

DIARY

Book 45

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November 12, 1936.  
9:07 a.m.

Lock-head:

Hello.

H.M.Jr:

Hello Archie.

L:

Good morning.

H.M.Jr:

Good morning.

L:

Well there's not much change in the sterling. It's about 4.88 to an eighth.

H.M.Jr:

All right.

L:

They say the market is fall over there and of course we've had no security market to bring anything onto it. Now as far as the silver goes the opening isn't here yet but it looks lower. Yesterday the market was pretty small - That 250 I sold we had to do in 50,000 ounce lots - so it shows that they're - they're kind of stopping off on that.

H.M.Jr:

Retailers you mean?

L:

Yes it's retail business but it looks as though it will be fairly sharply off this morning. I think it's on the way down now.

H.M.Jr:

Well I think it's a good sale.

L:

Oh yes I think so. Now Dr. Sze called me up yesterday.

H.M.Jr:

Yes.

L:

He had heard from China in regard to this market over in London.

H.M.Jr:

Yes.

L:

He said that since they hadn't done anything - the reason they hadn't done anything was that, first of all, Kung has been quite ill.

H.M.Jr:

Yes.

L: He's had that heart trouble and they couldn't get in touch and they had been trying to get in touch with General Chiang Kai-Shek.

H.M.Jr: Yes.

L: And they had expected to get in touch with the  
- they had everything set up but they couldn't get the authority.

H.M.Jr: Oh.

L: So I told them I thought they missed a very good opportunity.

H.M.Jr: Why couldn't they reach Madam Chiang Kai-Shek ?

L: (Laughter) Well I imagine she must be traveling with him. (Laughter).

H.M.Jr: Archie.

L: 9 Yes.

H.M.Jr: If you hear anything from the French let me know.

L: Yes. Well now I'll tell you - there's one thing came in and that was that he's going to meet the French sometime this afternoon.

H.M.Jr: He is?

L: Yes. Now he didn't say anything more than just that he had been asked to see them on Thursday.

H.M.Jr: Yes.

L: And I presume we'll get something from him either tonight or tomorrow morning.

H.M.Jr: All right.

L: And if anything particular comes over we'll get in touch with you.

H.M.Jr: Yes, because if it's a long cable I want you to send it down to me by either airplane or train.

L: Right.

H.M.Jr: Because if it's a long cable.....

L: Yes, well if anything comes in that gives any news at all we'll send it down to you.

H.M.Jr: I have a Coast Guard - not a Coast Guard - a Customs Patrol staying at Brunswick subject to my orders and they could go either to Savannah or Jacksonville or anywhere to meet it.

L: I see. They could go to either one of those points and pick it up if we could make connections there.

H.M. Jr: They stay at Brunswick waiting there just for me.

L: Yes I see. Well now I tell you if anything comes in that something is being sent down we'll get in touch with them so that you could notify them where to pick it up.

H.M.Jr: Well if you'll notify them from Washington....

L: Yes, absolutely.

H.M.Jr: And keep Mrs. Klotz informed.

L: I'll keep her informed of anything that comes in at all.

H.M.Jr: Thank you.

L: O.K. sir.

\* \* \* \* \*

Klotz:9 Hello.

H.M.Jr: Yes.

K: Do you want to talk to Mr. Taylor?

H.M.Jr: If you please.

K: (To Operator) - Get Mr. Taylor.

O: He's in a meeting at the Export-Import Bank but he can be reached if you want me to get him there.



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K: (To H.M.Jr:) Do you want to reach him?

H.M.Jr: No.

K: (To Operator) No - never mind, thank you.

U

GRAY

London

Dated November 12, 1936

Rec'd 1:35 p.m.

Secretary of State  
Washington

529, November 12, 4 p.m.

FOR TREASURY.

Strakosch's Lombardy Association speech on restoring world economy has created considerable interest. He maintained that the real explanation of the depression and the break down of international trade was unquestionably the steep and rapid fall in commodity prices and that devaluation will have the effect of raising commodity prices particularly in the ex-gold bloc countries but it will not entail a corresponding rise in the costs of their production "because there is no reason to suppose that the very rigidity of the cost structure which made it impossible to reduce costs when prices fell will become less rigid when prices rise." Therefore when the fundamental causes of restrictions to international trade have thus been removed -- and they promise to be by the events of the last six weeks -- a momentous step forward would have been made towards creating conditions in the gold bloc countries which would permit them to remove the

restrictions

U -2- #529, Nov. 12, 4 p.m. from London

restrictions themselves. Strakosch predicts that "we shall have to go through a period of some uncertainty" but he is confident that "the collaboration of the great creditor countries is a momentous event and promises to be of immense value to the restoration of the world's economy".

