madison: Well it's - it is - it is hold/all right and as far as I can find out the undertone is fair.

H.M.Jr: Fair.

M: The - the dealers have not been thrusting much stuff on the market......

H.M.Jr: Yes.

M: ....and although - they - they have some which they would like to sell.

H.M.Jr: Yes.

M: But there hasn't been any desperate selling of any kind.

H.M.Jr: No.

M: It's so quiet it makes me a little suspicious and I wouldn't be surprised to see it sag off a little in the usual way somewhere between one and two o'clock when the out of town stuff comes in more freely.

H.M.Jr: What are you suspicious of?

M: Yes.

H.M.Jr: What are you suspicious of?

M: Well lots of days at that time we get some out of town selling.

H.M.Jr: I see.

M: From the west and that which has - which has an effect sometimes on the market. We don't always get but I'm always thankful when that time is by when the days are not so good.

H.M.Jr: All right.

M: I bought about two million each of bonds and notes which isn't bad. I'm holding up fairly good amounts
for a back-a-way.

H.M.Jr: All right.

M: And I don't think the undertone is bad just now.

H.M.Jr: Thank you.

M: Yes.

H.M.Jr: Goodbye.
The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction.

---oCo---

I'm active
I asked the President if it was too late for me to discuss with him the question of not transferring Resettlement to agriculture. He said it was not too late. I told him that I thought it was a mistake as once it got into agriculture it would be very difficult to transfer certain bureaus in Resettlement, such as satellite cities to some other department. Furthermore, why not wait until the report came in on how to handle the share croppers. I also told him that I understood that their accounts were in very bad shape, nothing dishonest but just sloppy and that it would be much easier for us to investigate Resettlement if it was kept as an independent agency. He said that an Executive Order had been drawn up for its transfer to agriculture and to tell Bell to hold it up and he would discuss it with us on Monday. I was surprised to find that he was willing to discuss it with me as I had taken it for granted that when he saw Wallace and Tugwell yesterday that he had come to an agreement with them.

I said to him next, "Franklin, you certainly got yourself out on the end of a limb when, at last Friday's Press Conference, you announced that you would need not to exceed 500 million dollars for relief for the balance of this fiscal year". He looked at me and said, "Why, didn't I ask for too much?" and I said, "No, you did not ask for enough" and he said, "Henry tells me that all we need is 850 million dollars" and I said, "No, he says that Aubrey Williams says that we need 200 million dollars. My own opinion is that we need about 700 million dollars." I said, "The only way I know that you can get yourself out of this situation is by transferring the 200 odd million dollars, still left in Ickes' revolving fund, to Hopkins." His reply was, "That is a new suggestion for me" and I could tell that he liked it.

At his 4 o'clock Press Conference the President was asked the question again about the 500 million dollars and I have no doubt that he had Steve Early plant the question and the President pooh-poohed the idea and he said that he never said anything about the 500 million dollars. It certainly did not take him long to climb back onto safe ground. He said next Monday he would discuss the question of relief money but would not talk about it until I got back.

I found the President in a very good humor but since he is back I have not found him decisive. He seems to make up his mind very slowly and gives me the impression that he does not know just what he wants to do it on a lot of these important problems as relief, etc.
This morning over the telephone you requested that I have prepared a comprehensive analysis of the Social Security Act indicating the states which have passed supplementary legislation in accordance with the provisions of the Act, etcetera. You further requested that the report include how the various titles of the Act now affect Treasury operations, and the manner in which it may affect them in the future, and to which consideration should be given now.

You stated you would like this report by January 11, 1936.
I want to wish each and everyone of you a very happy New Year. Looking back over the last three years I feel that all of us have much to be thankful for. I sincerely hope that America will continue to move forward in 1937.
Let me wish a happy New Year to all of you who hear my voice and to the people of the Nation. I think that as a people we are better off today than we were a year ago and it is my hope for America that we shall continue to advance by learning how to work together more effectively.

I want to wish each and everyone of you a very happy new year. Looking back of over the last three years I feel that all of us have much to be thankful for. I sincerely hope that we will America will continue to move forward in 1937.
TO MR. BELL:

Beginning December 23, 1936, and until the receipt of further instructions from the Secretary of the Treasury, you are authorized and directed to take such steps as may be necessary to have all gold offered to and purchased by the Mints and Assay Offices for account of the Bullion Fund, held in the General Fund of the Treasury as inactive and free from any liability whatsoever. You are also authorized and directed to make no further deposits in the Gold Certificate Fund, Board of Governors, Federal Reserve System, on account of any gold now held in the General Fund of the Treasury unless otherwise instructed by me.

In order that I may be in a position to determine the manner in which the working balance in the General Fund of the Treasury used in purchasing such gold is to be reimbursed from time to time, you are authorized and directed to report to me daily the total amount of gold held pursuant to these instructions.
## Estimated receipts of gold by the mints and assay offices
### (Monthly, 1934 to date)

(In millions of dollars)

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Secondary</td>
<td>New Domestic</td>
<td>Total</td>
</tr>
<tr>
<td>1934 - January</td>
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</tr>
<tr>
<td>February</td>
<td>0.7</td>
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<td>March</td>
<td>33.1</td>
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<tr>
<td>July</td>
<td>9.8</td>
<td>8.6</td>
<td>18.4</td>
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<tr>
<td>August</td>
<td>6.8</td>
<td>7.7</td>
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<tr>
<td>September</td>
<td>4.1</td>
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<td>October</td>
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<td>November</td>
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<tr>
<td>December</td>
<td>4.7</td>
<td>9.7</td>
<td>14.4</td>
</tr>
<tr>
<td>Total</td>
<td>95.7</td>
<td>108.2</td>
<td>203.9</td>
</tr>
<tr>
<td>1935 - January</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>5.2</td>
<td>8.6</td>
<td>13.8</td>
</tr>
<tr>
<td>March</td>
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<td>November</td>
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<tr>
<td>December</td>
<td>2.4</td>
<td>12.4</td>
<td>14.8</td>
</tr>
<tr>
<td>Total</td>
<td>41.8</td>
<td>107.7</td>
<td>149.5</td>
</tr>
<tr>
<td>1936 - January</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>2.3</td>
<td>11.5</td>
<td>13.8</td>
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<tr>
<td>March</td>
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<td>1.8</td>
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<tr>
<td>May</td>
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<td>12.1</td>
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<tr>
<td>June</td>
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<td>12.6</td>
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<tr>
<td>July</td>
<td>1.4</td>
<td>12.7</td>
<td>14.1</td>
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<tr>
<td>August</td>
<td>1.7</td>
<td>13.3</td>
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<tr>
<td>September</td>
<td>1.6</td>
<td>13.2</td>
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<tr>
<td>October</td>
<td>1.2</td>
<td>12.8</td>
<td>14.0</td>
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<tr>
<td>November</td>
<td>1.4</td>
<td>13.4</td>
<td>14.8</td>
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<tr>
<td>December</td>
<td>1.3</td>
<td>13.0</td>
<td>14.3</td>
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<tr>
<td>Total</td>
<td>15.3</td>
<td>140.8</td>
<td>159.1</td>
</tr>
<tr>
<td>Total - January 1934 to date</td>
<td>155.8</td>
<td>356.7</td>
<td>512.5</td>
</tr>
</tbody>
</table>

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**Treasury Department, Division of Research and Statistics**

December 24, 1936

1/ Through December 12.
2/ Through December 18.

**Source:** Weekly press release of the Treasury Department. Estimates based on six working days to the week. Monthly totals unrevised.
December 23, 1936.
11:10 a.m.

Hello Mr. Secretary.

H.M.Jr: Yes Mr. Alexander.

Captain Alexander: I had two things - first I wanted to call you up to wish you and your family a Merry Christmas.

H.M.Jr: Thank you, the same to you.

A: Thank you. Another thing - our conversation of several weeks ago. I wondered if you wanted to take that matter up the week after Christmas.

H.M.Jr: Well I'd say - I - no because the President will be on the budget and all that stuff. I'd - I'd say let that thing ride now until some time after the 4th of January.

A: Well then I'll just simply sit tight here until I hear from you.

H.M.Jr: No, if you do that (laughs) you keep after me.

A: (Laughs) I'll keep after you.

H.M.Jr: Yes.

A: (Laughs) All right then you don't want me to say anything more about it until after the 4th of January.

H.M.Jr: Well not as far as I'm concerned because I just can't handle it.

A: Yes, well I wondered if there was anything that needed to be taken up with the President.

H.M.Jr: Well he's never mentioned it.

A: He hasn't.

H.M.Jr: He's not worrying about it.

A: And he'll certainly take it up with you.

H.M.Jr: I think so.

A: All right, Mr. Secretary. I hope you have a good time.

H.M.Jr: Thank you.

A: Thank you.
WHY IS THE GOVERNMENT BOND MARKET UNSETTLED?

This memorandum is concerned primarily with the present attitude of the Government bond-buying community and the present trend of Government bond prices. Despite a definite unsettlement in opinion and a consequent softening in these prices, there has not yet been any material decline. Indeed, prior to the recent unsettlement, Government bonds had risen sharply to new highs. Between the National elections on November 3, the long term 2 7/8s had risen from 102 20/32 to a high of 104 19/32 on November 19. Thereafter they were steady around that level until the terms of the recent new Government financing were announced. Since then, they declined to 103 20/32 on December 19 (approximately one point off from their highs) and are now 103 25/32.
1. Current talk in Washington accompanied by continuous newspaper articles, to the effect that reserve requirements are going to be raised after the first of the year is disturbing to the holders and buyers of Government bonds. They recall that when the reserve requirements were raised 50% last August, Government bonds declined and remained soft for a few weeks before they rose to the prices they had enjoyed before the announcement of the increase in reserve requirements. Bondholders now reason that a similar decline in Government bonds may follow another increase in reserve requirements, particularly as it is well known that a certain number of banks, even in New York City, would be compelled to sell some of their holdings of either Government bonds or acceptances in order to avoid rediscounting if reserves were to be raised 33 1/3% next month. Increased rediscounts would almost certainly be accompanied by higher short-term money rates. What would appear to be a nominal change, say 1/2 of 1%, in such rates, would be reflected in a substantial decline in quoted prices of the longer term Government securities. Take, for example, the new 13-17 year 2 1/2% now selling at 100 30/32. If a rise of 1/2%, say from 1 1/2% to 2%, in the rate for one-year money were to take place and be followed, as in all probability it would, by a similar rise in the long term money rate, the Government 2 1/2%, now selling on a 2.45 basis, might go to a 2.95 basis, in which case they would decline from 100/30/32 to 95 16/32, or a drop of over 5 1/4 points.
2. Recent intimations from Washington that the Administration is concerned about a possible "hot money" menace and would like to curtail the flow of foreign investment funds to this market are likewise a disturbing influence. Among the devices which it has been suggested may be used to check a further flow of foreign funds and to induce repatriation of such funds already invested here, is a substantial increase in the present withholding rates applicable to foreigners, of 10% on dividends and 15% on interest. It has been rumored several times that the Administration would not be averse to raising these rates to approximately 23%, which is said to be the withholding rate applied by the British Government to their own nationals. If this were done, it would mean that a British holder of American income-bearing securities would have nearly half (46%) of his income withheld at the source, the result of which would be to bring strong pressure on such British holders to dispose of any American security yielding 6% or less. Were any such liquidating movement to start, it would be bound to affect adversely the prices of high-grade bonds and preferred stocks in this market. This development would not be favorable to the investment market generally, including the market for Government bonds. The influence of foreign buying and selling on our securities markets is seldom appreciated by those who do not have the opportunity day-by-day to watch the effect of such orders placed on the New York Stock and Curb Exchanges.
It is true that the total amount of such foreign buying and selling is not large relative to the total trading done on a given day; but it frequently starts the market out of a period of dullness in one direction or another and once such direction of movement is given domestic buying or selling tends frequently to follow it.

The whole talk about "hot money" is especially disturbing to financial opinion because it is not generally believed that there exists any threat to our economic or financial structure from this source. In this connection there is attached hereto, as of possible interest, a recent summary and analysis of the information made available on this subject by both the United States Department of Commerce and by the Treasury.

3. The general impression at present emanating from Washington that responsible Government officials are concerned about the possibilities of a boom, and are considering measures to prevent its developing, is also an important factor causing softness of Government bonds. The financial community realizes that, in the past, when the Federal budget has, except for war influences, been in balance, the only really effective means of preventing a boom has been to make money rates firmer; and they know, of course, that any permanent hardening of money rates would mark the top of the Government bond market.

4. The last and most important factor causing softness in the Government bond market (and a factor which is perhaps composite because resulting from a combination of several of the
factors above mentioned) is a belief growing in the minds of the financial community that the downward trend of interest rates, and hence the upward trend of high grade bond prices has, or is soon to, come to an end. Such a change is the normal result of business recovery as prices and inventories rise. Along with such recovery and rising prices comes normally a demand for additional bank loans and new capital issues to take care of increasing business volumes. It is significant that, since January 23, 1935, "all other loans" of reporting member banks have increased $1,036,000,000, of which $818,000,000 occurred during 1936. New capital, as distinguished from refunding, issues have not yet been appreciable, but there are strong indications that such issues are in early prospect. If the present recovery were a "normal" one, i.e., if our currency had not been sharply devalued, and if the Federal budget had not been thrown largely out of balance, investors in long term bonds would not be unduly disturbed because the transition from low to dearer money rates would then be slow. Today, however, they realize that the transition could be accelerated sharply by action on the part of Government authorities to make money dearer in order to "control" the coming boom. This fear hangs over a Government bond market which, despite, the recent unsettlement, is still at levels never before reached in this country's history. In some quarters where this fear is acute, there is even talk about an impending "collapse" of the bond market.
5. Those who entertain these fears of "collapse" point to the fact that not only is the demand for loans, both long and short, increasing, but also the supply of new capital to finance further business expansion has been and will continue to be seriously affected by certain Government measures recently adopted. They point to the fact that the principal source of supply of new capital in this country since the World War has been the corporation surpluses, and that these surpluses have been severely depleted by the tax law of 1936. They point also to the impairment of another source of new capital in this country, namely the savings of rich people, through the heavily graduated income taxes and surtaxes. They point also to the lessening of the impulse for saving by those of moderate incomes, whose savings in the aggregate were a substantial source of new capital, by the Social Security measures which, under the present law, in effect, divert the workers' savings from banking institutions to a huge Government capital fund that can only be invested in Government securities. They point also to the diminution in the incentive generally to save, which has come about from a decline in the effective rate of savings banks' interest from 1% to 2 or 2 1/2%.

These points have recently been well elaborated by Dr. Lionel Edie in his address before the Forum on Investment Problems at the Twenty-Fifth Annual Convention of the Investment Bankers Association, at Augusta, on December 6 last.
The whole address is worthy of study, but the pith of it is contained in the passage attached hereto as "Exhibit B".

6. In conclusion, it is probably fair to say that the chief cause of softness in the Government bond market is a feeling, somewhat vague and undefined as yet, that interest rates will probably not decline any further, and that they may firm up rather sharply. Until the last month or two it had been generally believed that, even though the decline in money rates might be near its end, there was little likelihood of any noticeable increase in rates and that there would instead be a long period, say, a year or so, when rates would be approximately what they are now. Recently, however, largely as a result of Mr. Eccles' recent public comments in Washington, opinion is veering to the point of view that the operation of normal economic forces may be distorted by positive acts of Government, and that, as a consequence, the change from very easy money to "normal rates" will come considerably sooner and be considerably sharper than had been anticipated. The money market and the bond market are "sensitive plants". Atmosphere often affects them more powerfully than actual happenings.
One other factor tending toward unsettlement in Government bond prices is the fact that the recent financing was not suited to the taste of Government bond buyers at the time it was offered. The market would have taken eagerly an issue of $1,500,000,000 very long term bonds, say 25 to 30 year maturity, with a 2 3/4% coupon. It is true that the 13-17 year 2 1/2s and the 5-year 1 1/4s were fairly priced and successfully sold; but this was due more to the fact that bond buyers had no chance to express their preference for long terms, than it was to any enthusiasm of these buyers for what they bought. It is not without significance that the current softness in the Government bond market dates, roughly, from the announcement of the terms of the recent offering.
In view of discussions now current in the press and elsewhere about "hot money" and the possible dangers to America from a sudden withdrawal by foreigners, say in the event of a European war, of their holdings of American securities, it is interesting to consider the present amount and distribution of such foreign investments in America. The latest authoritative studies on this subject are the Department of Commerce's Special Circular No. 437 dated June 5, 1936, and the report just released by the United States Treasury Department, Division of Research and Statistics, entitled "Statistics of Capital Movements between the United States and Foreign Countries and of Purchases and Sales of Foreign Exchange in the United States, January 1935 through September 1936."