In a private conversation Strakosch discounted the rumors of a British loan to Germany although a consolidation operation might at some time be undertaken. Strakosch expressed his own conviction that it was not in Germany's interest to cooperate in any international currency movement; that it would not help her to devalue without removing her controls; that she could not do that without foreign credits; and that even in the unlikely event that foreign credits were made available it would merely assist further rearmament or a flight of capital from Germany.

Strakosch also said that the information reaching Union Corporation indicated that the Russians had definitely discovered a large new alluvial gold field north of Lena which was richer than Lena and could be worked all the year round; it was impossible to get definite figures on Russian gold production; they were exporting little but it was not impossible that in two years time they would be near South Africa's present production level.

CSB

BINGHAM

LMS

GRAY

Paris

Dated November 12, 1936

Rec'd 3:45 p. m.

Secretary of State,  
Washington.

1104, November 12, 6 p. m.

FROM COCHRAN.

Paris exchange market very quiet today. Bank of France continues to give sterling at 105.15. Rentes lower.

Bank of France statement as of November 6 showed no change in gold holdings; discounts down 825,000,000 francs; no change in advances to the state; circulation down 479,000,000; deposits down 92,000,000; coverage 64.46 versus 64.09.

The Lombard Street editor of the FINANCIAL NEWS London today said, after quoting the Prime Minister's recent statement as to the City of London sharing with other great countries the responsibility for credit regulation throughout the world:

"The question is whether the other great countries are willing to take their share of that responsibility. So long as Mr. Morgenthau's sole concern is to increase further the American share in the world's gold stock by keeping

LMS 2-No. 1104, November 12, 6 p. m., from Paris.

keeping sterling at a level at which gold is bound to flow to the United States there can be no question of whole-hearted cooperation. The extent of the sacrifices this country is prepared to make in order to maintain the tripartite agreement is not unlimited. Once the reasonable limit is reached it is for Mr. Morgenthau to make up his mind whether to agree to a lowering of the sterling dollar rate or whether to continue supporting sterling at the risk of the American exchange equalization account."

BULLITT

RR

THE HAGUE

Dated November 13, 1936

Rec'd 9:25 a.m.

Secretary of State  
Washington

59, November 13, 10 a.m.

This morning's LONDON TIMES will publish an interview with Premier Colijn. The TIMES correspondent telegraphed his paper that "there are good reasons to believe that the Netherlands Government will shortly become a party to the Franco-British-American monetary agreement".

EMMET.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: November 13, 1936, 10 a.m.

NO.: 456

FROM TREASURY FOR COCHRAN.

Reference is made to telegram No. 1100 of November 10 from you. Secretary Morgenthau requests a definite reply from the French to reach Washington not later than this Saturday morning, November 14.

MOORE

Acting.

EA:LWW

LMS

GRAY

London

Dated November 13, 1936

Rec'd 3:20 p. m.

Secretary of State,  
Washington.

531, November 13, 7 p. m.

FOR TREASURY.

In a conversation at the British Treasury today Waley mentioned the promised public statement of the Chancellor of the Exchequer on the reciprocal purchase arrangements and said in this general connection he had had an interview today with Lenorcy, Acting French Financial Attache, who was concerned about the use of the words "fiscal agent" which have quite a different meaning in France. Waley told him that any designation agreed upon by the French and American authorities would be acceptable to the British.

Waley said that he had also had a conversation with the Polish Financial Attache who mentioned that a Polish mission is to proceed to the United States to deal with the 7% Polish stabilization loan. Because of the pari passu clause the Poles foresaw that it would be difficult to explain any difference in the treatment of the American and English tranches. Waley said no doubt the Poles would



LMS 2-No. 531, November 13, 7 p. m., from London.

would find it desirable to say in America that they had been threatened by Great Britain with a clearing but that this was not true (see paragraph 4, Embassy's 461, October 5, 6 p. m.) and in fact he had said to the Polish Attache that he thought the American should receive the same treatment as the English tranche and had pointed out that in any case default was a short-sighted policy particularly since they would some day want to use the American money market again.

BINGHAM

RR

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 13, 1936, 4 p.m.

NO.: 1106

RUSH.

FROM COCHRAN. FOR THE SECRETARY OF THE TREASURY.

Baumgartner's views as set forth in my telegram No. 1092 of November 7, 2 p.m., were indorsed by Auriol, but the oral agreement of the French Ministry of Finance to your proposed statement (your No. 445 of November 5, 5 p.m.) was procured in the following circumstances and with one condition, as follows:

I called at the Ministry of Finance at noon November 12, as anticipated in my telegram No. 1100 of November 10, 7 p.m. It was emphasized by Baumgartner that although Auriol and he had rather definite views along the lines he had already indicated to me, they did not want in the least to hamper any development of monetary policy in the United States. In particular they were concerned about the possibility of Belgium's fitting into the reciprocal arrangements on gold, and also respecting the situation that might obtain in France whenever it may become feasible and desirable to bring to an end the operation of the equalization fund in France.

END SECTION ONE.

BULLITT.

EA:LWW

Section two of Telegram No. 1106, from Paris, November 13, 1936.

Yesterday morning I had received by coincidence a letter for transmission to you from Minister of Finance deMan of Belgium. This communication which is dated November 9 consists of a signed letter in the same terms drafted at Brussels when I was there on October 28 and as I quoted in my telegram 1061 of October 28, 10 p.m. Subsequent to my visit under reference I had not communicated with any Belgian authorities and it had been suggested then that the letter should not be signed until your decision had been obtained as to its acceptability. I am retaining this letter while waiting for instructions from you. However, I took the liberty of showing it to Baumgartner when I called yesterday noon to see him. At that time he had also received some word from London as to the views of the British regarding your proposed declaration. Baumgartner told me yesterday that his Ministry desired to give further consideration to the matter, in the light of the British and the Belgian views.

Today noon, when I called at the Ministry of Finance, Baumgartner told me that they feel that if you find it possible to deal with the Belgians without any change in the internal financial set-up of Belgium and can accept the assurances which Belgium has indicated willingness

to

-2-

willingness to give you, then France no longer need be concerned with respect to the Belgian position. The further point was made by them that even if the present French exchange (END SECTION TWO)

EA:DJW

Section Three of telegram 1106, November 13, 4 p.m.  
from Paris.

equalization fund should be discontinued the Bank of France would presumably continue to function in a sense which might be interpreted as much that of a fiscal agent as the Belgian National Bank now serves the Belgian Government as a fiscal agent. It was realized by Baumgartner that there was some inconsistency in the Belgian letter under reference. That is to say, while the National Bank of Belgium does act as fiscal agent <sup>for the government</sup> in most matters, actually it is the principal when it comes to dealing in gold which it owns.

Baumgartner said that according to officials of the British Treasury, who informed him through his financial attaché in London, the British were quite agreeable to giving the idea of "fiscal agent" a broad interpretation.

As a result he said that his Ministry did not desire to interpose objections to the issuance of the proposed American declaration. However, he made the one condition that when the declaration is issued, there be some wording to indicate that no rupture of the original tripartite agreement has taken place. That is to make the point that England, France and the United States have not revised their original agreement but that certain additional countries have now been eligible to be added to the three original parties for reciprocal dealings in gold.

(END SECTION THREE)

EA:DJW

PARAPHRASE

Section Four of Telegram 1106, November 13, 1936, 4 p. m.,  
from Embassy, Paris.

Baumgartner said that if and when the United States decides that the Netherlands, Switzerland and Belgium are eligible to enjoy American gold facilities, the French could very quickly get in touch with the appropriate officials in those countries. However, the French very much desire that the three original parties to the agreement give notice simultaneously of the addition of any new countries.

In this connection, I quote the text, given me by Baumgartner, of a letter dated November 9 from Waley, of the British Treasury, to the acting French Financial Attache in London, as follows:

"You told me last week that the French Treasury would welcome a simultaneous announcement by the United States, French and United Kingdom Treasuries when 'reciprocal gold arrangements' are extended by the United States Treasury to Belgium, Switzerland and possibly Holland.