Combining these two sources of information, and making reasonable adjustments for the advance in stock and bond prices between January 1 and September 30, 1936, the present amount and distribution of all foreign capital in the United States, as of September 30, 1936, would appear to be as follows:

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Canada</th>
<th>Latin America</th>
<th>All Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Bank Deposits &amp; U.S. Gov'ts.</td>
<td>748.7</td>
<td>164.3</td>
<td>193.1</td>
<td>134.6</td>
<td>1,290.7</td>
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<tr>
<td>Other Banking Liabilities</td>
<td>109.6</td>
<td>6.1</td>
<td>7.5</td>
<td>16.4</td>
<td>168.9</td>
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<td>Brokerage Balances</td>
<td>29.7</td>
<td>3.7</td>
<td>2.2</td>
<td>1.0</td>
<td>36.6</td>
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<tr>
<td>Total Short Term Funds</td>
<td>888.0</td>
<td>174.1</td>
<td>202.8</td>
<td>231.0</td>
<td>1,496.2</td>
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<tr>
<td>Foreign-Owned Domestic Securities</td>
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<tr>
<td>&quot;Permanent&quot; Investments</td>
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<td></td>
<td></td>
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<tr>
<td>Direct Investments</td>
<td>700.0</td>
<td>322.0</td>
<td>5.0</td>
<td>18.0</td>
<td>1,045.0</td>
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<td>Other Investments</td>
<td>761.0</td>
<td>161.0</td>
<td>8.0</td>
<td>109.0</td>
<td>1,039.0</td>
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<td>TOTAL CAPITAL</td>
<td>4,938.8</td>
<td>1,277.7</td>
<td>257.0</td>
<td>805.6</td>
<td>7,269.1</td>
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</table>
Although the grand total of $7,269,100,000 would appear at first glance to be a formidable figure, it is not so formidable when the breakdown is studied. In the first place, the item "Total Short Term Funds - $1,496,200,000" (of which only $888,000,000 is European-owned) is probably not a great deal more than is necessary to enable the world to carry on its ordinary business transactions with America, especially in an event such as a war in which Europe was involved when they would be needing to buy more than ever from us. In any case, the total of short-term funds owned by foreigners - $1,496,200,000 - is substantially less than our surplus bank reserves at the moment, aggregating $2,200,000,000. And as any war troubles are likely to be confined to Europe, it is probably fairer to compare with the latter figure only the European short-term funds, aggregating $888,000,000.

Turning now to the item of "Permanent Investments", these represent, according to the Department of Commerce, such items as:

1. Securities and properties administered through personal or corporate trusts for foreign account.

2. Not equity of foreign insurance companies in United States branches and affiliates, i.e., the excess of admitted assets over total liabilities to policy holders and to other creditors.

3. Estimated foreign holdings of urban and agricultural mortgages and real estate.

4. Not equity of foreigners in all American corporations, exclusive of financial institutions, in which foreign corporations or other foreign shareholders have the controlling voice in management as a result of their stock ownership (valuations based on balance sheet data). The corporations referred to are mostly American subsidiaries of foreign corporations.
It seems rather clear that the aggregate of these "Permanent Investments", namely $2,688,900,000, could not or would not be disturbed to any appreciable degree in the event of a European war.

We are left, therefore, with a balance consisting of foreign-owned domestic securities (bonds, preferred stocks and common stocks) of $3,688,900,000. This item can be broken down approximately as follows:

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Canada</th>
<th>Latin America</th>
<th>All Others</th>
<th>Grand Total</th>
</tr>
</thead>
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<tr>
<td>Common stocks hold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/35, increased</td>
<td>1,523.0</td>
<td>498.4</td>
<td>22.7</td>
<td>375.8</td>
<td>2,411.9</td>
</tr>
<tr>
<td>by 19.7% to compens-</td>
<td></td>
<td></td>
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<td></td>
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<td>ate for increase in</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>mkt. value to 9/30/36</td>
<td>1,523.0</td>
<td>498.4</td>
<td>22.7</td>
<td>375.8</td>
<td>2,411.9</td>
</tr>
<tr>
<td>Bonds held 12/31/35</td>
<td>516.0</td>
<td>19.0</td>
<td>8.0</td>
<td>34.0</td>
<td>607.0</td>
</tr>
<tr>
<td>Pfd. Stocks held 12/31/35</td>
<td>240.0</td>
<td>66.0</td>
<td>3.0</td>
<td>20.0</td>
<td>329.0</td>
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<tr>
<td>Est. market value of</td>
<td></td>
<td></td>
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<tr>
<td>all securities pur-</td>
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<td>chased during 9 mont-</td>
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<tr>
<td>h months ended</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9/30/36</td>
<td>298.8</td>
<td>16.9</td>
<td>9.5</td>
<td>15.8</td>
<td>341.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,579.8</td>
<td>620.3</td>
<td>133</td>
<td>145.6</td>
<td>3,688.9</td>
</tr>
</tbody>
</table>

The grand total of the above security holdings - $3,688,900,000 - is, of course, substantial in itself, but it should be considered in relation to the total market value of common stocks, bonds and preferred stocks outstanding in the American market. This total is difficult to estimate, but, in order to err on the side of conservatism, let us take the market value only of the common stocks listed on the New York Stock Exchange. As of October 1, 1936, this figure is estimated to have been $55,000,000,000, of which the foregoing total of $3,688,900,000 of foreign-owned securities is only 6.7%, and the total of $2,579,800,000 owned by Europeans is only 4.7%.
It might be added that our experience during the past ten years shows rather conclusively that foreign holdings of American securities have been far less subject to panicky sale during the many disturbing happenings of the past decade than have been American holdings of the same securities.

Let us assume, however, that, in the event of a European war, European governments would mobilize the American security holdings of their nationals and attempt to realize upon them promptly. Assuming that they were able to sequester all such holdings, roughly $2,500,000,000, would there be any serious danger to American markets?

The experience of the last World War indicates that only a part of those securities, together with some of the bank balances, would be converted into dollars as soon as hostilities broke out, and that the remainder would be sold only as and when they were needed to pay for war purchases made in this country. It is not unreasonable to assume that a banking syndicate in New York could be formed with little difficulty to "mobilize" the entire $2,500,000,000, at prices which, being affected by the war scare, would doubtless be considerably below their intrinsic worth.

But, finally, has not the World War and its aftermath proved to European security holders generally that the safest place to have their money in the event of a European war is in the United States? And might not the outbreak of another war, instead of causing rapid and substantial withdrawals by Europeans from this market, well result in their increasing their holdings here, so long as their respective governments would permit them to buy the dollars required for the purpose?
This memorandum leaves out of consideration entirely the possible dangers to the foreign countries themselves, particularly to England, France, Switzerland and Holland, of continued purchases of American securities by their nationals. It may well be that these purchases would lead eventually to substantial weakening of sterling, the two francs, and the guilder. If so, it would appear that any measures to control the flow of foreign funds into America should best be taken by the foreign countries themselves.

The conclusion to be drawn from the above analysis, so far as the United States is concerned, is that foreign investments in America at the present time are not, nor are they likely to be, any serious danger to our financial or economic position.
"Supply of money is not the same thing as supply of capital, and that is a distinction that seems to have been pretty generally forgotten in banking circles when we are discussing this very basic and fundamental problem of the outlook for money rates. When we are looking at the supply of money today we have to realise that the supply of excess reserves is going to be limited and restricted; that there is going to be a maximum point fixed upon it, and after that step has been taken we must expect a different condition in the money market purely from the side of money. But that will not tell us anything about the supply of capital. Let me suggest to you a few things that are taking place on the side of the supply of capital. You will then, I think, readily see that this distinction is well taken.

The Supply of Capital

The principal source of the supply of capital in this country since the War has been corporation surpluses. The amount of national savings in good years, coming out of corporation surpluses, has ranged between one and two billion dollars per annum. It has been the most lucrative single source of new national capital. The new tax on undistributed income of corporations has almost completely destroyed this source of capital. The supply of capital has been dried up at the source by this new form of taxation. And so we have looming ahead of us a fundamental change in the sources from which we derive new capital to take care of the progress, the growth, and the modernization of the capitalistic system in this country."
A second source of new capital in this country has been
the savings by people of considerable means. Rich people have done
a large proportion of the individual saving of the country. The
surtaxes and graduated income taxes in all forms have greatly
curtailed this source of capital. I would say that this source of
capital has been cut in half as the result of the steeply graduated
taxes in this country in the last few years.

Another source of saving has been the saving of the masses
of the people - the little fellows. Where the individual contribu-
tion is very small, when you multiply it by millions and tens of
millions you have a large total sum. By introducing social security
we have made it unnecessary for the little fellow to save. Voluntary
saving on his part is out, and I think we must expect to see it
diminish in the future. In place of it we have a form of forced
saving by making a deduction from the payroll of the little fellow,
and if we do not make the deduction direct, we have the employer make
the contribution, but the contribution which the employer makes,
is, in effect, also a form of forced saving, because if the employer
did not make the contribution to the government in behalf of his
employee, he would be paying the money direct to the employee in the
form of a wage increase. The forced saving is in lieu of what other-
wise would be a wage increase to the mass of the people on the payrolls
of this country. Now, what becomes of this capital acquired through
forced saving? It is sterilized in a government fund. It goes into
a form of government security which has nothing to do with the productive
capital requirements of the future. So that here again we have a
change in the nature of the supply of capital, the supply of saving of the country.

There is one final consideration on the side of supply of capital. In years gone by, if you followed the rate of increase of deposits in savings banks, you found that that increase was dictated very largely by the rate of interest. The savings deposits would go up 1% in a given year, and that 1% merely meant that the interest on the deposits was being left in the bank. It was a reinvestment of the interest income derived from savings. That is true not only of savings banks, it is true of a great many individuals. They receive income from bonds, or from stocks, and they turn around and reinvest that in further capital. That has been a primary source of the supply of capital in this country. Well, you have cut that supply of capital down by about one-third merely by the fact that you have reduced the interest rate by about one-third. When a man receives, instead of a 1% or 4 1/2% coupon, a 2 1/2% to a 3 1/2% coupon, his ability to reinvest is thereby curtailed.

In all these ways we have been drying up the well. We have been cutting off the source of supply of new capital, and if we were obliged in the next twelve months to find four billion dollars of new capital to put into corporate bonds, I think we might crack the bond market considerably. You could not find that supply of capital readily available because through these various changes in taxes and in our financial structure you have fundamentally altered the nature of the supply factor. And you will note that you have made this alteration, you have curtailed the future supply of capital in this country,
regardless of what happens on the side of money supply. You could run your excess reserve up to any figure, and it would not constitute for the savings of capital that have in the history of this country always been the great fountain from which we have derived resources in order to promote progress, in order to apply the results of invention and science, and in order to build up the capitalistic system. We face a condition in which the supply of capital itself may be greatly curtailed in the future.

The Demand for Capital

Now, we face that condition on the side of supply of capital at the same time that we may face a very great possible increase in the demand for capital. During the past three or four years we have had a condition that was as near to complete stagnation of demand for capital as the world has ever seen. People were afraid to borrow, they were unwilling to borrow, they lacked the confidence necessary to persuade them to borrow. That is not a normal situation. It is not a permanent situation, and one of these days it is going to change.

When you talk about a change on the side of demand for capital, I want to just say a word about the difference between a demand change and a supply change. The supply change is likely to come very, very slowly. A demand change can come over night, and come like a whirlwind.
December 28, 1936
11:24 A.M.


H.M. Jr: Hello.

Fiorello LaGuardia: Hello, Mr. Secretary, good morning, how are you?

H.M. Jr: How are you, Mr. Mayor?

L: Fine. Say, Mr. Secretary, I - I'm terribly crowded here; we're short of police officers and I'm afraid we'll have to take those men away from you for a short time until we can catch up with some of the conditions we have.

H.M. Jr: I see. How long will that be?

L: I don't know. I hope it won't be long because I'm a little disturbed about the thing. Around the holidays, you know, we got - I guess some out-of-town crooks, and they've been pretty busy and - and we're drawing from every place we possibly can.

H.M. Jr: Well, I - I - your cooperation so far -

L: I know - but I -

H.M. Jr: - has been fine.

L: - I want you to know. And as soon as we can get some of them back to you, we will.

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

L: Fine.

H.M. Jr: Now, while I got you on the wire I want to talk to you about one of your hobbies.

L: What's that?

H.M. Jr: That North Beach airport.

L: Good.
H.M.Jr.: Listen, if you want a fellow to land there, how the hell is he going to get from the airport into a boat? Have you ever - the docks - there is no dock there.

L.: Oh well, we're going to build, and -

H.M.Jr.: There's no dock there, you know.

L.: Yes. And you know - you know that hill that's there? I'm - I'm going to buy that hill -

H.M.Jr.: Yes

L.: - and we're going to dump that in the water.

H.M.Jr.: Yes

L.: And then we're going to make a regular basin there for boats to land.

H.M.Jr.: Well, I went down that - sort of slide, and it's all slime.

L.: Yes.

H.M.Jr.: And it's - it's almost impossible to get from the airport into a boat.

L.: Oh, really?

H.M.Jr.: Sure.

L.: Well - well, shallow water?

H.M.Jr.: Yes. And then there's that slide there which is all full of slime, you see.

L.: Yes. I'll - I'll send you a copy of our plans.

H.M.Jr.: And another thing, if you want to land - if you, for instance, do the way I did, go from a launch from North Beach, the only place on the East River where there's a place where a small launch can land -

L.: Yes.

H.M.Jr.: - is at this river house.
L: Well, how - ah -
H.M.Jr: Didn't you have -
L: - how deep - what draught did your launch have over there?
H.M.Jr: Well, I - I used - we had to use - we had to use a Chris-craft; we couldn't get a Coast Guard cutter in there.
L: Not a cutter, no.
H.M.Jr: Well, I mean a 75-footer.
L: Well, of course -
H.M.Jr: We - we couldn't even get a 75-footer in there.
L: Now, Moses is building a boat basin right there.
H.M.Jr: 'Oh, I didn't know that.
L: Yes, and -
H.M.Jr: But then, supposing you get in a boat and you want to land anywhere on - on the east side of Manhattan, -
L: Yes
H.M.Jr: - where are you going to land?
L: On Manhattan?
H.M.Jr: Yes
L: All over the place.
H.M.Jr: Oh -
L: Oh, 32d Street, 22d Street, Wall Street.
H.M.Jr: No no no, north of 59th.
L: North of 59th -
H.M. Jr.: Or north of — of fifty— well, anywhere north of 42d.

L: That's north — up on East Manhattan, that's all mostly private property.

H.M. Jr.: I mean there — there's no — I mean you — couldn't you fix up your place where your fire boat ties up there at 36th Street or 96th Street?

L: Yes. Yes, we can fix that — we can fix a place there.

H.M. Jr.: No, I don't mean for me but I meant for anybody.

L: Yes, I understand perfectly.

H.M. Jr.: I mean you take it from 42d Street north on Manhattan, there's no place for a small boat to tie up, —

L: I'm glad you called my attention to it. I'll get — I'll get ahold of MacKenzie right away.

H.M. Jr.: — except River House.

L: Tell me, how is your work getting on at Floyd Bennett? Are they building?

H.M. Jr.: Yes

L: They are?

H.M. Jr.: Yes

L: That's good.

H.M. Jr.: As far as I know they are. I mean I understand that it's under way; I hadn't heard —

L: Well, if — any time you see your bald-headed colleague in the Post Office Department, tell him we got an airport there, will you?

H.M. Jr.: (Laughs)

L: (Laughs)

H.M. Jr.: All right, Mayor.

L: All right, Morgenthau, thanks.

H.M. Jr.: Goodbye.
December 28, 1936

I went to the White House at 2 o'clock with Bell and Edy. The President left word he wanted to see me alone. Spent 45 minutes with him. He had a bad cold and his mind seemed fuzzy.

He said, "Have you seen this budget message of Bell's?" and I said, "yes." He said, "Is it not terrible?" and I replied that it had too many figures in it.

The President then read me parts of a 16-page memorandum that Mr. Eccles had given him. The parts in Eccles' document that the President wanted to use were (1) that if we attempted to balance the budget we would put this country into another tailspin and (2) that our fiscal policy should be to depend upon increased revenues as the national income increased, but no mention is made anywhere in Eccles' document of trying to economize and spend less. Naturally I felt as though the pins had been knocked out from under me. From what Bell had told me earlier in the day, I gathered that the President had discussed with Bell parts of Eccles' philosophy without revealing the source.

After much conversation, he tossed Bell's message and Eccles' message at me and said, "I feel too low and my mind is not functioning to try and concentrate on the budget message." He said, "You take it and see if you cannot do something with it." I said to the President, "You are giving me an extremely difficult task." He said, "I know I am," and I said to myself, This is one of the most important challenges to your intellectual ability because the President has absorbed Eccles' philosophy and you have the job of dynamiting Eccles' stuff out of the President's brain and if you fail you will find that Eccles will become the President's fiscal adviser.

I cannot say that I lost any sleep over it, but on the other hand I did feel the tremendous seriousness of the situation.

Sunday morning at 9:40 at the Treasury, Bell, Edy, Gaston and Upham met with me and we worked for about three hours together. I let Upham read out loud Eccles' statement and our audience was just dumbfounded. It is a swell campaign document, but as a part of the budget message it is too terrible for words.
I then felt, after much discussion, that I personally would have to dictate a message and I asked the crowd not to interrupt me and tried to perfect words as I wanted to get down in black and white a statement to show the President in the afternoon to see if I could lay before him thoughts which he would accept. I had a big argument with Bell who wanted to put in the figure for relief and I told him it was absolutely the wrong psychology to use on the President. Bell gave me figures to use in this message which were entirely new and were so much better than anything that he had shown us before that I was overjoyed at the improved picture for 1937.

We called on the President and showed him first my message and I could tell right away that he liked it. He also was dumfounded at the improved figures and teased Bell and told him that he thought that Bell had been holding out on us. He said that he, the President, had not been able to sleep nights worrying about the budget and that I had been tearing my hair out because we would not make the figures meet and now suddenly Bell came along showing favorable balance for 1937 exclusive of relief.

When the President came to the item of relief he turned to me and said, "The Vice President advises me to leave this figure blank." I said to him, "Talking as a fiscal officer, I very much hope that you will put in a figure even if it is $2,000,000,000 because if you leave it blank it will frighten people and hurt our future financing." I said, "Only you can decide as between the Vice President's political advice and my fiscal advice." He then turned to page 9 (in the second message) and at the bottom it shows the gross deficit for 1936 at $3,234,000,000 and the estimated gross deficit for 1937 at $1,099,000,000. He subtracted one from the other and got the figure of $2,135,000,000 and then wrote out a statement in his own handwriting along these lines: that if Congress voted monies for relief and wanted to keep the 1937 deficit below the 1936 deficit, they could not vote more than $2,135,000,000. I then said, "Mr. President, if you leave it that way, all the unfriendly newspapers will say that you recommend $2,135,000,000." Quick as a flash, he said, You are right and he added the thought: that of course he did not think we needed any such figure.