The Chancellor of the Exchequer proposes, when Mr. Morgenthau issues his new announcement, to say that he the Chancellor 'welcomes the extension by the United States Treasury of their arrangements to the countries named which

is

-2-

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 cooperation which exists between the British monetary authorities and the monetary authorities of the countries now named in the United States announcement'".

The French have not yet given thought to the terms of an announcement they would make. (End of message)

BULLITT

U

GRAY

Paris

Dated November 14, 1936

Rec'd 8:30 a.m.

Secretary of State

Washington

1109, November 14, 10 a.m.

FROM COCHRAN.

There is reproduced herewith an item from city notes London TIMES November 13th.

"It is now reported from The Hague that the Dutch Government will shortly adhere to the tripartite exchange agreement. Any extension of that agreement is of course to be welcomed. Meanwhile some of the criticisms and comments on the working of the exchange agreement seem at least to be premature and in some respects extravagant. Admittedly the agreement is an experiment of an unprecedented nature. It is no doubt true that both the British and French exchange funds have had to utilize some of their gold resources in order to prevent their currencies falling too rapidly in terms of the dollar. But such utilization was clearly envisaged at the time the agreement was made. It is also equally clear that the agreement will work the more satisfactorily the closer rates approximate to their true equilibrium or purchasing power parity,

For



U -2- #1109, Nov. 14, 10 a.m. from Paris

for then they will need the minimum of support from the exchange funds. Any attempt to maintain a currency at an overvalued level by extensive use of gold reserves would ultimately fail unless other measures were taken to correct the overvaluation. It is improbable that the authorities would use the exchange funds to circumvent a natural tendency instead of simply seeking to minimize fluctuations in the working out of permanent tendencies. The suggestion has been made in some quarters that the French Government may shortly have to underwrite a fresh devaluation of the franc. There is no warrant for this belief. The French franc has been falling along with sterling in terms of dollars, but the French authorities are satisfied that they can maintain the currency within the limits prescribed. It is true that a considerable amount of "bearish" speculation has been indulged in at the expense of the franc which is apparent in the heavy discount on forward rates, but the French authorities are satisfied that they can defeat the maneuvers of the speculators".

BULLITT

CSB

U

GRAY

London

Dated November 14, 1936

Rec'd 9:20 a.m.

Secretary of State

Washington

533, November 14, 2 p.m.

FOR TREASURY.

There are no editorials today in the London press on the subject of the American investigation of foreign holdings of United States securities but the following typical excerpts from articles by London financial editors may be of interest.

The DAILY TELEGRAPH: "It was felt in the city last night that explanation of the President's meaning should be awaited before judgment. For one country to impose restrictions on the dealings by citizens of another friendly country is unprecedented in times of peace. First inclinations last night were to believe that Mr. Roosevelt's remarks were prompted by two aims. It is easy to understand that he would wish to give a warning that he would not permit the boom and catastrophe of 1929 to be repeated. Equally it is possible that American official circles are not altogether complacent about the rapid appreciation of the dollar in recent weeks, which has been due mainly

U -2- #533, Nov. 14, 2 p.m. from London

to the influx of foreign funds for the purpose of investment in New York securities".

NEWS CHRONICLE: "It seems just possible that representations have been made to the President on the subject from this country or from France but it is more probable that he is taking the purely American point of view. Mr. Roosevelt's rooted antipathy to stock exchange speculation is well known and it is obvious that large scale foreign activity on the American stock exchange not only accentuates fluctuations in security prices but is calculated to inflame the speculative lusts of Americans themselves. But when it comes to restrictive legislation one has as always the fear/<sup>that</sup>the cure proposed may prove worse than the disease".

BINGHAM

KLP

WCNS45

*Credit to France*

PARIS--PRICES ON THE FRENCH BOURSE ROSE SHARPLY TODAY ON REPORTS  
THAT THE UNITED STATES HAD AGREED TO GRANT FRANCE A 20,000,000,000  
FRANCS (\$930,000,000) ADVANCE.