From my standpoint, his statement on relief is perfect. This, of course, was my biggest worry and I think it was
his also and I think we have found a very happy solution.

The only other important suggestion made that afternoon was made by the President in regard to AAA. His thought was in case we should lose the AAA case, he wondered why we could not do what we did in New York State where the Legislature voted a 1% income tax retroactive for one year. He thought we could apply this same principle to the AAA through having a bill passed applying the same schedule of taxation on the food processors so that those companies who have refused to pay the tax would be made to pay the tax while those companies who have paid would be exempt from this law. I think the President has a real idea and if the lawyers will approve it, it certainly would make things much easier and simpler all around. The President said that we ought to get in touch with Wallace and Davis because they are working on a bill to save the AAA through making it a State organization and having the Federal Government give Federal grants to the States. I think that the President's suggestion is ever so much better.
1. Case for Administration needs aggressive presentation; opposition
proposes return to unbalanced economy of 20's when 23% of
national income went to 1% of the people (Brookings Institu-
tion studies), and 200 corporations, including 106 industrials
and 52 public utilities, each with assets over $30,000,000, had
combined assets in 1930 of $81,074,000,000; this equals
roughly 22% of the country's total wealth and is 49% of all
non-banking corporate wealth, while 300,000 smaller companies
owned the remaining half (The Modern Corporation and Private
Property, Berle and Means); these individual and corporate
beneficiaries of unbalanced economy, through Liberty League,
National Association of Manufacturers, etc., are most violent
foes of Administration.

2. This Administration inherited, not only chaotic conditions, prostrate
business and banking, but a national debt of 20 billions;
taxes which should have been applied to curtailing this debt
were reduced 4 times in the 20's; also the preceding Admini-
stration left a deficit of nearly 1 billion in '32 and over 3
billion in '33, and by letting deflation run far on its course,
vastly added to cost of turning the tide back to recovery.

3. Restoration underway; country about half way back to 1929 levels;
national income, which fell from over 80 billions in 1929 to
less than 40 billions in '32, was up to 50 billions for 1934
and running close to 60 billions at present rate of business
activity.

4. Budget is balancing; restoration of national income, out of which
alone come taxes to balance budget, has resulted in increase
of tax collections estimated for current fiscal year to be
$2,400,000,000 above '33; consequently, government spending
needs decline; H.O.L.C., F.C.A. and R.F.C. collecting more
than putting out.

5. Taxes to balance budget will come, not out of present income, but
future surpluses from restored national income, on basis of
capacity to pay; not out of "little fellow"; fixed income
groups do not suffer, better off with smaller, assured in-
terest than artificial rates which national economy unable
to sustain, with danger of losses of principle as well as
interest; government must deflect surpluses, which caused
stock market, real estate, etc., inflation of 20's, to pay
off debt and, when deflationary tendencies develop, to spend-
ing stream.
6. Premature budget balance by wrong method of slashing expenditures before private enterprise takes up unemployment slack, is proposed by opposition; this would set back recovery, threaten new deflation, reverse successful processes set in motion by Administration; this implies a static economy and perpetuation of unbalance.

7. Cost of recovery small; Administration expended about 8 billions (as of November, 1935); deducting Treasury balances, value of assets in R.F.C., etc., and gold increment, net debt increase is about 3 billions; this contrasts with gain of 10 to 20 billions in national income; increase of 20 billions in listed stocks, 7½ billions in listed bonds, and incalculable gain in values of real estate, urban and rural, and other assets; government bonds, some selling down to 83 in '33, now at premium, under lower interest rates; hence cost of carrying debt greatly reduced.

8. Debt burden exaggerated; in last war country incurred deficit of 9 billions in one year, 13 billions the next; war-incurred debt of $26,000,000,000 paid down by 10 billions in 20's despite 4 tax reductions; at same time some 10 billions squandered on foreign bonds and fully 100 billions added to capital wealth; entire national debt of 30 billions is about 4 months of normal (1929) national income; gross increase of 8 billions under this Administration is about one month's normal national income; net increase of 3 billions is less than 2 weeks of normal national income; a country cannot impoverish itself by borrowing from and paying interest to itself; bulk of debt incurred at behest of and to save banks, insurance companies and private credit structure; critics did not object to unbalancing budget in war or to save private credit structure in 30's; objections illogical against also protecting citizens from ravages of economic forces; Macauley's "History of England" exposes false analogy between individual's debt and nation's debt, and blindness of alarmists who see debt growing but fail to see that national wealth and income grow faster; serious thing is not debt, but loss of $40,000,000,000 annually of national income.

9. Administration program succeeding: going off gold, revaluing dollar, necessary expedients to restore equitable debtor-creditor relationships; debt burden further adjusted by H.O.L.C., F.C.A., etc., in funding debts over longer periods at lower rates;
A.A.A., a temporary expedient, has restored parity (non-existent in 20's) between agriculture and tariff-protected industry; farm income which declined to nearly 4 billions in 1932 estimated to be back to 7 billions for 1935; S.E.C., banking acts of '33 and '35, etc., provide safeguards against return to evils of 20's, and will contribute to attainment of goal of abundance.

10. Administration's objectives are being realized for under-privileged; goal of abundance still far off; to halt now and reverse policy or revert to reaction of opposition would invite new deflation, perpetuate evils which developed inflationary bubbles in 20's and resultant collapse; reaction now may doom Democracy, including the Constitution, and lead to Fascism or Socialism; problem now is production and distribution of real wealth to maximum capacity of machine age, plus technological advances; this envisions dynamic, not static, economy, and orderly, stabilized progress, with government as compensatory medium, through monetary credit and taxing powers; Republican opposition proposes return to unbalance of 20's, with concentrated power and wealth at top, poverty or penury for masses, including small industrialists and businessmen; wealth distributors would divide up existing inadequate wealth which would be to distribute poverty; Townsendites, etc., would distribute worthless paper money, neither creating nor distributing real wealth. Administration policies and objectives, based on sound economics, mean salvation of profit-motive, individualistic society, under Democratic institutions and traditions.
The political tide is running against the Administration. The people and many of their representatives in Congress are confused by the multitudinous actions launched against the enemy of depression, and by the clamor of the opposition which commands most of the press. The Administration threw into action a great army, launching an offensive on all sectors. The public has had its eyes fixed only on the many segments of the battle line—upon individuals in the line—Johnson, Richberg, Tugwell, Iokes, Hopkins, etc.—and has been bewildered by individual actions and often conflicts of action. There has undoubtedly been waste motion, cross-purposes. The public gaze has been upon the individual clashes.

Above all, the public has failed to see what a tremendous victory has been won along the battlefront as a whole, how much lost ground has been recaptured, how far back on the road to recovery the nation has been brought. The opposition now filling the press with vituperation can be made to look ridiculous; it can be completely routed and annihilated by an aggressive campaign, stating the cold, hard unanswerable facts of the case. At the moment that campaign is not being made effectively. It should be made forcefully without more delay.

Since it is the habit of our people, if not all peoples, to vote against rather than for, the campaign should be pitched against the dangers of a return of reaction which would usher in another era of collapse and disaster even though it might be
temporarily preceded by another period of unbalanced prosperity such as we had in the 20's, when 23 percent of the national income went to less than one percent of the people, with affluence at the top but wretchedness among great masses at the bottom of the population pyramid. Assuming that Governor Landon symbolizes what the opposition will stand for, it appears that the major attack will be against spending, i.e., in favor of balancing the budget by drastic reductions of governmental expenditures. It can be demonstrated beyond all successful contradiction that this would be the path back to reaction and new deflation, with a return of misery for the great masses of our people and ultimate destruction of our democratic form of government. For the opposition offers nothing but a return to policies which brought us to the edge of revolution, to an unprecedented economic prostration. The policies offered by the opposition have been tried and failed so completely that only blind men, incapable of learning from experience, would have the effrontery to propose now a resumption of such policies.

This Administration came into office inheriting the most demoralized, most chaotic conditions in the peace time history of America. It may be doubted whether Lincoln faced a country more shattered and panic-ridden. When this Administration took office it inherited a national debt of more than 20 billions, accumulated not only because of the mistaken tax policies pursued under Re-
publican Administrations in the 20's, when taxes were reduced four times though they should have been maintained in order to pay off the war-incurred debt, but also because the Hoover Administration by failing to intervene soon enough and on a broad enough scale, by letting the deflation run far on its course—with untold misery to all our people and losses in the national income estimated in excess of 150 billions—added a deficit of a billion dollars in one year and more than three billion dollars the next to the burden. The cost to the present Administration in stopping the deflation and turning the tide was vastly increased over what would have been the case had the Hoover Administration not permitted deflation to go to such disastrous extremes. In view of the magnificent accomplishment so far achieved of stopping the ruin and bringing the country far back on the road to recovery, it would be absurd for the Administration to be on the defensive. It should be justly proud of the achievement, and prepared for a smashing offensive.

We have come fully half way back to the levels of 1929 measured by the national income, yet we have a long way to go yet. To turn back now, to revert to the opposition policies which were tried and which failed disastrously, would be a fatal mistake. To slash the budget in capitulation to critics, would be not only to confess error where there has been none, not merely to admit that
the critics are right (and they are proved wrong on their own record), but most of all and worst of all it would be politically and economically wrong. It would set back the recovery, perhaps fatally.

**Budget is Balancing**

The essential, ignored but incontrovertible fact is that the budget is being balanced right now; it is being balanced in the only way that it can be balanced without inviting another deflation and another disaster that might end in real revolution and the end of the democratic system, the end of the Constitution, the end of American liberties and traditions. The danger today is not from the meagre handful of Reds in this country, but from the blind reactionaries whose policies all but brought us to public revolt and would, if reinstated, jeopardize the very things of which they prate but are too blind and greedy to understand how to protect.

The budget is being balanced now, in the only way that it can rightly be balanced, by increasing national income, out of which alone can come the revenues with which to affect a balance. That national income, which sank from more than 80 billions in 1929 to less than 40 billions in the last year of the Hoover regime, is nearly halfway back to 1929 levels. As a direct result, our tax revenues are rising correspondingly. They are close to $2,500,000,000 more now than they were in the last year of Mr. Hoover.
It should be remembered that taxes to pay off the national debt will not be collected out of a static national income, especially when that income has been more than cut in half as happened in the last days of the Hoover Administration. Taxes to pay off the debt will be collected out of a dynamic, restored and (as should be the case under orderly economic progress) steadily expanding national income. That is why the cry that the present or later generations cannot endure the tax burden is foolishly unrealistic. No generation which is impoverished can bear taxation, but a nation with a restored and expanding national income can, without any hardship whatever, endure taxes that would be crushing to an impoverished nation. Nor will the taxes come out of the "little fellow," as Liberty Leaguers and other misled and misleading calamity howlers are so fond of saying. The taxes will come out of the income surpluses piled up in "good times" by corporations and individuals and will be collected on the equitable basis of ability to pay. Not only will this tend to deflect these surpluses from the speculative channels (to say nothing of worthless foreign bonds) into which billions were poured in the 20's, but, when deflationary tendencies develop, the Government can temporarily suspend paying off more of its debt and divert the funds into the spending stream and into the
hands of the under-privileged who will buy food, clothing and other goods and thus bring about creation of new real wealth. That, very simply stated, is the economic process, not under a static but under a dynamic, expanding economy of which people like Liberty Leaguers seem to be unaware.

With recovery underway and tax collections correspondingly increasing, the great credit agencies, such as the R.F.C., the H.C.L.C. and the F.C.A., are accordingly enabled to collect more than they are spending. In other words, the pressures for expenditure are steadily diminishing while revenues are increasing. Three years ago, under the supposed balance-the-budget policies of the Hoover Administration, charted lines would show the line of government expenditures steadily rising, that of government revenues as steadily pointing downward - the two lines moving further and further away from each other - the unbalance of the budget inevitably growing greater and greater. Today, the charted lines have been turned. That of expenditure is going down as fast as recovery proceeds. That of revenue has turned upward. Barring a reversal of policies, a return to deflationary measures, the lines are bound to cross. The rate at which these lines will converge depends, first, on the rapidity with which private enterprise takes over the load of employing the unemployed and thus relieves the government of its inescapable duty to provide for the unemployed in the meantime. A premature effort to balance the budget by the wrong
method of forcing reduced expenditures, ahead of the time when private business is prepared to substitute its own expenditures, would impede recovery and invite another onset of deflation. It would be to confess that the steps already taken, which have been eminently successful, which are producing a balancing budget, have been wrong when, as proved by the facts, they have been absolutely right. Secondly, the rate at which the lines converge depends upon the steady upward progress of the national income, which was up to about 50 billions in 1934 - a gain of fully ten billions over the last year of the Hoover regime - and is running close to 60 billions at the present rate of business activity. To attempt now to force a premature budget balance would slow up this process ruinously. It would imply a static condition of the country, whereas, as the Brookings Institute has emphasized in the final volume of its exhaustive study of the depression and of present day economic conditions (Income and Economic Progress, page 83):

"If we are to achieve the goal of satisfactory standards of living for everyone, the first requirement is to increase progressively the total amount of the income divided. Only as the aggregate national income increases from 50 billions, will the goal of a high standard of living for everyone be attained.

"The distribution of income from year to year is of primary significance not for its momentary effects upon the well-being of the masses, but for its possible cumulative effects in promoting a fuller utilization of our productive facilities and a consequent progressive increase in the aggregate income to be available for distribution. We are not interested in maintaining a static
situation in which the total income, even if equally distributed, would be altogether inadequate; we are interested rather in producing a dynamic situation in which increasing quantities of newly created goods and services would become available for everyone."

**Realization of New Deal Objectives**

This is the real vision which the New Deal has held out; it is sound economics, supported by the best economic thought in this nation and abroad - not by the reactionaries and the hirelings of banks but by independent, forward-looking economists as represented in the detached and disinterested Brookings group. This implies neither socialism, state capitalism, fascism nor communism; neither regimentation, nor restriction; it is the way to make the capitalistic system produce and distribute to its full capacity, under our Constitution, our traditional liberties and freedom of initiative. It will save our democratic institutions from the extremists, the "Reds" on one side and the blind reactionaries on the other. It is the answer to the wealth-distributors and Townsendites. To distribute the existing static wealth of the country would be to distribute poverty. To distribute pieces of paper marked $200 a month, whether as an old age pension or for whatever purpose, would be to distribute worthless paper. The problem is to create such an abundance of real wealth - houses, clothing, food, all the things people need and want and use - which is the only real wealth, of which pieces of paper called money
are but the symbol - that the attainable goal of a high standard of
living for everyone will be reached, as it can be under an orderly
economic progress now underway. This is the real motivation of the
New Deal and has been from the inception. It means the fruition of
its aspirations for the forgotten man and the under-privileged.

Costs of Recovery Relatively Insignificant

The Administration's expenditures so far are a bagatelle
when compared with the results. Not only has the national income
been increased by nearly 20 billions, not only are tax revenues up
by some $2,500,000,000 over three years ago, when the Hoover Admini-
stration went out, but the value of listed securities on the exchanges
is up by 20 billions, the value of listed bonds is up by 7½ billions;
the values of all real estate, urban and rural, are up, of bank and in-
surance company assets, of all other real assets; incidentally govern-
ment bonds which sold down, for some issues, as low as 83 three years
ago, now are at a premium and under lower interest rates. Contrasted
with the billions upon billions of increased values is the rise of
some 8 billions in the public debt; this is a gross figure which is
far less if allowance is made for the Treasury's cash balances, the
assets owned by the Government in such agencies as the R.F.C., and
the increment from revaluation of the dollar. Deducting those items,
the rise in the debt is around 3 billions, an insignificant sum by
comparison with the restoration.
Debt Burden Grossly Distorted

The size of the debt has been grossly distorted and magnified by ignorant or irresponsible alarmists, such as the Warburges and Douglasses. They are like the "shallow politicians" whom Lord Macaulay describes in his History of England, who continually cried out that Great Britain was being ruined by her public debt, and were only silenced when the growing wealth of the British people so dwarfed the debt that their needless alarms were exposed as baseless. The Douglasses and Warburges, the Hoovers and Knoxes and Londons today are like the "shallow politicians" who, as Macaulay said, saw only that the debt grew but not that the national wealth grew much faster.

It is overlooked, also, that this country piled up a deficit of $9,000,000,000 in one year and $13,000,000,000 in another year of the last war, that the war-incurred debt mounted to 26 billions, mainly in two years, yet during the 20's we paid off ten billions of that debt despite the wrong policy of reducing taxes four times in the same period, and despite the fact that our people squandered some ten billions in foreign securities. At the same time we had such large surpluses that we were able to add vastly to our national wealth in the form of new capital equipment of all sorts - homes, apartments, hotels, factories, power plants, etc., aggregating fully $100,000,000,000. If we did all that in the 20's, why can't we do it again, and, in fact,
do far better? With the restoration now underway, with the recovery of a national income not merely of 1929 but of the magnitudes envisioned by the Brookings report, it will be possible to pay off the present debt with a rapidity greatly exceeding that of the 20's.