11/16--R11A

11.35

NOV 16 1938

TREASURY KNOWS OF NO FRENCH LOAN

PARIS-U P- PRICES ON THE FRENCH BOURSE ROSE  
SHARPLY TODAY ON REPORTS THAT THE UNITED STATES  
HAD AGREED TO GRANT FRANCE A 20 000 000 000  
FRANCS ADVANCE

WCNS64

*Advance to France*

TREASURY OFFICIALS TODAY PROFESSED IGNORANCE OF ANY PROPOSAL WHEREBY THE UNITED STATES WOULD ADVANCE \$930,000,000 TO FRANCE.

THEY DECLINED TO COMMENT ON REPORTS THAT PRICES ON THE FRENCH BOURSE HAD RISEN SHARPLY AS A RESULT OF THE RUMORS.

THE ONLY OPERATIONS IN WHICH A SUM OF THAT SIZE MIGHT BE INVOLVED, IT WAS POINTED OUT, IS THE NEW TRI-PARTITE MONETARY AGREEMENT BETWEEN THE U.S., GREAT BRITAIN AND FRANCE.

TRANSACTIONS UNDER THE ACCORD ARE CONDUCTED IN STRICTEST SECRECY, AND THERE HAS BEEN NO RECENT INDICATION OF ANY NEGOTIATION FOR A FRENCH ADVANCE.

11/16--R1205P

WASHN- TREASURY OFFICIALS SAID TODAY THAT  
THEY HAD -NEVER HEARD OF- ANY LOAN TO FRANCE  
SUCH AS WAS RUMORED TODAY IN DISPATCHES FROM  
PARIS

-0-

NOV 16 1936

November 16, 1936.  
9:50 a.m.

Operator: Mr. Burgess.

H.M.Jr: Hello

Operator: Go ahead

H.M.Jr: Hello - hello

Burgess: Hello - well sir - welcome home again.

H.M.Jr: How are you?

B: I'm fine. Have a good chance to get a rest?

H.M.Jr: Very good. Burgess, do I understand you're coming down here?

B: Yes, the - there's an Open Market meeting on Thursday.

H.M.Jr: Oh.

B: The Governors are meeting on Wednesday.....

H.M.Jr: I see.

B: .....and I want to have a pow-wow with you. I think we've got lots of problems on hand.

H.M.Jr: Yes. Now I wanted you to think this over before you came down. I - I'm thinking seriously of not offering my financing until December 7th.

B: Yes, I think that's all right.

H.M.Jr: Because on account of Thanksgiving.

B: Yes.

H.M.Jr: See?

B: Yes

H.M.Jr: And Bell is checking it here to find out whether our Treasury machinery would be all right and he seems to think so.



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B: Well I'll go over it here.

H.M.Jr: And will you go over it there?

B: Yes.

H.M.Jr: Because on account of Thanksgiving the week before - that's one thing and then also it gives us a chance to - maybe the market will settle down.

B: Yes, I - I'm bothered about the market - it's been going so fast.....

H.M.Jr: Yes.

B: .....that you just can't tell what to do about it.

H.M.Jr: No and I'd be hopeful that by December 7th we'd - ah - the market might settle down and I - I know - I only know what we'll want in the way of cash and so forth.....

B: Yes.

H.M.Jr: .....and I'll talk to you about it when you come - when you come down.

B: Yes, yes.

H.M.Jr: Well when - when will you get down?

B: Well now I don't know. I was just talking with George to-day about that. I don't know whether they want me there Wednesday or not.

H.M.Jr: Well when - when you do know would you call me up?

B: Yes I will.

H.M.Jr: Because I want to save some time and I want to see George also.

B: Yes.

H.M.Jr: See?

B: We've got lots of problems here. I think that this thing has been going a little too fast.

- 3 -

H.M.Jr: Yes, well would you mind telling Harrison also to let me know when he is going to be here....

B: Yes I will.

H.M.Jr: .....because I'd like to save some time because I can't do it the last minute always.

B: Yes, I think it would be a good idea if we had a little session before the Governors met so that we could go over some of these problems. This is a time when the Treasury and the Reserve System need to work together.

H.M.Jr: Well it's - you know how I feel about it.

B: Yes, sure.

H.M.Jr: Well - but I want you before you leave just to clear that thing on the December 7th.

B: All right I will.

H.M.Jr: Righto.