The alarmists also overlook the fact that our entire national, gross debt of some 30 billions amounts to but little more than four months of our normal national income on the basis of 1929. The gross increase in the national debt of some 8 billions since this Administration took office is but little more than one month's normal national income at 1929 levels, and the net increase in the debt since this Administration took office amounts to much less than two weeks of the normal national income. Can it be seriously contended that a Government should not spend a month's normal income, just as an individual would, in order to recover from a critical illness? However, the often used analogy between an individual going into debt and a nation incurring debt is false. In the first place, an individual ordinarily can not expect his income, out of which he must pay his debts, to expand, whereas a progressive nation like ours can count upon its national income growing steadily larger. But, beyond that, how can a nation, which is all of the people, become financially embarrassed by borrowing from itself and paying interest to itself?
It should be remembered, also, that the budget was unbalanced in large part, not to relieve the unemployed, or the distress of the farm and home owners, but to save the banks, the insurance companies, the railroads and the private credit structure all along the line. Is not the Government as much under obligation to unbalance its budget in order to come to the rescue of its citizens who are out of work and destitute through no fault of their own, as to unbalance the budget in order to save the private credit structure?

It is altogether illogical and unreasonable for those who approved and, in fact, solicited government funds in order to support the credit structure to draw the line against support of the unemployed until such time as private enterprise is able to provide employment. No one objected in the last war to unbalancing the budget to the tune of $9,000,000,000 in one year and $13,000,000,000 the next in order to protect our citizens against a foreign foe. By what logic can it be held that the same citizens should not be protected likewise against the equally deadly ravages of depression?

A favorite theme of the objectors is that people with fixed incomes suffer because of taxes and lower interest rates. But this view completely overlooks the fact that taxes will be collected out of surpluses, according to ability to pay, and that owners of fixed incomes are infinitely better off with assured incomes even at lower interest rates than with inflated and excessive interest returns which the national economy cannot support and which vanish, along with principle in a collapse and deflation aggravated, if not directly induced by excessive interest rates.
An Economy of Abundance

The Administration has declared for an abundance economy; the restriction policy in AAA is a temporary expedient to overcome the effects of war-induced over-expansion and to overcome the effects of the industrial high tariff policies fostered by the Republican Administrations, notably including Mr. Hoover, in the 20's, the effects of which were to lose foreign markets for agricultural output and to accentuate domestic unbalance between agriculture and industry so much that throughout the 20's agriculture was suffering acutely amidst supposed prosperity. That more equitable balance has already been largely restored; the Administration's various steps to halt the deflation and restore the general price level to a point of reasonable justice between debtor and creditor - the departure from gold, revaluation, etc., - have all combined to lay the foundations for a stable, orderly progress ahead to the goal of abundance; the S.E.C., the Banking Acts of 1933 and particularly of 1936 provide the instrumentalities for so controlling stock market and credit conditions as to make for more stabilized progress, freedom from the speculative excesses of the 20's and avoidance of the extremes of deflation and inflation.

A reversal of policy now, in the budget, would strike at the foundations which have been laid and the progress already realized.
towards the achievement of an economy of abundance; it will be
greeted by the opposition as a confession of error; it will place
the Administration on the defensive, and imply that the Douglasses,
the Warburgs, the Aldriches, the Liberty League, the Chamber of Com-
merce, the National Association of Manufacturers, the Republicans -
Hoover, Knox, Landon - the crowd that has always been and always will
be against this Administration - are right. This is the crowd that
wants power rather than recovery - the crowd that for 12 years was
in power, that tried the very policies which ended in the greatest
smash in our economic history; the crowd that willed this Administra-
tion a debt of 20 billions and a demoralized, prostrate country;
yet they now have the sublime audacity to propose that we go back
to the very policies which wrecked the country. They have been
proved false prophets on their own record. To capitulate to their
views now would be unthinkable, when this Administration's policies
are now being amply vindicated by the unanswerable test of improve-
ment reflected in every index of business, industrial, economic and
financial activity. The record itself is not only a vindication but
a refutation of the policy to which the opposition bids the nation to
return. Far from retreating or retracting the time is opportune to
throw the record back into the teeth of these critics; to take an ag-
gressive stand, and to restate aggressively the objectives of this
Administration which are in fact being achieved.
Premature Budget Balance Unsound

The budget not only is being balanced through the processes set in motion by this Administration, as evidenced by the diminished pressures and increasing revenues, but will be balanced as fast as private industry steps in and takes up the slack of employment; private capital is getting in; as a result, profits are increasing, and instead of being in the red to the tune of billions as they were in the last days of Hoover, American business men are out of the red as proved by income tax returns, by the drop in bankruptcies (which numbered more than 25,000 for the first 9 months of 1932, with losses aggregating more than three-quarters of a billion dollars, when Hoover says recovery was underway); not only are profits increasing, but unemployment is diminishing, even though still excessive; the national income is accordingly rising and with its tax collections, but only as this process continues is it possible to balance the budget; in other words, as fast as private enterprise takes over the load just so fast will government spending slack off, and to force reduction in government spending faster than private enterprise picks up the load would only halt the process if not reverse it and precipitate another deflation.

The wrong method of balancing the budget is all that the opposition offers; a reversion to the Hoover-Douglas-Liberty League theory of budget-balancing would not only jeopardize recovery, but
implies a static and a scarcity economy for the nation as a whole —
abundance for the rich, poverty for the masses, as was the fact
during the miscalled prosperous 20's. The Brookings' studies, among
others, graphically emphasize the major defects in our economic
system in the 20's — for which the opposition offers no remedy what-
ever, so that a reversion would not merely perpetuate the defects but
lead to another collapse. The opposition professes to fear inflation
yet it brought on the worst inflation of stock market, real estate
and other prices in our history; it offers nothing now to correct
the very defects in the system which produced the evil results. As
set forth in the studies referred to, one all-important factor of the
20's was that for the first time in our history capital accumulated
faster than it could be profitably employed in production.

For 150 years we had an expanding frontier; great waves of
immigration and a fairly high birth rate gave us a domestic market
that grew so rapidly that as fast as capital accumulated it could be
put profitably into new production; simultaneously, until our high
tariff policy killed it off, we had a foreign market. By the 20's,
as Andre Siegfried has said, America came of age; we had no more
frontier; for the first time in our history the tide of immigration
turned the other way; our mountainous tariffs cost us our foreign
markets, and for the first time in our history capital accumulated much
faster than it could be put into productive enterprise; at the same
time, as Berle and Means have set forth, we witnessed rapid changes in corporate organization, with the growth of a great number of industrial giants, which accumulated vast profits which they did not pass along either in the form of higher wages, dividends or, as would have been best of all, lower prices; an incidental effect was the shrinkage in the volume of commercial paper to the point where the commercial banks could no longer exist on that once fundamental type of loan; but the worst effect was that these capital accumulations or savings spilled over into stock, real estate and other speculation—nothing was done then by Republican Administrations to halt the process; the Coolidge-Mellon procedure was to encourage the stock market orgy and Hoover did nothing to abate it until the crash came; nor is anything offered now by the Hoovers, Landons, Knoxes, etc., to safeguard the nation against a recurrence of the calamity; on the contrary their whole policy would expose the nation to the same evils. The facts of the situation are thus set forth by Brookings (Income and Economic Progress, page 156):

"As to income distribution and its results, we found in the second division of our study the proceeds of the nation's efforts going in disproportionate and increasing measure to a small percentage of the population—in 1929 as much as 23 per cent of the national income to 1 per cent of the people. We found the unsatisfied wants—needs according to any good social standard—of the 92 percent of all families who are now below the level of $5000 annual income sufficient to absorb the product of all our unused capacity under present conditions of productivity and still demand much more from such unexplored potentialities as might thereafter be opened up. We
found the incomes of the rich going in large proportion to savings and these savings strongly augmented by others impounded at the source by corporations through the practice of accumulating corporate surplus. These savings, after providing for such increase of capital goods as could be profitably employed, we found spilling over into less fruitful or positively harmful uses, ranging from foreign loans (bad as well as good) to the artificial bidding up of prices of domestic properties, notably corporate securities.

"Thus, we began to discern the answer to our question whether the basic defect in our economic system, not discovered in the technical processes of productions, is to be found in the way in which we conduct the distribution of income. The answer is affirmative; this is the place at which we do find basic maladjustment."

Correcting Basic Defect

The Administration's expenditures have had the effect of helping to correct this basic maladjustment. To cite the Brookings further (page 87):

"Inadequate buying power among the masses of the people appears to be fundamentally responsible for the persistent failure to call forth our productive powers. It has been shown, also that the standards of living desired for the American people as a whole can be attained only if we can somehow greatly increase the national output of goods and services. Our problem is to determine whether the flow of the income stream to the various groups in society can be so modified as to expand progressively the effective demand for goods and thus evoke an ever greater volume of production—which would mean a steadily augmenting aggregate income to be divided."

It has been by restoring buying power, by putting money into the bottom of the spending stream, that the present progress of recovery has been achieved. A reversal of policy now, therefore,
would as indicated be disastrous from every standpoint, political
and economic.

**Relief Funds**

As a suggestion: Congress might be requested to furnish
a certain sum for relief, to be used only as and if private enter-
prise fails to take over the employment load; the fund, instead of
being administered from Washington by men whose experience has been
that of case workers in the social field should be handled in de-
centralized form by those experienced in handling funds; resentment
can be abated by doing away with the provision that persons must de-
clare themselves pauperized in order to get on relief roles and be
eligible for work. Incidentally, a balanced budget will not employ
people - as Hoover amply proved. Employment results only when busi-
ness receives orders for goods, and orders for goods in turn only
result from people having money with which to buy, and this, further,
is the only process which keeps up and adds to the national income
out of which come the taxes which balance the budget. In order
words, the Administration's infiltration of buying power into the
spending stream gets at the fundamental cause of the trouble.

**Housing Program**

As an immediate measure which would have a stimulative ef-
fect, perhaps offsetting possible business recession in the Spring,
the housing program, designed to accomplish the largest volume of
construction in the shortest possible time, through the stimulation of private capital, has been agreed upon by the several interested agencies and officials.

Goal of Real Wealth Abundance

This Administration, dedicated to an abundance economy, to the interests of the underprivileged, has not only prepared the way for a lasting recovery, and provided through the stock market and banking controls a means of combatting both inflation and deflation, but is in a position to offer explicit proposals for achieving the degree of abundance represented by a steadily rising national income based upon real wealth, not based on paper money, but based on calling forth full productivity of our economic machine, plus the technological benefits in immeasurable fields. To cite the final Brookings report once more (page 158):

"The accumulated knowledge resulting from modern scientific and technical discoveries is so great that were it rapidly and continuously applied to the improvement of productive processes, we could have a rate of industrial advancement, and attain a level of production in the not distant future, that would dwarf anything that has been known in the past."

This goal is in sight under the Administration's declared policies, and demonstrable results so far - though the goal is still far ahead; it is not in sight under a reversion to the blind greed, unbalanced economy and budget-balancing methods of the opposition - to
yield to those methods now could be the greatest possible tragedy.

The goal is attainable by keeping the cost of capital down, interest rates low – as has been the Administration's policy; forcing the distribution of surplus and profits when they fail to flow into real wealth production, but spill over into speculation; keeping this flow directed into the spending stream through taxing surplus in times of prosperity and thus reducing debt incurred in periods of deflation.

The Government must be the compensatory medium in maintaining the flow and balance and at the same time preventing excesses either in the direction of inflation or deflation.

The budget is the key to the whole policy and program.
December 25, 1935

The Honorable

The Secretary of the Treasury

Dear Henry:

I have been asked to prepare for the "London Telegraph" a 700 word article on America's creditor position. Of course, agriculture's interest in a problem of this sort is because of the likelihood of continuation of foreign purchasing power at a fair price for the product of some 30 to 50 million acres of farmland. But the Treasury and the State Departments are, of course, even more interested in this problem than agriculture. I would not want any article which I might send out to cause any embarrassment to either the State or the Treasury Department.

Using figures obtained from the Department of Commerce, I have written over the week-end the statement which I am sending you herewith. It occurs to me that if this were published in the "London Telegraph" over my name, the impression would not be in any way official or formal whereas if it came from anyone connected with either the State or the Treasury Departments, much significance might be read into the statement which you would not care to have read into it. The "London Telegraph" people would like to know whether they can get this statement by Wednesday of this week. If you think it should not go or that it should be modified, I would be glad to have your opinion.

Sincerely yours

Secretary

Enclosure
THE CREDITOR POSITION OF THE UNITED STATES

By

Henry A. Wallace

The American farmer has had an increasing interest in the post-war creditor position of the United States because it seemed to have a bearing on whether or not there would be a foreign demand at a satisfactory price for the product of some 50 million acres of crop land. Before the World War, the outside world had invested in the United States sufficient money so that the United States was sending roughly 250 million dollars more in interest and dividends out of the country than was coming in. In addition tourist payments and immigrant remittances amounted to more than 300 million dollars annually. Thus it was before the war that we had to sell the outside world at least 500 million dollars more annually of goods than we bought from the world or there would be the necessity of exporting gold from the United States or borrowing still more foreign capital.

Yes, previous to the World War the United States was a struggling debtor nation, growing very rapidly, it is true, but still finding it difficult to hold down sufficiently on imports and expand sufficiently on exports to take care of her debtor position, enable the tourists to travel and make it possible for immigrants to send money back home to their folks in the old country. It is not surprising that this situation caused most of the people of the United States to become strongly in favor of high tariffs.

Today all this has been changed and the outside world owes us more than 26,000 million dollars. Offsetting this, foreigners have investments in the United States amounting to more than 6,000 million dollars. Of the
20,000 million dollars apparent net international creditor position of the United States nearly 13,000 million dollars is represented by governmental debts owed to our government and now in default. Of the nearly 5,000 million dollars of foreign securities held by private American citizens not quite 2,000 million dollars are in default. Some of the defaulted securities owed our private citizens will doubtless pay out but it would seem that there will be a loss of at least 1,000 million dollars and probably more.

Taking into account the total defaults, governmental and private, of nearly 15,000 million dollars, and the amount of foreign investments in the United States, it appears that the net creditor position of the United States at the present time is probably not in excess of 6,000 million dollars. But perhaps the least controversial and most realistic way to state the situation is to say that the United States in the year 1936 has received about 360 million dollars more in interest and dividends from the outside world than she has paid out to the outside world. This is just about half as much as was paid net annually on interest and dividend account to the United States during the last half of the decade of the twenties. Each year since 1930 the net creditor position of the United States has lessened. Very superficially stated, this is because of the fact that the obligations of the outside world to the United States are often not good while obligations of the United States to the outside world are usually good. But back of this superficial appearance which has caused much misunderstanding and hard feeling are the profound movements of world readjustment.
During the time in which the United States has been a creditor nation, the outside world has tried to adjust itself to the situation in five ways:

1. By accepting less goods from the United States and shipping more goods to her. In some cases these efforts to prevent importation of goods from the United States have taken the form of rigid monetary controls and exchange quotas.

2. By encouraging American tourists to spend more money in foreign lands.

3. By shipping gold and silver to the United States.

4. By defaulting on obligations to the United States.

5. By borrowing money from the citizens of the United States.

These five forces have had widely varying importance during the period since 1920. During the early twenties when the United States exported vastly more than it imported, the situation was taken care of by the outside world sending us a total of more than 1,000 million dollars of gold and borrowing from us more than 2,000 million dollars capital net. During the late twenties our exports exceeded our imports by less than one-half as much as was the case in the early twenties, and imports of gold were comparatively slight. To bring about a balance in payments, however, it was necessary during this period to send a total of about 8,000 million dollars of capital to foreign countries in excess of that which they sent to us. In the early thirties the extraordinary depression in the United States temporarily reversed the forces making for adjustment. Slightly more gold was shipped out of the United States than was brought in and the outside world sent slightly more long term capital
into the United States than we sent out (It must be recognized, however, that several hundred million dollars of short term capital moved out of the United States during the early thirties, probably in anticipation of the gold revaluation).

Beginning in 1934 the two dominating forces in the balance of international payments of the United States have been, first, the importation each year of from 1,000 million to 2,000 million dollars of gold and silver, and, second, the investment by foreigners in securities and short term capital obligations of amounts ranging from 380 million dollars annually in 1934 to 1,500 million dollars in 1935. Precise figures are not available for 1936 but it is evident that for this year they will amount to more than 1,000 million dollars. It would seem that in 1934, 1935 and 1936, the United States has exchanged pieces of paper giving evidence of indebtedness or partial ownership in her fundamental industries for huge masses of gold and silver. Taking all the facts into account, this exchange was probably the best thing they could have done for the welfare of the United States and the world under the circumstances. The long time aspects of this situation are another problem.

As we contemplate the five forces of adjustment to the post-war creditor position of the United States at the beginning of the year 1937, we find the situation briefly somewhat as follows with respect to each of them:

1. In 1936, exports and imports of the United States almost exactly balanced. Exports were down because of the drought and imports were up because of the beginnings of real prosperity. Secretary Hull’s policies in the direction of increasing imports are taking effect slowly;
nevertheless, it is probable after a year or two of ordinary weather that the value of United States exports will again exceed the value of her imports very materially. The productive capacity of the farmers and the factory workers of the United States is so great that under ordinary conditions they can supply food and goods for many more people than those who live within the boundaries of her own country. However, as long as American tariffs are exceedingly high, it is likely that many foreign nations will feel called on to continue rather rigid monetary exchange controls or commodity quota restrictions so as to keep as much as possible imports from the United States. These extraordinary efforts to prevent American goods from moving in international trade have not made for adjustment, however, because they have tended to bring into use the American countervailing duty in a manner to cut down exports from nations which, in effect, by their policy discriminate against the United States. Quota restrictions and monetary exchange control policies, while having their origin in the necessity for using forces to meet the creditor position of the United States, have not brought about much, if any, net gain to the countries employing the devices.

2. In 1936 American tourists spent about two-thirds as much in foreign lands as they did in the average year in the last half of the twenties. Now that the former gold bloc currencies are more nearly on a parity with the American dollar, it is likely that these tourist expenditures will greatly increase in case there is no war. As it is, it does not seem likely that there will be much increase.
3. Gold and silver shipments to the United States must apparently be relied on for some little time as the leading device to enable the outside world to live with a creditor nation which insists on exporting more than it imports. With increased gold and silver mining going on all over the world, it is quite possible that there will be sufficient gold and silver to make possible this type of adjustment as long as the United States is willing. If this is true, it would seem that after a time the people of the United States would find it necessary to think through to the realities of exporting indefinitely the labor and natural resources of this continent in exchange for nothing more tangible than shining metal. Some day the question will be asked as to what it all means in the long run for the standard of living of the American people.

4. It is not advisable to discuss the question of defaults.

5. Neither does it seem advisable to discuss a renewed loaning policy by the United States at a time when defaults are being discussed. Why should sensible American investors loan money in those countries whose nationals are now so busily sending money for investment to the United States?

In conclusion it may be said that revaluation of gold and the silver policy of the United States make it possible for us for a number of years to avoid facing in all their starkness the ultimate adjustments which must be made. This is all right, - and sound politically and economically - provided our people are gradually educated as to what is going on and as to what must be done to raise their standard of living in the long run. This rapidly gets into the field of domestic policy.
in the United States and I do not have time to discuss that at this time. Suffice it to say that the agricultural production policy will of necessity be guided in considerable measure by the changing factors in the creditor position of the United States.
December 28th - 12:40

Called up Wallace and drew his attention to the fact that wheat was selling at $1.43 and I asked him what he thought of placing an embargo on export of all wheat until the new crop came in, in order to keep the domestic price of wheat from rising.

I asked Miss Michener, in Haas' shop, to prepare for me a memorandum as to how much wheat we have in the country and how much has left the country. Wallace did not have the information.
December 28, 1938

Mr. Blair is going to make a test and see whether his company can go on without him and then he will let the Secretary know whether he can accept a position with the Treasury.

JOHN L. BLAIR
President

PROCESS COMPANY
ARIEN, PENNSYLVANIA
TO

Secretary Morgenthau

FROM
Miss Michener

At 12:45 o'clock today you telephoned and asked that I send you a memorandum on the wheat situation, covering supplies available for this crop year, exports and imports so far during this year, etcetera. You asked that I have this memorandum in your office by 9:15 o'clock tomorrow morning.
December 28, 1936

At 9:15 this morning, Mr. Bell handed the attached memorandum to the Secretary and asked him what to do with this $328,000,000 of gold. Mr. Morgenthau's recommendation was that it should be left just as is -- inactive in the General Fund. He said he did not want another dollar of that gold to go into the Federal Reserve System.
Gold in General Fund
(December 20, 1936)

Working balance:
Free gold ------------ $72.0 M
For national bank notes ------ $100.8 $172.8 M

Increment resulting from reduction of gold dollar:
For loans to industry -------------- $122.2 M
For Philippine currency --------- 23.9
For melting losses ----------- $141.0

Total (Under Treasury policy announced 12/20/36) ---- $328.8 M

Dec. 18, 1936
CONFERENCE WITH THE PRESIDENT REGARDING ADDITIONAL FUNDS NEEDED TO OPERATE THE WPA AND RESETTLEMENT PROGRAMS FROM FEBRUARY 1 TO JUNE 30, 1937.

Those present besides the President were Secretary of the Treasury, Secretary of Agriculture, Secretary of the Interior, Mr. Hopkins, Mr. Tugwell, and Mr. Bell.

The President started the conference by saying that he wanted considered the question of how much money would be required to operate the WPA and Resettlement program for the five months period ending June 30, 1937. He said it was necessary to arrive at this figure at this time because he thought it essential to include it in the 1937 Budget figures which would go to Congress on Thursday or Friday of next week and the Relief Message would probably follow in a day or so thereafter.

The President then said he would like to discuss the question as to whether he could transfer $200,000,000 of the revolving fund under Mr. Ickes supervision to Mr. Hopkins, and if that could not be done whether he could approve projects of the character which WPA carries on and permit Mr. Ickes to finance those projects out of the revolving fund. I told the President that it was clear that he had no authority to transfer any money out of this revolving fund to Mr. Hopkins without legislation.

Mr. Hopkins told him that he had given the matter consideration and had come to the definite conclusion that his plan of approving WPA type of projects to be carried on and financed by Mr. Ickes was not feasible because WPA had no projects of the type which could be legally financed out of the revolving fund. He called attention to
the provision in the appropriation act making the revolving fund available, such as the 45% grant provision which could not apply practically to the WPA program. As it seemed to be fairly clear that no part of the $200,000,000 could be used unless legislation were secured, Mr. Ickes left the conference.

Next question to be discussed, the President pointed out was the requirements for Mr. Hopkins and Mr. Tugwell for the period February 1 to June 30, 1937. The President said that we should ask for enough money so that Mr. Hopkins could obligate funds in June which would not be expended until July. He did not want to be caught in the same position as last year when the appropriation for the fiscal year 1937 was delayed, the WPA was about to run out of money early in June.

Mr. Hopkins said that it seemed to him that some policy would have to be established regarding FWA and WPA programs. That the FWA program at the present time was not taking, generally speaking, people from the relief rolls. The President then asked why couldn't the projects be approved on the basis that the Federal Government would pay only for the labor which is definitely taken from the relief rolls. Mr. Hopkins thought this was not feasible, that he did not think we could get cooperation from contractors. It has been the general policy of contractors to hire relief labor for the first week or so then later drop them from their rolls and pick up their regular workers. He said that he could use for the five months under discussion a total of approximately $900,000,000 to meet the program which is now being carried on, but he realized that the general policy
of the Government had to be changed with respect to relief expenditures, and that he was prepared to recommend to the President so far as the regular WPA program is concerned, an appropriation of $655,000,000.

There is attached a statement showing how he arrived at this total. In addition to the amounts shown on this statement it would be necessary to provide an additional amount of $4,000,000 a month to meet the Treasury Administrative Expenses of the accounting, disbursing and procuring activities, and $9,000,000 a month to meet the expenditures of other Departments carrying out projects approved by the WPA, making a total of $65,000,000 or a grand total for a WPA program of $720,000,000.

The President then turned to Mr. Tugwell and asked him what the Resettlement program would be for these five months. He said it would require a total of $25,000,000 for direct grants, $33,000,000 for loans, $17,000,000 to finance the housing and resettlement projects under Resettlement Administration and $60,000,000 for new seed loans. If all of these items are approved it will require a deficiency appropriation of $855,000,000.

The President then said he didn't feel that there was a meeting of minds on this problem, and asked the group to go into the Cabinet room and discuss it for fifteen minutes, and then come back with a recommendation.

After a few minutes discussion in the Cabinet room the group decided that nothing could be done in the time allotted, so it was agreed that we should meet in the office of the Secretary of the Treasury at 4 p.m. to see if we could agree upon a recommendation to the President.
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Total Work and Welfare includes FICA-WTA, Resettlement, Social Security, and Emergency Employment Programs.
December 23, 1936
5:15 P.M.

H.M. Jr: As I told the boys here today - I told them off the record I wish you were here, because as far as I know I've never done a thing like this before when a reporter isn't here.

Paul Mallon: Ah-ha.

H.M. Jr: But the only time you've been to my press conference in two years was when Eccles comes.

M: (Laughs) Well, it was that day of that gold thing I happened to drop in.

H.M. Jr: Yes, well it was just one of those coincidences.

M: Ah-ha.

H.M. Jr: And if - if you want to come in tomorrow I - I'd be more than glad to see you and have a heart-to-heart talk.

M: You bet your life, now.

H.M. Jr: Because really I - I - I've known you slightly and I don't think you want to be willfully malicious.

M: Oh, I'm - I'm - I'm not malicious at all.

H.M. Jr: But a thing like this story about Oliphant certainly is harmful to him and to me -

M: Well -

H.M. Jr: - because he's one of my closest advisers and it - it shakes confidence in the Treasury and -

M: Well, I - I don't know about that. Of course, differences of opinion arise every day, I guess, between men and their advisers.

H.M. Jr: Well, when - when - but when a man like Oliphant and myself have been together for four years, we're apt to stick as long as we're both here. And -
M: Well, of course, I wouldn't - you know I'm too good a newspaperman, even as bad as I am, to go on that without some very good basis of information.

H.M.Jr: Well, I don't know where you got it, but whoever gave it to you gave you a bum steer.

M: Ah-ha.

H.M.Jr: I - I don't think you got it around the Treasury.

M: Well, that's quite possible. I'm always glad to be corrected. Any time that will be convenient for you tomorrow, I'll be glad to drop in.

H.M.Jr: Are - are you around by 10:30?

M: Sure.

H.M.Jr: Do you want to come in at 10:30?

M: Bet your life, yes.

H.M.Jr: I'll be glad to see you.

M: O.K.

H.M.Jr: Thank you.

M: Goodbye.
December 29, 1936
9:57 A.M.

J.F.T.
O'Connor: Hello?

H.M.Jr: Hello, Jeffy?

O: Yes, how are you?

H.M.Jr: I'm pretty well for an old man. How are you?

O: Pretty good.

H.M.Jr: Where are you?

O: Just got back. I'm at my desk.

H.M.Jr: Jeffy, Henry Wallace wanted to know - he said the President suggested that we have a meeting on Commodity Credit.

O: Yes.

H.M.Jr: Is that something that ought to be done this week?

O: Well, I think - what is today? I've sort of lost my -

H.M.Jr: Well, Tuesday, the 29th of December.

O: Tuesday, huh? Well, I think we could do it later in the week if you're going to be here. If not, we can do it Monday or Tuesday.

H.M.Jr: No, I'm going to be here.

O: All right, then we'll have a meeting right soon.

H.M.Jr: You want to get in touch with Henry or -

O: I'll call him; yes, I will. I had - I've just this minute gotten to the office from the train -

H.M.Jr: Oh yes -

O: - and I've been talking cotton a good deal of the time while I was south.

H.M.Jr: Ah-ha.
O: And I want to go to school here with my cotton boys for a couple of days and then I'll give you - I'll give him a ring and you a ring.

H.M.Jr: Fine.

O: How you getting along otherwise?

H.M.Jr: Very well. I'm very much pleased the way the bond market - the Government bond market's been acting the last couple days.

O: Still going up, are they?

H.M.Jr: Well, of course, there for a week or ten days they were - the tone of it wasn't good.

O: I see.

H.M.Jr: But now we've got a really good tone again and -

O: I haven't been keeping track of it, Henry.

H.M.Jr: - and - well, it was for a while - I don't know - it was a little thick, but it's all right again, and - But everything - I - I mean I - I - golly, I think we all got every reason to face the New Year with the greatest of complacency and comfort.

O: Well, I - I agree heartily with that.

H.M.Jr: Yes - when you think what we've gone through the last three years.

O: Oh my God yes.

H.M.Jr: Yes.

O: Well, I'm very happy about it all and I'll see you soon, Henry.

H.M.Jr: O.K.

O: Thanks.
Operator: Both lines are busy. Will you wait?

C. B. Baldwin: Hello?

Operator: No, sir, both lines are busy. Will you wait?

B: Ring 600 for me, please.

Operator: All right.

RA Operator: Administrator's office.

B: Miss Welch.

RA O: Just a moment please.

Miss Welch: Yes.

B: Hello?

Miss W: Yes.

B: Miss Welch.

Miss W: Yes, Mr. Baldwin.

B: Would you see if Mr. Bartlett's in his office please.

Miss W: Sure, just a minute. -- No, he isn't.

B: Would you transfer me to - I'm over in Treasury - would you transfer me to Mr. Fowless' office please.

Miss W: All right, sure thing. Just a minute.

(Pause)

Mr. Tugwell's in. Do you know that?

B: Hello?

Miss W: I say Mr. Tugwell's here.

B: Yep. Thanks.
Miss W: Just a minute, I'll transfer you.
Operator, will you put this on 427, please.

RA 0: Yes mam.

Miss W: Thank you.

RA 0: Surely.

X: Mr. Fowless' office.

B: Mr. Fowless there?

X: He's not in the office right now.

B: This is Mr. Baldwin. Do you know where he is?

X: Mr. Baldwin?

B: Yes

X: Why, he just stepped out, but I'll have him call you in - in just a minute.

B: Well, will you have him call me at Secretary Morgenthau's office in Treasury.

X: At whose office in the Treasury?

B: Secretary Morgenthau's office.

X: All right, I certainly will.

B: Thank you.

X: Certainly.
Operator: Mr. Baldwin.

C. B. Baldwin: Hello?

Operator: Go ahead.

Fowless: Hello.

B: Jack?

F: Yes, Mr. Baldwin.

B: Can you get me the encumbered balances on land purchase funds, but - encumbered but not expended?

F: Encumbered but not expended?

B: Yes

F: The unliquidated encumbrances.

B: Unliquidated encumbrances.

F: Yes, sir.

B: Now, how long will it take you to get it? I'm with Secretary Morgenthau now and he wants the information right away.

F: I'll go right upstairs, Mr. Baldwin, and get it just as fast as I can.

B: All right. Thank you.

F: Call you back?

B: Yep.

F: All right, sir.

B: Thank you.
Operator: Go ahead.
B: Hello, Jack.
F: Yes, Mr. Baldwin?
B: Yep.
F: The best I can give you is November 30. Everybody's gone up in Section.
B: Yes.
F: So I - I'd have to give you those of November 30.
B: Yes.
F: And that figure is twenty-nine million, four hundred and forty thousand.
B: That includes all land?
F: That includes all the funds - nine eight, nine seven, five five one five.
B: Well, that's - that's twenty-nine million, four hundred thousand.
F: Four hundred and forty thousand, three hundred and eighty-one dollars and thirty-eight cents.
B: Yes. Now, Jack, can you get a - a Treasury statement or our statement there before you -
F: Yes
B: - of our unincorporated balances.
F: I have that right here. That's one million, four hundred and eighty-five thousand.
B: No, I mean from all - from all sources.
F: Oh, you mean of everything?
B: Yep.
F: All funds?
B: Yep.
F: That'll take me a little time to dig out, Mr. Baldwin, but I'll get it for you.
B: Will you call me back?
F: Yes, sir.
B: All right, thank you.
December 29, 1936

Following the meeting with the President, as recorded by Mr. Bell in the preceding memorandum, Secretary Wallace, Mr. Hopkins, Mr. Bell and Mr. Baldwin from Resettlement came to the Secretary's office at 4 p.m. to try to reach an agreement on the requirements of relief funds for WPA and RA from February 1 to June 30, 1937.

HM, Jr: If we send an appropriation estimate of $250,000,000, as suggested at the White House conference, to Congress, we will spend in 1937 $2,000,000,000, which is $800,000,000 more than we actually spent in 1936.

What is the figure we spent up to June 30, 1936 for the 12 months previous, for relief?

Mr. Bell: $2,777,000,000.

HM, Jr: That is out of pocket? Out of the Treasury?

Mr. Bell: That is gone. That is FERA and Resettlement and PWA. Add crop loans to this, this will give you $3,000,000,000 you will spend in 1937. Resettlement spent $138,000,000 in 1936. They expect to spend in 1937 $289,000,000, which is $90,000,000 more than they spent in 1936.

Mr. Baldwin: That is because our land money will run over into 1937, about $55,000,000. That is all obligated now.

Mr. Bell: Can we save any of this $55,000,000?

Mr. Baldwin: $25,000,000 of that is for grants to drought people. Our grants for December will be $5,000,000. Loans for December will be $5,000,000 to $6,000,000. In January our grants will run to $7,000,000.

HM, Jr: Harry Hopkins allocated $10,000,000 to you for that purpose.

Mr. Baldwin: No. From February 1 to June 30
our forecast is that we will spend $25,000,000 on grants and $33,000,000 on loans. We will spend for construction $17,000,000 in order to clean up projects.

HM.Jr.: Of the $143,000,000 which you had obligated but unspent on December 22, how much of that is for land?

Mr. Baldwin: My rough estimate is $30,000,000. (Note: Mr. Baldwin, however, was not sure of his figures and telephoned to his office for accurate information. Immediately following this page are the records of two telephone conversations which Mr. Baldwin had with his office.)
December 29, 1936
4:37 P.M.

Operator: Both lines are busy. Will you wait?

C. B.
Baldwin: Hello?

Operator: No, sir, both lines are busy. Will you wait?

B: Ring 600 for me, please.

Operator: All right.

RA Operator: Administrator's office.

B: Miss Welch.

RA O: Just a moment please.

Miss Welch: Yes.

B: Hello?

Miss W: Yes.

B: Miss Welch.

Miss W: Yes, Mr. Baldwin.

B: Would you see if Mr. Bartlett's in his office please.

Miss W: Sure, just a minute. - - No, he isn't.

B: Would you transfer me to - I'm over in Treasury - would you transfer me to Mr. Foulis' office please.

Miss W: All right, sure thing. Just a minute.

(Pause)

Mr. Tugwell's in. Do you know that?

B: Hello?

Miss W: I say Mr. Tugwell's here.

B: Yep. Thanks.
Miss W: Just a minute, I'll transfer you.
Operator, will you put this on 427, please.
RA O: Yes mam.
Miss W: Thank you.
RA O: Surely.
X: Mr. Foulis' office.
B: Mr. Foulis there?
X: He's not in the office right now.
B: This is Mr. Baldwin. Do you know where he is?
X: Mr. Baldwin?
B: Yes
X: Why, he just stepped out, but I'll have him call you in - in just a minute.
B: Well, will you have him call me at Secretary Morgenthau's office in Treasury.
X: At whose office in the Treasury?
B: Secretary Morgenthau's office.
X: All right, I certainly will.
B: Thank you.
X: Certainly.
Operator: Mr. Baldwin.