B: Very good.

H.M.Jr: Thank you.

November 16, 1936.  
10:15 A.M.

Present: Mrs. Klotz  
Mr. White.  
Mr. Upham ✓  
Mr. Haas ✓  
Dr. Viner ✓  
Mr. Lochhead.  
Mr. Bernstein ✓  
Dr. Goldenweiser ✓  
Mr. Opperv

H.M.Jr: Where's White? . . . I'll send for him. (On phone) Ask Dr. White to come right in.

Now, what I want to get first - Where are the lawyers? Now, are you ready to report on the questions I asked? I asked the question this morning: Who are the principals that the United States Treasury are doing business with? First, with Great Britain, and second, who are the principals with France? And I asked for a verbal report, then to be confirmed in writing. Now, are you ready, Clarence?

Opperv: Yes, sir. I might say that the cornerstone of the conclusion that in each case the Treasuries are the principals -

H.M.Jr: Now, the Treasuries -

Opperv: - in each case the Treasury -

H.M.Jr: Yes

Opperv: - the Treasuries of the respective governments are the principals - is the proposition that the press release - which was the basis for action not only on the part of the United States, but, since it was an offer on the part of the United States to the other governments, it became also the basis of their action - specified only the exchange stabilization or equalization funds of the respective countries. In other words, England couldn't expect that the United States would sell gold to the Bank of England; there is no reference

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in the press release to any such offer on the part of the United States. And correspondingly, England couldn't expect that the United States would sell gold to England unless it meets the terms of the press release, and the requirement of the press release was that the exchange equalization or stabilization fund of the foreign country should be making a reciprocal offer to the United States.

Now, that might not be enough by itself. That was the extent of the United States Treasury's authority - because of the fact that you were dealing with the American stabilization fund, that actions in the stabilization fund are subject to the approval of the President, and that the President approved the press release. So that, so to speak, the world had notice of the fact that we were only authorized to make this kind of an offer and to get the kind of an offer I have described from the other party.

But there is much further evidence than that. For part of this I rely on Archie, because I wasn't personally present at a lot of those conferences.

(Miss Chauncey comes in and hands Opper some papers) I've had a little trouble in collecting some of these papers, Mr. Secretary. They're coming in piecemeal. I hope you'll excuse that.

I want to make a general statement as to the legal situation. A principal may designate an agent orally or any other way to act for him, and so long as that designation isn't revoked, that agent's acts are just as binding on the principal as though the principal did the acts himself.

Now, throughout the conversations with the British Treasury, as I understand it, it was stated by them and part of the understanding that the details would be worked out between the Bank of England acting for the British, and the Federal Reserve Bank of New York acting for the United States. So that when, after the agreement was

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consummated, the two banks got together on details, they were merely following up the designation by their principals of that agency; and the only possible question in that kind of a case is a matter of evidence. In other words, how do you prove that the British representative said that they would take their action through the Bank of England, which would be acting for them?

And now on that, it seems to me we have indisputable evidence. I talked to Knoke and I wasn't able to get the exact language, but there was an exchange of cables between the Federal Reserve Bank of New York and the Bank of France and the Bank of England, stating that the Federal Reserve Bank of New York was setting up account number so-and-so, which was a Treasury account, through which all these transactions, that is, those growing out of the October 13 statement, were to take place, and asking that in each case the foreign bank set up a similar account which would be a Treasury account and carry a certain number, and that all their transactions would be designated as being for the account of that account. And Knoke tells me that that's the way the thing works and he has those cables.

H.M.Jr:

You only found that out this morning.

Oppen:

That's right. They didn't check those cables with us. But the reason why I was so sure the other day was that, as I say, the principal point - we weren't authorized to do anything more than that; we weren't authorized under the press release to deal with a central bank as a principal.

H.M.Jr:

How about all this stuff that the General Counsel's office was so worried as to who - who the gold should belong to in case it should sink on the ocean? You fellows never even checked this thing. We've been throwing a great big bluff around. My God! - this thing has been in effect here a month and you come in this morning and you don't know. And I was told definitely by Mr. Oliphant that the General Counsel's office would have this thing, and you don't know now.