C. B. Baldwin: Hello?

Operator: Go ahead.

Foulis: Hello.

B: Jack?

F: Yes, Mr. Baldwin.

B: Can you get me the encumbered balances on land purchase funds, but - encumbered but not expended?

F: Encumbered but not expended?

B: Yes

F: The unliquidated encumbrances.

B: Unliquidated encumbrances.

F: Yes, sir.

B: Now, how long will it take you to get it? I'm with Secretary Morgenthau now and he wants the information right away.

F: I'll go right upstairs, Mr. Baldwin, and get it just as fast as I can.

B: All right. Thank you.

F: Call you back?

B: Yep.

F: All right, sir.

B: Thank you.
Operator: Go ahead.

B: Hello, Jack.

F: Yes, Mr. Baldwin?

B: Yep.

F: The best I can give you is November 30. Everybody's gone up in Section.

B: Yes.

F: So I - I'd have to give you those of November 30.

B: Yes.

F: And that figure is twenty-nine million, four hundred and forty thousand.

B: That includes all land?

F: That includes all the funds - nine eight, nine seven, five five one five.

B: Well, that's - that's twenty-nine million, four hundred thousand.

F: Four hundred and forty thousand, three hundred and eighty-one dollars and thirty-eight cents.

B: Yes. Now, Jack, can you get a - a Treasury statement or our statement there before you -

F: Yes

B: - of our unin- of our unliquidated - no, of our unencumbered balances.

F: I have that right here. That's one million, four hundred and eighty-five thousand.

B: No, I mean from all - from all sources.

F: Oh, you mean of everything?

B: Yep.
F: All funds?

B: Yep.

F: That'll take me a little time to dig out, Mr. Baldwin, but I'll get it for you.

B: Will you call me back?

F: Yes, sir.

B: All right, thank you.
Secretary Wallace: You will be welching on a contract if you take this money.

HM, Jr.: Is it not more important to take care of the unemployed?

Secretary Wallace: You will be taking a lot of heat.

HM, Jr.: Well, I am just thinking about it.

Mr. Hopkins: In round figures, you will need for Resettlement for the next five months $75,000,000, not counting land utilization. Including $15,000,000 for land utilization you will need $80,000,000.

HM, Jr.: If it were not for the drought you would not need this money.

Mr. Hopkins: How is the $100,000,000 allocated to Resettlement?

Mr. Baldwin: $30,000,000 of it is loans and grants; $30,000,000 to $35,000,000 on construction projects. Our present loans and grants funds will last us until about February 15.

HM, Jr.: Could you dictate a statement showing your final figures, what you need, etc., how much you have left, etc.?

Mr. Baldwin: I will. I will send it over as soon as I get back to my office.

HM, Jr.: I have down $655,000,000 for Hopkins; $75,000,000 for Resettlement; $50,000,000 for Seed Loans; $20,000,000 for Administrative Expenses for the Treasury, and other Federal projects $45,000,000, making a total of $845,000,000.

We could sit here until tomorrow morning. The figure is $845,000,000. The President said originally that the outside figure would be $2,136,000. From that you deduct $1,425,000,000 and you need a balance of $711,000,000. He has to do one of two things. It is up
to the President either to stop some of this work or he has to amalgamate something or say that he did not mean what he said when he said $2,136,000,000.

Secretary Wallace: The seed loans cannot be taken out of the $845,000,000. If the President comes out with a statement that he needs more, what will happen?

HM,Jr: The whole question is, as I have said on the Hill, what is the confidence in the Government credit? You can't describe it. The President has the confidence now and, therefore, he can get money cheaper. Up to now, every time, his statements on expenditures have been less and his statements on revenue have been under-estimated. I do not say that if he spent $500,000,000 more that it would break the credit of the Government, but I do say it will do more to shake the confidence of the people, especially since expenditures for the regular Departments will be higher and the emergency expenditures will be higher for the fiscal year 1937 than they were in 1936. I would not want to be accountable for what would happen from an inflationary standpoint if all three of these things took place this year. I have fought up to the last ditch on principle, but once he gets the money I have never told Harry how to spend it. Dan and I could do this if we had our way, but you would have to stop some of these things.

On December 22 we still had unspent $3,000,000,000. In face of that, to completely wreck this thing is an awfully serious decision.

Harry Hopkins: The cross-workings of our position is right at this point. We have asked Congress for $7,000,000,000 to $8,000,000,000 for emergency expenditures. Now we find ourselves with sums of money. We have to admit that they were not for emergency expenditures because we didn't use them, and we have to leave that money sitting there and ask for more money for emergency expenditures. I don't think the President can get that $200,000,000.

Secretary Wallace: How did the President arrive at the $2,136,000,000?

Mr. Bell: In the 1937 Budget the President showed an estimated deficit of $1,098,000,000, whereas the deficit
for the fiscal year 1936 was estimated at $3,234,000,000. He said in his Budget message that Congress could appropriate for recovery and relief and he could expend as much as $2,136,000,000 on this account in addition to the amount already contained in the Budget for this year and still have a deficit of no more than that estimated for the fiscal year 1936. He told Congress in his Budget message he did not contemplate that the recovery and relief requirements for the fiscal year 1937, provided that industry took a sufficient number of people off the relief rolls, would exceed the sum of $2,136,000,000. It has already appropriated $1,425,000,000. It can, therefore, appropriate an additional sum of $711,000,000 and still remain within the $2,136,000,000.

HM,Jr: Exclusive of bills, in the last three years I have sold $24,000,000,000 worth of securities. About half was refunded. It can be done if the President wants to do it. I will call up McIntyre and say that just as soon as the President is ready, we know what the requirements are.

(At this point the Secretary telephoned to Mr. McIntyre for an appointment with the President. Secretary Wallace left the meeting.)

HM,Jr: Any time the President is ready, we can give the facts but not the answer.

Harry Hopkins: If Resettlement money is there and unobligated, I am telling you that if Resettlement got $50,000,000 with what they have in their front pocket, they can swing this thing. They are always fudging on their figures.

Mr. Bell: I go along with you on the $750,000,000 accompanied by two other suggestions: that PWA be liquidated and Resettlement be liquidated except for direct relief and seed loans and get no more than $50,000,000 total and the transfer of the $200,000,000.

HM,Jr: (To Mr. Bell) Harry Hopkins, you and I have faced this thing about six times together.
Chairman Eccles came for luncheon with Secretary Morgenthau at one o'clock. Mr. Upham also was present.

Preliminary discussion had to do with two recent dispatches by the columnist, Paul Mallon, one crediting the invention of the Gold Sterilization Plan to the Federal Reserve Board Staff, and the other announcing a rift between Secretary Morgenthau and his General Counsel, Mr. Oliphant and predicting the imminent resignation of the latter. Mr. Morgenthau told Mr. Eccles that he had told his press conference yesterday that there was no truth to the story about Mr. Oliphant, that he had told Mr. Mallon the same thing, and that Mr. Mallon had been in this morning for three-quarters of an hour, the discussion being confined to the Oliphant story, with the Secretary refusing to discuss the story about gold sterilization, it being his position that any comment on that should come from the Reserve Board.

Mr. Eccles handed to the Secretary a letter attached to which was a copy of a letter which had been written by Mr. Eccles' Assistant, Elliott Thurston, to Mr. Mallon. Mr. Thurston told Mr. Mallon in no uncertain language that his dispatch was grossly erroneous and calculated to do mischief.

Mr. Eccles also presented to Secretary Morgenthau a letter reviewing the status of the proposal for the replacement of the 1928 series of Federal Reserve notes which bear the "gold" clause. This letter was referred to Mr. Upham.
for whatever action should be taken.

Mr. Morgenthau asked Mr. Eccles when he would have a memorandum showing how excess reserves are now distributed among the banks of the country. Mr. Eccles replied that they have such tabulations as of November but plan to compile a later one sometime in January probably asking for the information sometime after the tenth and having it ready by the end of January. This will enable them to get a reflection of conditions after the December 15th financing and after the return flow of currency which always follows the holidays. He plans to call a meeting of the full membership of the Open Market Committee about the end of January or the first of February also.

Commenting on the possibility of raising reserve requirements further in February, Mr. Eccles stated that he had an open mind on the subject but is of the opinion that it may prove to be unnecessary or in any event that a 25% increase might be sufficient, in view of the gold sterilization action taken by the Treasury.

Mr. Eccles asked about the budget message and stated that he has been seeking a conference with the President to give him ideas with respect thereto. He has some charts showing the increase of $5,000,000,000 in bank deposits since 1933 and the relative money supplies then and now. It is his contention that the money supply now in existence in this country, with 1929 velocity, will support a national income of $90,000,000,000. He feels very strongly that new
relief money for the rest of the present fiscal year should not exceed the $500 million figure. He is convinced that there must be an immediate end to deficit financing. All new expenditures, including relief, from this time on should be paid for by taxing, not by borrowing. If a program such as this is not adopted, Mr. Eccles wants to make it clear to the President that he will accept none of the responsibility for controlling credit conditions and preventing a runaway inflation.

Mr. Morgenthau said that he was inclined to feel much the same way about it and that Mr. Eccles had his blessing in expressing those views to the President but, he also told him that when it came down to a practical matter of doing it there were always difficulties. He told him that it did no good to assume a "Lewis Douglas" attitude with the President. He related that he had been called to the White House this morning without notice and had found a number of persons there none of whom seemed to know why the meeting was called. When the group entered the President's room, the President asked Secretary Morgenthau what the meeting was about and why they were there and Secretary Morgenthau replied that he didn't have the faintest idea. It then turned out that the matter up for discussion was relief and whether additional money for relief during the present fiscal year should be held down to $500 million or permitted to go up to $750 million or more. Upon Mr. Eccles comment that the President had been reported in the press as favoring the $500 million figure,
Secretary Morgenthau replied that at his last press conference the President had denied ever having made such a statement. Mr. Morgenthau added that no newspaper in the country had carried this denial, a fact which he is at a loss to understand.

Mr. Morgenthau said that at the close of the White House conference on relief, the President had told the rest of the group to go into an adjoining room and decide in the next fifteen minutes whether the relief appropriation should be confined to 500 million. The Secretary told the President that it was perfectly impossible for them to do that--that the decision in any event must be the President's. Secretary Morgenthau told Mr. Eccles that he can't be a "fall guy" any longer--that he cannot make decisions which he is not in a position to enforce. Mr. Eccles assured Secretary Morgenthau that there would be no request for action or advice from the Treasury on the matter of excess reserve before the end of January.
Dear Henry:

The Paul Mallon article, to which the enclosed letter refers, doubtless was brought to your attention by Mr. Gaston as it was to mine by Mr. Thurston. I deeply regret that Mr. Mallon should so grossly misrepresent the facts. After discussing the matter with Mr. Thurston, it was decided that it would be better for him rather than for me to take this matter up directly as he knows Mr. Mallon personally.

It occurred to me that you might be interested in seeing the copy of the letter enclosed which has gone forward to Mr. Mallon. This expresses fully the sentiments both of the Board and of myself.

Sincerely yours,

[Signature]

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

enclosure
I would not presume to take you to the woodshed in this matter but for the fact that quite seriously it has caused the Chairman and all members of the Board as well as of the staff a great deal of heartache. The imputation, naturally, is that something was being put over on the Treasury. Aside from the fact that this is manifestly a reflection on the integrity and good faith of the Reserve officials and staff, the really important point is that it tends to poison the atmosphere and to destroy the very essential spirit of full and frank cooperation which exists between the Treasury and the Reserve System. I am sure you will agree that it is not in the public interest to have anything occur, particularly a gross misrepresentation of the facts, which would disrupt that very necessary cooperation. I do not need to emphasize to you how intolerable the situation would be from the standpoint of the public interest if these two agencies of government, each possessing broad powers affecting credit and monetary conditions, were to attempt to operate separately, without consultation and in an atmosphere of suspicion or rivalry—in short, if they were to attempt to function without the fullest and frankest cooperative spirit. I can assure you, as I know any informed person either here or at the Treasury can, that that kind of cooperation does exist. It is very distressing, to say the least, to have you broadcast an essay that makes it appear that this Board and its staff are not acting in good faith or in conformity with a proper spirit of cooperation.

I am not venturing to suggest that it is possible now to correct this erroneous impression, but it certainly would be much appreciated if you would give us a chance to lay the facts before you in the future before giving circulation to definitely harmful impressions which are, as in this case, exactly contrary to the facts. In the prevailing spirit also of sweetness and light that appears to have descended upon the country temporarily, I trust that you will forgive me for bluntly bringing this matter to your notice. It could not properly go unchallenged. I know that you are very busy, but if you would go to the trouble of phoning, even if you cannot get around here once in a while in person, you could at least check up on the fairy tales that are sometimes surveyed to trusting columnists like yourself, as I know from painful experience.

Please consider this confidential and off the record. I shall not attempt to temper what I have said by any gratuitous
flattery, but I will add that the attention given here to your cockeyed article and the grief that it has caused are not altogether unflattering. Now, if it were an article by _____, you can fill in the names, I would not trouble to explain the facts.

Faithfully,

(Signed) Elliott Thurston
Mrs. Klotz:

Mr. Upham said you wanted this. He is retaining original for a couple of days.
Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Morgenthau:

For your convenience, the following is a brief review of the situation regarding the replacement of the 1928 series Federal reserve notes which bear the "gold" clause. I should like to be advised as soon as practicable as to the action taken by your Department on this matter so that the Federal reserve banks may be informed.

At your request, I discussed with the Governors of the reserve banks on October 24, 1935, your suggestion that the banks discontinue issuing new 1928 series Federal reserve notes which bear the words "redeemable in gold". The Governors were willing to cooperate but felt the initiative should be taken by you because (1) Section 16 of the Federal Reserve Act provides that Federal reserve notes "shall be in form and tenor as directed by the Secretary of the Treasury" and (2) the need for substituting 1954 series notes arose from action by the Government. The Governors also felt that the replacement of the unissued 1928 notes, which had cost in excess of $1,500,000, should be at the expense of the Treasury and I so advised you.

On December 13, 1935, you expressed the view that the issuance of new 1928 notes should be discontinued as soon as sufficient 1954 notes were available. You stated that you proposed to instruct the Bureau of Engraving and Printing to cease delivery of the 1928 notes on the assumption that, for the present, the Federal reserve agents would not issue 1928 notes when 1954 notes were available but that before taking this action you felt you should receive the approval of the reserve banks. You also stated that if the contemplated procedure were followed you would submit to Congress the question of an appropriation to defray the cost of replacing the 1928 notes.

On December 30 I advised you that the Governors were in accord with the proposed procedure with the understanding that, if Congress at the next session of Congress did not authorize the Treasury to replace the unissued 1928 notes, the question whether the banks should resume issuing these notes would be given consideration promptly after Congress adjourned. I also advised you that it was understood that acquiescence in the program would not prejudice the right of the reserve banks to resume issuing 1928 notes in case you were not authorized to replace them. On January 5, 1936, Mr. Coolidge wrote me that
he had noted the conditions referred to above and that he had instructed the Bureau of Engraving and Printing to cease delivery of 1928 notes. The reserve banks were requested by the Board to make no further issues of new 1928 notes and orders were placed by the banks for 1934 notes to meet normal requirements.

When the program for printing notes during the fiscal year 1937 was taken up in April 1936 the Board was advised that, while your Department was entirely willing to replace the 1928 notes, it had been decided that it would not be advisable to seek an appropriation at that time and that the Department would look into the matter again at the next session of Congress and attempt then to obtain the necessary appropriation. The reserve banks were advised accordingly.

Very truly yours,

M. S. Eccles,
Chairman.
His Britannic Majesty's Ambassador presents his compliments to the Acting Secretary of State and has the honour to enclose three copies of the statement issued by His Majesty's Government in the United Kingdom on the occasion of the adherence of the Governments of Belgium, the Netherlands and Switzerland to the principles stated in the Tripartite Declaration of September 28th last.

BRITISH EMBASSY
WASHINGTON, D.C.
December 29th, 1936.
His Majesty's Government have noted with pleasure the Declarations of the Governments of the Netherlands and Switzerland which were issued yesterday, expressing their adherence to the principles stated in the Tripartite Declaration of September 25th; the Belgian Government declared their adherence to those principles on September 26th.

His Majesty's Government are informed that the United States Treasury are extending to Belgium, the Netherlands and Switzerland the arrangements for technical co-operation in exchange matters which were referred to in the statement published on October 13th. His Majesty's Government welcome this step, which is in harmony with the arrangements already made between the United States and this country and between the United States and France. The extension of this arrangement is also in harmony with the general basis of mutual co-operation which exists between the British monetary authorities and the Belgian, Netherlands and Swiss monetary authorities.
H.M.Jr.: Give me Mr. North, please, over at the Post Office.
Operator: All right.
H.M.Jr.: Please. Hello?
Operator: Mr. North is with the Postmaster General.
H.M.Jr.: Oh. Well, all right. Now, let - let - let me have Mr. Oliphant, please.
Operator: All right.
X: Mr. Oliphant.
H.M.Jr: (Aside: My - I think the idea is that we're going to do just this - the type)
Operator: Mr. Oliphant.
H.M.Jr: Hello, Herman?
Oliphant: Yes
H.M.Jr: You've got a boy working on this question of illustrating catalogs of -
Oliphant: Yes
H.M.Jr: - of postage stamps.
O: That's right.
H.M.Jr: And Mr. Clark is down here from Scott and Company.
O: Yes
H.M.Jr: Now, am I correct in my thought that we were just going to illustrate this Government publication and do nothing else?
O: That's right.
H.M.Jr: Is that right?
O: That's right.
And - and - and that's as far as we're going to go this year.

Yes

What?

Would you like over here for some of us to talk to him?

Yes, who - who could he see?

Well, he can see Mr. Bernard. I have my staff meeting on now, but Mr. Bernard can step out and see him.

Well, I tell you - when he's through I'll let - I'll send him down to your room. What time will your staff meeting be over?

Just started. It'll be - it'll take about an hour.

Wait, I'll ask him.

Hello.

Yes, he can wait. Why not say Bernard will see him at 12?

Fine, I'll see him at 12. I'll see him at 12.

Would you see him?

Yes, 12 o'clock.

Well, that will be - that will be grand.

All right.

I'll tell him at 12 o'clock.

Thank you, sir.
H.M. Jr: Hello?
Roy North: Hello, Mr. Secretary.
H.M. Jr: North?

N: Yes, sir.
H.M. Jr: Morgenthau.
N: Yes, sir.
H.M. Jr: I have Mr. Clark here with me -
N: Yes
H.M. Jr: - of Scott's.
N: Yes, sir.
H.M. Jr: Is there any question about this catalog, the Government catalog, being illustrated?

N: No. As merely as a matter of precaution, Mr. Morgenthau, the bill has been proposed for new legislation, you know -
H.M. Jr: Yes
N: - authorizing it, so that there'd be no doubt.
H.M. Jr: Well, but I mean - but this thing that's coming out now, the one you get out every two years. Isn't that going to be illustrated?
N: That's right, but to clear any doubt about its propriety -
H.M. Jr: Oh
N: - permission, we're including that in the new legislation.
H.M. Jr: I see. In other words, you're going to legitimatize
what we're doing.

N: Yes

H.M.Jr: But you're going right ahead with it.

N: We're going right ahead with it.

H.M.Jr: O.K.

N: And I think, Mr. Secretary - by the way, we are taking up with you folks over there, your counsel and so forth, the proposition of further liberalization.

H.M.Jr: I see.

N: And that was in accord probably with the conferences previously had -

H.M.Jr: Right

N: - on the subject.

H.M.Jr: O.K.

N: All right, fine, Mr. Morgenthau.

H.M.Jr: Thank you.
Robert H. Jackson: Hello?
H.M.Jr: Bob?
J: Yes
J: Yes
H.M.Jr: I'm calling you up on a personal matter, see?
J: Yes
H.M.Jr: I've just written a letter to your boss on this Malone case, see?
J: Yes
H.M.Jr: I'd like to send it over to you before I sign it and have you take a look at it, if it's - unless you say no, - on a purely personal basis.
J: Well, I'm - I'm willing to do that, surely.
H.M.Jr: What?
J: Yes, I'm willing to do that.
H.M.Jr: Now, if after you've read it, you feel free to make any technical comments, better call me back. I'd appreciate it, see?
J: Yes. All right.
H.M.Jr: And you could also tell me whether you think it would be helpful in the present situation in dealing with the U. S. Attorney at Chicago.
J: Yes
H.M.Jr: Now, you - you don't - you're perfectly willing to let me send it over on a personal basis?
J: Oh yes, certainly, surely.
H.M.Jr: Would you mind - I mean would it - if I sent it over by messenger through Irey or would you rather have me send it some other way?

J: I don't care. Either way will be all right.

H.M.Jr: Either way?

J: Either way will be all right.

H.M.Jr: Well then, if it's just the same - because then you could do it by word of mouth, you see -

J: Yes

H.M.Jr: - Irey can bring it and you can tell him by word of mouth, "Now, just tell the Secretary to leave this out or add this," you see, without doing anything in writing.

J: Uh-huh.

H.M.Jr: See?

J: That'll be fine.

H.M.Jr: When - when could you see Ike - when could you see Irey?

J: Well, I think I could - I can see him any time that he can get over here.

H.M.Jr: Well, I can get him - and what time would you like to have him come?

J: If he's - if he can't be here within a few minutes, better make it about 2:30, I guess.

H.M.Jr: I'll say 2:30.

J: All right, fine.

H.M.Jr: Thank you.

J: Fine.

H.M.Jr: He'll be over there at 2:30 and then you tell him by word of mouth if you've got any suggestions.
J: Yes
H.M.Jr: Because this thing has got me very much worried.
J: Yes. Well, we'll - we'll see that it doesn't anything go wrong about it anyway.
H.M.Jr: Thank you.
J: All right.
H.M.Jr: Goodbye.
J: Goodbye.
I had a delightful talk with Mr. Hopkins. He thought that the table was excellent. It showed that something over five million families were dependent on Federal aid and that the number would remain at five million or over.

We were both in complete agreement that Federal expenditures on relief and welfare would show a downturn for only one year and would then rise again, and continue to rise. We both agreed that the expenditure on welfare would soon reach four or five billions and that the public would have so much money in its pockets over the next few years that it would organize no effective opposition to large spending.

We both agreed that the demands for money for the aged would increase, that local boards would never decide that John Smith should have a pension and Jim Jones should not. Therefore, eligibility would grow more and more liberal. We both agreed that the inevitable increase in local non-contributory pensions would undermine the whole contributory system of old-age pensions, and the accumulation of reserve funds.

We were also agreed that administering officials were becoming impatient of distinguishing between one family that needed an $18.03 budget, and another that needed $16.90. They were going to decide that they both needed $20.00, and with each year they were going to think of reasons why they needed $25.00 and then $30.00.

We were both agreed that it made very little difference in what form the benefits were given, whether they were called relief, work, or pensions. The same tendencies would draw more and more people on government dependence, and at increasingly higher benefits.

We were both agreed that the "means test" is needlessly out, that labor will not long tolerate investigation of the resources of low income families as a condition of government aid.

There was only one difference in our point of view which I did not mention. I believe that if we follow through according to the welfare philosophy we will end in the most destructive inflation this country has ever seen, and that after the subsequent deflation the condition of the poor in this country will be much worse than it has ever been before.
I believe that we are following the example of Germany and England, after their welfare policies have been proved definitely unsound. I believe that it is the "welfare policy" of meeting low income with creation of more credit money that has brought Europe to its present low estate. The war was only the last straw.

The fatal defect of the welfare philosophy is that it increases consumption while hamstrung production and self-liquidating employment. It is, therefore, almost pure inflation, increasing money payments of all types while true wealth is declining.

The only reason the bad effects do not show in England is because London had so much fat left over from five centuries of profits in overseas trade with undeveloped countries. The effects do show in England, if one looks at Wales or the northern textile valleys.

It is usually assumed that there are only two social philosophies, the Chamber of Commerce philosophy of the nobility of suffering for the other fellow, and the welfare philosophy of redistribution of "wealth."

There is a third philosophy. It involves substitution of the idea of increasing true national wealth for the idea of money wealth, and substitution of the idea of self-help for the idea of benefit payments.

This program in the welfare field would mean development of all possible programs that would enable the poor to help themselves, ranging from employment services, through abundant food, decent housing, cooperative organization, encouragement of new industries and the like. It would mean encouragement of all programs of helping the poor through large money payments, which can never be anything but inflation and diminishing employment. It would mean that all government expenditures for the needy would be used as capital, as stated in the President's message on relief in January 1935.

This program of emphasis on real wealth and self-support is already vigorously supported by the Administration in the Treasury Department, the Farm Credit Administration, the Securities Exchange Commission, TWA, CCC, Rural Electrification, and many other programs. It is more important to introduce this concept into employment, wage, and welfare policy than anywhere else. Unless it is introduced into the welfare and employment programs it will nullify all the good that can be accomplished by all other Federal programs put together.
CONFERENCE WITH THE PRESIDENT ON RELIEF, DECEMBER 30, 1936.

Those present besides the President were the Secretary of the Treasury, the Secretary of Agriculture, and Mr. Bell.

The President asked the group what was accomplished by the meeting yesterday between the Secretaries of Treasury and Agriculture, Mr. Hopkins and Mr. Bell after they left the President's office. He was told that nothing was done at the immediate conference but that the group met again at 4 o'clock in the office of the Secretary of the Treasury. Very little was accomplished at that conference except to re-hash about the same material that was gone over at the President's conference in the morning.

I explained to the President that the figures that had been presented by Mr. Hopkins and Mr. Wallace were about as follows:

I Works Progress Administration Projects—
(a) To run the WPA program for the period Feb. 1 to June 30, 1937, including administrative expenses and also including an amount sufficient to care for the land utilization program of the Resettlement Administration. $655,000,000

(b) To cover administrative and other expenses of the Treasury for its accounting, disbursing and procurement activities and other departmental expenses at the rate of $4,000,000 per month 20,000,000

(c) To provide for Federal projects carried on by various departments and independent agencies of the Government at the rate of about $9,000,000 per month 45,000,000

Total, Works Progress Administration projects, including administrative expenses. $720,000,000

Regraded Unclassified
II Resettlement projects—

(a) Direct grants to farm families at the rate of $5,000,000 per month ........................ $25,000,000

(b) Loans for rehabilitation purposes at an average rate of $6,500,000 per month ..... 33,000,000

(c) To continue construction amounting to about $3,000,000 on suburban projects and continue to carry out the rehabilitation program amounting to about $14,000,000 for the five months' period ........................ 17,000,000

Total, Resettlement program for five months .......................................................... 75,000,000

Total for Works Progress Administration and Resettlement programs .................. $795,000,000

If we add crop loans, $50,000,000, the total would then be $845,000,000

I then pointed out to the President that if he should ask for additional appropriation of $750,000,000 to $800,000,000 I did not feel that we should put in the 1937 Budget an estimated expenditure out of this appropriation of more than $650,000,000, leaving a carry-over of about $145,000,000 into the fiscal year 1938. This would show the 1937 estimated expenditures for account of recovery and relief at $2,316,000,000, or $40,000,000 more than the actual expenditures on this account for 1936.

The President then asked the question as to whether or not we could not send up an estimate for WPA and Resettlement programs of approximately $650,000,000 and write into the appropriation bill language which would authorize the WPA and Resettlement to incur obligations of not to exceed $145,000,000 which could be liquidated out of any money appropriated for relief and recovery purposes for the fiscal year 1938. I told him that that could be done and on that basis he might be able to get by with a much smaller appropriation than now seemed possible.
The Secretary of the Treasury then told the President that while Mr. Hopkins was estimating that he could finance his program for the period of five months ending June 30, 1937, with about $655,000,000, he did not personally feel that that could be done and that in order to accomplish this it would be necessary to drastically reduce the number of people carried on WPA rolls much faster than we could afford at this time. The President thought this was right and it would be necessary before we are through with this matter to frankly face the situation.

The President agreed to again consider the matter at the end of the week.
Buenos Aires, Diciembre 30 de 1936

Distinguido Señor Secretario:

He recibido la carta de V.E. de fecha 14 de Octubre y he sido informado particularmente por el Señor C. Alonso Irigoyen de la amable acogida que V.E. me ha deparado.

Al agradecer sinceramente a V.E. por su atención, saludole con mi mayor consideración.

Señor Secretario del Tesoro del
Gobierno de los Estados Unidos de América
Mr. Henry Morgenthau Jr.
WASHINGTON
Distinguished Mr. Secretary:

I have received your letter dated October 14 and have been particularly informed by Mr. C. Alonso Irigoyen of the amiable reception given to him by Your Excellency.

Thanking Your Excellency sincerely for your attention, I greet you most respectfully.

(Signature illegible)

Mr. Secretary of the Treasury of the United States of America
Mr. Henry Morgenthau, Jr.
WASHINGTON

(On envelope-
Department of the Treasury of the Argentine Nation)

Translated by Dr. Schwarz, Mint Bureau
The President  
The White House  

Dear Mr. President:

Following up our conversation at Cabinet meeting yesterday, I would like to make further comment to you with respect to both wheat and sugar. At the moment there is no occasion for unusual alarm about bread prices. The average retail price of bread in November in the leading cities in the United States, according to the Bureau of Labor Statistics, was 8.2 cents a pound. This compares with 8.1 cents in June of this year, 8.6 cents in December of 1935, 8.3 in December of 1934, 7.2 in December of 1932 and 9.4 in December of 1927.

The recent rise in the price of wheat and certain other ingredients will probably result in the next month or two in an increase in bread prices of about .4 of a cent a pound which would mean that bread would be about 8.6 cents or the same as it was in December of 1935. Flour in the middle of December of this year of both the Hard Winter and the Spring Wheat grades was lower in price than in December of last year. Since the first week of December, however, there has been an advance of 10 to 15 cents a bushel in the price of wheat and this has not yet had an opportunity to reflect itself in either flour or bread prices. At the moment, however, taking into account this lag, there seems little likelihood of present wheat prices resulting in bread prices any higher than they were in December of 1935. You must remember that a year ago there was a processing tax on wheat which, when added to the price of wheat prevailing at that time, gave a price very little different from the present price.

I am having our Bureau of Agricultural Economics cooperate with the Commodity Exchange Administration to see to what extent present wheat prices in the United States are out of line with the fair assessment of supply and demand conditions in the United States and in the world. I hope to have the result of this study in your hands within the next week.
With regard to sugar, I am confident that if we have an excise tax of one cent a pound, we can by regulation of quotas keep the price from rising to the consumer. As a matter of fact, however, it might be all right to let the price rise to the consumer by as much as .1 or possibly even .2 of a cent a pound because of the fact that sugar prices are now so reasonable. We have the mechanism, however, to impose a substantial excise tax on sugar without increasing the price to the consumer. The problem is not the problem of the consumer but a problem of how much of a handout the government by its policy wants to give to the sugar processors. I certainly do not believe in punitive measures with respect to them, but neither do I believe in a policy which gives them a far greater return than they had during the decade of the twenties.

It seems to me that you now have a splendid opportunity, if you will take hold of it firmly, to inaugurate a sugar policy which will do justice to all of the parties interested, including Cuba, the beet farmers, the children and other laborers in the beet fields, the processors and the United States Treasury. It is possible to enrich the United States Treasury by a net of some 30 to 90 million dollars, depending on the amount of the excise tax and on whether you think it advisable for our policy to result in a return to the processors of 9 or 10 percent or whether you think our policy should result in a return to them of 6 or 8 percent.

If you yourself will give the word to Secretary Morgenthau to go into this matter of an excise tax on sugar sympathetically with our people and if you will have a heart to heart talk with Senator O'Mahoney, I am convinced that we can, if we stand fast, inaugurate a sugar policy which will be just for all concerned and one of which we can be proud in future years. I honestly believe a policy of this sort in the long run will prove to be to the best advantage of the processors and the growers as well as to all the other interests at stake. Would you like further information on this subject?

Respectfully yours,

[Hawaldan]

Secretary.
DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C.

December 30, 1936

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

Dear Henry:

In line with our conversation at the White House this morning, I will be glad if you will designate someone from your Department to whom Mr. J. B. Hutson, Assistant Administrator of the Agricultural Adjustment Administration, can talk about the sugar situation.

Sincerely yours,

[Signature]

Secretary
CABLEGRAM

DECEMBER 30, 1936.

P J OUD
THE MINISTER OF FINANCE
THE HAGUE, NETHERLANDS

I WISH TO EXTEND TO YOU MY SINCERE GOOD WISHES FOR THE NEW YEAR TO WHICH I DESIRE TO ADD MY HOPE THAT THE MONETARY UNDERSTANDING SO HAPPILY ARRIVED AT BETWEEN OUR COUNTRIES WILL CONTINUE TO BE HELPFUL TO ALL THE NATIONS PARTICIPATING

HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY

Similar cablegram sent to the following:

Dr. Albert Meyer,
The Minister of Finance,
Bern, Switzerland.

Vincent Auriol,
Minister of Finance,
Paris, France.

Neville Chamberlain,
Chancellor of the Exchequer,

Henry de Man,
The Minister of Finance,
Brussels, Belgium.
CABLEGRAM

DECEMBER 30, 1936.

MR EDUARDO SUAREZ
THE MINISTER OF FINANCE
MEXICO D F

I WISH TO EXTEND TO YOU MY SINCERE GOOD WISHES FOR THE NEW YEAR AND AT THE SAME TIME TO EXPRESS THE DESIRE THAT OUR RELATIONS WILL CONTINUE TO BE ON A BASIS OF CORDIAL HELPFULNESS TO BOTH OUR COUNTRIES

HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY

(Similar cablegram sent to the following:

Honorable Charles A. Dunning,
The Minister of Finance,
Ottawa, Ontario, Canada.

Dr. H. H. Kung,
Minister of Finance,
Peiping, China.)
DGRC718 33 CABLE VIA IMP 1 ETATBG

8 LONDON 1113A

HENRY MORGENTHAU JUNIOR
SECRETARY OF THE TREASURY WASHINGTON

GREATLY APPRECIATE YOUR GOOD WISHES WHICH I WARMLY RECIPROcate I TOO
SINCERELY HOPE THAT MONETARY UNDERSTANDING WILL CONTINUE TO BE OF
GENERAL BENEFIT

NEVILLE CHAMBERLAIN.
WN53CL LONDON 26 31 1636 ETATBG
HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY
WASHINGTON

YOUR TELEGRAM TO CHANCELLOR OF EXCHEQUER WHO IS OUT OF ENGLAND IS BEING TRANSMITTED TO HIM

PRIVATE SECRETARY

RECEIVED AT
1112 CONNECTICUT AVENUE
WASHINGTON, D. C.
1936 DEC 31 PN 12 30
STANDARD TIME

PHONE: NATJONAL 2600
To secure prompt action on inquiries, this original RADIOGRAM should be presented at the office of R. C. A. COMMUNICATIONS, Inc. In telephone inquiries quote the number preceding the place of origin.
RECEIVED AT 1112 CONNECTICUT AVE., WASHINGTON, D. C., AT
GWN51JH HLG 1381 SCRAVENHAGE 70 31 1/50 1711 ETAJ HOLLGOVT

HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY WASHINGTON

GREATLY THANKFUL FOR YOUR GOOD WISHES FOR THE NEW YEAR I OFFER YOU ON
MY PART MY BEST WISHES AND I AGREE WITH ALL MY HEART WITH THE HOPE EXPRESSED
BY YOU THAT THE MONETARY UNDERSTANDING WILL CONTRIBUTE TO THE AMELIORATION
OF THE ECONOMIC SITUATION OF ALL THE NATIONS PARTICIPATING WHICH IS
DESIRED BY US SO MUCH

THE MINISTER OF FINANCE OUD

R. C. A. COMMUNICATIONS, Inc.
I wish to heartily reciprocate the sincere good wishes expressed in your telegram and am looking forward personally to the new year in the hope that among its blessings may be a continuous development of the present cordial relations believing as I do that we can in this way contribute greatly to the well being of the citizens of both our countries.

CHAS A DUNNING. 112p
Treasury Department  

TELEGRAPH OFFICE

MR M 40 MEX GOVT
MEXICO CITY 30/2250

HENRY MORGENTHAU
SECRETARY OF TREASURY

YOUR KIND MESSAGE RECEIVED TODAY RENEWS MY SINCERE WISHES OF SERVING BOTH COUNTRIES THROUGH OUR PERSONAL RELATIONS BY MEANS OF AN OPPORTUNE AND LOYAL COOPERATION STOP I AM SENDING TO YOU MY BEST WISHES AND AUGURIES FOR THE NEXT YEAR

EDUARDO SUAREZ SECRETARY OF TREASURY OF THE MEXICAN GOVT.

938A
BRUSSELS 510P JAN 5
HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY
I BEG TO THANK YOU FOR YOUR GOOD WISHES WHICH I GLADLY RECIPROCATE HOPING THAT PRESENT MONETARY UNDERSTANDING WILL PROVE A STEP TOWARDS COMPLETE STABILIZATION AND FINAL RESTORATION INTERNATIONAL TRADE HENRY DE MAN MINISTER OF FINANCE
Treasury Department

TELEGRAPH OFFICE

BERNE 1150 A DEC 31 36

TO MR. HENRY MORGENTHAU JR.

SECRETARY OF THE TREASURY WASHNDC

I CORDIALLY CHANGE YOUR GOOD WISHES FOR THE NEW YEAR AND JOIN IN YOUR HOPE THAT THE MONETARY UNDERSTANDING BETWEEN OUR COUNTRIES MAY BE OF A HAPPY EFFECT FOR ALL PARTICIPATING NATIONS.

MEYER PRESIDENT OF THE SWISS CONFEDERATION

414P
Season's Greetings

RCA

RECEIVED AT 1112 CONNECTICUT AVE., WASHINGTON, D. C., AT 1956 DEC 31 PM STANDARD TIME

100JH SZ984 BERN 48 VIA RCA 31 1150

MR HENRY MORGENTHAU JR

SECRETARY OF THE TREASURY

WASHINGTON 2201-7

Sincerely exchange your good wishes for the New Year and join in your hope that the monetary understanding between our countries be of a happy effect for all participating nations.

Meyer, President of the Swiss Confederation

Via RCA

R. C. A. Communications, Inc.
WA218.73 CABLE VIA FRENCH=PARIS 31 845P
HENRY MORGENTHAU=
SECRETARY OF THE TREASURY 2201 R ST NORTHWEST WASHNDC=

TRES SENSIBLE A VOTRE AIMABLE TELEGRAMME JE VOUS EN REMERClE
CORDIALEMENT VOUS ADRESSES MES VOEUX BIEN SINCERES POUR CETTE
NOUVELLE ANNEE ET FORME AVEC VOUS LE SOUHAIT QUE L ENTENTE
MONETAIRE A LAQUELZ EST ATTACHE LE NOM DE L ILLUSTRE PRESIDENT
OOSEVELT ET QUI A DEJA EU DE SI HEUREUSES CONSEQUENCES CONTINUE
A PERMETTRE ENTRE LES NATIONS QUI Y ONT ADHERE UNE FECONDE
COLLABORATION=
VINCENT AURIOL=

Telephone Your Telegrams to Postal Telegraph
TRES SENSIBLE À VOTRE AIMABLE TELEGRAMME JE VOUS EN REMERCI

CORDIALEMENT VOUS ADRESSE MES VOEUX BIEN SINCÈRES POUR CETTE

NOUVELLE ANNÉE ET FORME AVEC VOUS LE SOUHAIT QUE L'ENTENTE MONÉT-

AIRE À LAQUELLE EST ATTACHE LE NOM DE L'ILLUSTRE PRESIDENT ROOSEVELT

ET QUI A DEJA EU DE SI HEUREUSES CONSÉQUENCES CONTINUE À PERMETTRE

ENTRE LES NATIONS QUI Y ONT ADHERÉ UNE FEconde COLLABORATION.

VINCENT AURIOL
Memorandum of Conference in the Secretary's Office

at 9:30 a.m., Thursday, December 31, 1936.

Present: Secretary Morgenthau
Secretary Wallace
Mr. Tolley of Agriculture
Mr. Jones of R. F. C.
Mr. Oliphant
Mr. Bell
Mr. McReynolds

Secretary Morgenthau: Tell us what you want in this emergency legislation.

Secretary Wallace: What we would like to have would be a set-up geared in
with 3 A activities so that next Fall if we have a big crop and the
prices are depressed, we can make commodity loans.

Mr. Jones: That means extending the life of Commodity Credit Corporation.

Secretary Morgenthau: When does that expire?

Mr. Jones: April 1st.

Secretary Morgenthau: The President said at Cabinet meeting that the
legislation we need between now and the 1st of February, that would go
to the Banking and Currency Committee, he wanted consolidated in one
bill.

Mr. Bell: As I get the picture from the President’s request for a
paragraph in his message, all he wanted in this bill was the renewal
of legislation that will expire before February 1st.

Secretary Morgenthau: The things he mentioned to go in the bill were
just the things that expire before the 1st of February, but the
Commodity Credit Corporation and Export-Import Bank items are so closely related to R. F. C. that the question has been raised as to their inclusion. Will there be any controversy about Commodity Credit and Export-Import Bank?

Mr. Jones: I do not think so. I think the additional items should be called to the President’s attention and that they should be put into the same bill.

Secretary Morgenthau: I think the message and the bill should be the same.

Mr. Jones: My thought is that we can do it better with less discussion on the Hill if we include them all in the same bill.

Secretary Morgenthau: I take it that you are asking for one year’s extension.

Mr. Jones: I thought the President would determine that.

Secretary Morgenthau: Would you make the Commodity Credit Corporation and the Export-Import Bank expire on the same date with R. F. C.?

Mr. Jones: I don’t see why not.

Mr. Tolley: If you have the extension for only one year, Commodity Credit would expire in the middle of our loaning operations next year.

Mr. Jones: It is my thought that the President should be authorized to extend the life of these organizations for an additional year and then that R. F. C. would probably fade out of the picture, but that Commodity Credit should be in a position to carry on.

Secretary Morgenthau: If there are to be any differences between you
on the Commodity Credit item, we should leave it out of this bill.

Mr. Jones: I do not think there will be any controversy. The Electric Farm and Home Authority also expires February 1st. It is in the R. F. C. and I think would go to the Currency and Banking Committee. I would like to talk to Morris Cooke about that.

Secretary Morgenthau: What do you want to do about Commodity Credit?

Secretary Wallace explained the reasons why he believed Commodity Credit was necessary as an adjunct to price control in farm commodities.

Mr. Jones: Do you want Commodity Credit transferred to the Department of Agriculture?

Secretary Wallace: I am not necessarily talking with that point in view. I am suggesting that we continue to have a close cooperation, which we have always had.

Mr. Tolley: I propose that Commodity Credit be set up as a government corporation independent of R. F. C.

Mr. Jones: It is independent now.

Mr. Tolley: If the R. F. C. should go out of business, where would the Commodity Credit be headed up in the event it was to continue?

Mr. Jones: The President should say that. Frankly, I should say it is in fair shape now, but speaking from the Government's standpoint, I think you need a check on the Agriculture groups. The more checks you can have the better. I do not care where you get it from.

Mr. Oliphant: In a year from now you may have had a big yield on the farms and the indefiniteness of the continuation of Commodity Credit
may affect your market.

Mr. Jones: I think the thing to do now is to slip Commodity Credit in with R. F. C. continuation.

Secretary Morgenthau: I think the President was under the distinct impression when talking to Mr. Bell and me that we would include in this bill only the things that would expire February 1st. Mr. Bell has an appointment with the President at 12 - why not have him ask the President then what he wishes.

Mr. Bell: I am going to give him a list of the items to be included in the bill.

Mr. Jones: I want to give the President the benefit of my judgment directly. I would rather do it that way. My thought is to make the extension for one year with authority of the President to extend them for another year. I am going to suggest to the President that we do it that way. That will take care of the things you are talking about.

Secretary Wallace: That seems satisfactory to me.

Secretary Morgenthau: Mr. Bell, when you see the President say to him for me that if there is to be any argument on these things, I do not think they should be included in the first bill. I would not want to sit here and be responsible if the Stabilisation Fund was not extended before the 1st of February, merely because of controversy on account of the other items in the bill.

Mr. Jones: I think the other items will strengthen the bill rather than weaken it.
Secretary Morgenthau: Do you want to designate somebody that will cooperate with Mr. Oliphant in the preparation of the bill?

Mr. Jones: We have our bill pretty near ready. We will have it in a little while. Is Mr. Oliphant going to draw the whole bill?

Secretary Morgenthau: I think Mr. Oliphant should draw the entire bill working with Mr. Bell.
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 31, 1936

TO Mrs. Klotz

FROM Miss Lonigan

Attached are the tables that you asked for yesterday afternoon.
Unexpended Balances October 31, 1936, November 30, 1936, and December 22, 1936, and Funds Available for Use of WPA as of December 10, 1936 Included in Unexpended Balances

<table>
<thead>
<tr>
<th>Funds appropriated and allocated for recovery and relief</th>
<th>Oct. 31, 1936</th>
<th>Nov. 30, 1936</th>
<th>Dec. 22, 1936</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FERA</strong></td>
<td>$13.9</td>
<td>$13.5</td>
<td>$12.9</td>
</tr>
<tr>
<td><strong>WPA</strong></td>
<td>448.1</td>
<td>461.1</td>
<td>323.9</td>
</tr>
<tr>
<td><strong>Resettlement</strong></td>
<td>140.5</td>
<td>150.1</td>
<td>143.5</td>
</tr>
<tr>
<td><strong>PWA</strong></td>
<td>1,024.2</td>
<td>974.2</td>
<td>962.9</td>
</tr>
<tr>
<td><strong>CCC</strong></td>
<td>19.2</td>
<td>17.5</td>
<td>16.5</td>
</tr>
<tr>
<td><strong>AAA</strong></td>
<td>116.4</td>
<td>114.4</td>
<td>112.9</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>843.8</td>
<td>796.7</td>
<td>755.7</td>
</tr>
<tr>
<td><strong>Unallocated</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,910.3</td>
<td>$2,621.0</td>
<td>$2,409.6</td>
</tr>
</tbody>
</table>

Other

<table>
<thead>
<tr>
<th>Soil Conservation and Domestic Allotment Act</th>
<th>432.2</th>
<th>422.4</th>
<th>410.3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CCC - 1937</strong></td>
<td>155.5</td>
<td>133.2</td>
<td>109.0</td>
</tr>
<tr>
<td><strong>Social Security</strong></td>
<td>128.2</td>
<td>113.5</td>
<td>110.6</td>
</tr>
</tbody>
</table>

<p>|                | $3,626.2 | $3,290.1 | $3,039.5 |</p>
<table>
<thead>
<tr>
<th>STATE</th>
<th>WORKS PROGRAM</th>
<th>OTHER FEDERAL PROJECTS</th>
<th>REGULAR GOVERNMENTAL CONSTRUCTION</th>
<th>EMERGENCY EMPLOYMENT</th>
<th>TOTAL WORK AND WELFARE</th>
<th>GRAND TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of workers</td>
<td>Pay Rolls</td>
<td>Number of workers</td>
<td>Pay Rolls</td>
<td>Number of workers</td>
<td>Pay Rolls</td>
</tr>
<tr>
<td>New York</td>
<td>479,000</td>
<td>21,247,000</td>
<td>21,000</td>
<td>374,000</td>
<td>289,000</td>
<td>11,180,000</td>
</tr>
<tr>
<td>New Jersey</td>
<td>454,000</td>
<td>20,846,000</td>
<td>25,000</td>
<td>1,779,000</td>
<td>299,000</td>
<td>13,529,000</td>
</tr>
<tr>
<td>New Mexico</td>
<td>374,000</td>
<td>17,262,000</td>
<td>61,000</td>
<td>2,644,000</td>
<td>286,000</td>
<td>14,420,000</td>
</tr>
<tr>
<td>North Carolina</td>
<td>692,000</td>
<td>17,348,000</td>
<td>169,000</td>
<td>10,066,000</td>
<td>403,000</td>
<td>22,826,000</td>
</tr>
<tr>
<td>North Dakota</td>
<td>404,000</td>
<td>18,818,000</td>
<td>181,000</td>
<td>11,727,000</td>
<td>452,000</td>
<td>22,710,000</td>
</tr>
<tr>
<td>Ohio</td>
<td>454,000</td>
<td>17,846,000</td>
<td>184,000</td>
<td>12,928,000</td>
<td>452,000</td>
<td>22,710,000</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>321,000</td>
<td>16,711,000</td>
<td>176,000</td>
<td>12,122,000</td>
<td>452,000</td>
<td>22,710,000</td>
</tr>
<tr>
<td>Oregon</td>
<td>404,000</td>
<td>17,812,000</td>
<td>160,000</td>
<td>11,721,000</td>
<td>452,000</td>
<td>22,710,000</td>
</tr>
</tbody>
</table>

Total Work and Welfare includes FED-WFA, Resettlement, Social Security, and Emergency Employment Programs.
## Expenditures from State and Local Funds

<table>
<thead>
<tr>
<th></th>
<th>WPA Relief</th>
<th>Social Security</th>
<th>Total</th>
<th>WPA</th>
<th>PUA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>26,042,000</td>
<td></td>
<td>26,042,000</td>
<td></td>
<td></td>
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<tr>
<td>August</td>
<td>26,092,000</td>
<td></td>
<td>26,092,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>31,970,000</td>
<td></td>
<td>31,970,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>35,341,000</td>
<td></td>
<td>35,341,000</td>
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<td></td>
</tr>
<tr>
<td>November</td>
<td>31,230,000</td>
<td></td>
<td>31,230,000</td>
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</tr>
<tr>
<td>December</td>
<td>39,541,000</td>
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<td>39,541,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1936</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>49,200,000</td>
<td></td>
<td>49,200,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>51,400,000</td>
<td>2,373,000</td>
<td>53,773,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>49,800,000</td>
<td>2,716,000</td>
<td>52,516,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>44,700,000</td>
<td>4,089,000</td>
<td>48,788,000</td>
<td></td>
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<tr>
<td>May</td>
<td>59,400,000</td>
<td>4,631,000</td>
<td>44,031,000</td>
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<td></td>
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<tr>
<td>June</td>
<td>38,100,000</td>
<td>6,001,000</td>
<td>44,101,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>35,900,000</td>
<td>7,333,000</td>
<td>43,133,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>34,900,000</td>
<td>9,426,000</td>
<td>44,326,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>34,600,000</td>
<td>10,064,000</td>
<td>44,664,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>34,200,000</td>
<td>11,223,000</td>
<td>45,423,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1/ No direct information. Estimates can be computed.
I called Mr. Carigué at 10:30 today to wish him a Happy New Year. He seemed somewhat pessimistic. Things did not look any too well on their side, he said. The franc continued on the offered side day after day but there was nothing that he could do against it as far as the technical side was concerned since there were factors over which he had no control. Carigué then referred to the accumulation of dollar balances in their account with us and explained that he had every reason to believe that those balances would soon be drawn down again, the market being what it is. Bearing in mind the weak tendency of the franc, which would compel him before long to liquidate his dollar holdings in support of the franc, and the cost to him of converting his balances into gold in the meantime, he had decided not to take gold from us. He continued that he had not gone out of his way to purchase dollars but had taken them in when they were freely offered.

We discussed the present weakness of the belga and Carigué expressed the opinion that this weakness was due to two reasons:

1. Because the Belgians seemed to be paying off a loan which they had had outstanding in Holland, and

2. Because (at least he suspected this) a French railroad company, controlled by Rothschild, was going out of Belgium.

Carigué inquired about our stock market and I replied that
on balance Europe was still buying although the tempo seemed to have slowed up a little of late. He thought that we would do something about it but I replied that I knew no more than what the newspapers carried.
I called Mr. Bolton at 10:50 today to wish him a Happy New Year. In discussing the various currencies, Bolton expressed the thought that the strength of the guilder was due to enormous amounts of Dutch money repatriated. Between $150,000,000 and $200,000,000, he thought, had gone back from London, New York, Paris and also from golder hoarded within Holland, and more was coming. This repatriation would be swelled up further, though possibly at a somewhat slower tempo, from favorable trade balance resulting from very active trading with Holland's East Indian possessions. As far as Switzerland was concerned, he thought, the repatriation was finished, the total amount done reaching probably $250,000,000. If more money went into Switzerland in the future, he thought it would be fresh money.