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- Opper: I think we know definitely.
- H.M.Jr: No, you don't, because - I - I never saw - I wish Mr. Oliphant was here - I never saw such a performance in my whole life since being here. You people - you told me - this whole thing, the whole argument that you gave me here ten days ago was - the whole - the picture about this shipload of gold; supposing it sunk, who had title to it. Who has title to a shipload of gold from England to us?
- Opper: The transactions, Mr. Secretary, which would settle definitely the question of principal and agency, which were those which took place at the time -
- H.M.Jr: You fellows have worked with me long enough to know you can't bluff me. You know that; you've been with me almost four years. And I was told: "Leave it to the General Counsel's office to work out the legal details about this whole thing." And this whole thing, this argument, has been going on for a month and there is nothing on record in the Treasury to show who is the principal and who does the title of the gold -
- Opper: Well, the records of the Treasury are perfectly clear on that.
- H.M.Jr: Well though -
- Opper: They belong to the stabilization fund, which in each case is the government of the country.
- H.M.Jr: But you haven't got anything. You haven't got a file.
- Opper: Well, we have a file, because the file consists of the statements that were made during the conversations.
- H.M.Jr: Listen, Clarence, you only found it out this morning, and you people have been telling me right straight along that I can't do business with the Belgian Government - and with a letter signed by the Secretary of Treasury of Belgium, because he wasn't a principal.

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Opper: Well, I -

H.M.Jr: Now, admit it.

Opper: I can only say -

H.M.Jr: I got a letter from the Secretary of Treasury saying they are the principal and they guarantee that this thing will be guaranteed, and the General Counsel's office told me I couldn't do it.

Opper: I wasn't here when these conversations were going on, and for my own information I wanted to check into the actual words that were used. That doesn't mean that they weren't checked before.

H.M.Jr: Who worked with Oliphant on this?

Bernstein: I worked on part of it with Mr. Oliphant.

H.M.Jr: Well, I say - I don't want to criticize a man when he isn't here - but this thing, this argument, has been going on for a month and I've been told I can't do business with the Belgian Government and I was told flatly: "Leave the details as to how this thing should be carried out to the General Counsel's office and we'll work it out with the lawyers of the Federal Reserve of New York." Well, what did you do with the Federal Reserve lawyers of New York?

Opper: Well, the detail as to the ownership of the gold was taken care of, Mr. Secretary, by the conversations which took place while the arrangement was being worked out.

H.M.Jr: Have you got anything in writing?

Opper: Got records of that conversation.

H.M.Jr: But what lawyers of the Federal Reserve, New York, did you talk to?

Bernstein: In New York we talked to Mr. Thedaud.

H.M.Jr: Have you got any records here you can show me?

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- Bernstein: The Federal Reserve Bank of New York was given copies of the press statements. They were also given - they were sent the letter of instructions authorizing them to acquire gold.
- H.M.Jr: But that's all. All you know is an account number X. And the Federal Reserve - we asked - you were here - now, if I'm wrong - you've got a good memory (to Viner)
- Viner: Well, I - if I remember -
- H.M.Jr: Now, if I'm -
- Viner: The last time I was here I said I bet if they will investigate they will find out that the Bank of England is credited with the gold.
- H.M.Jr: Now, if I'm unfair, why - well, you check this, see? Now, go ahead.
- Viner: If what he says is true, I'd say the only flaw there is that a duplicate record wasn't built up here at the Treasury of what the Federal Reserve Bank had in New York, but that the Bank at New York apparently did its job well.
- H.M.Jr: And the General Counsel's office fell down. You've got nothing. You've got nothing here. Ten days have passed. And if I was in your shoes and we asked you - Jake Viner asked you point blank, and you were here: "Who does the title on the day to day transactions - who does the title of the gold rest with?" - and I got no answer.
- Viner: Well, Mr. Oliphant said, as I recall it - he said the title was with the exchange fund and I questioned it, doubted it; I didn't know, of course, but I just was - I knew I hadn't seen any record.
- Opper: It was undoubtedly my fault, Mr. Secretary, in not checking over between then and now the documents which I hadn't seen.
- H.M.Jr: But - my God! - it's the crux of the whole thing, Clarence. You people have built up a case for one month; you've fought here with these others and -



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Viner: I don't think it's important.

H.M.Jr: But it has been - it has been.

Viner: It has been for them.

H.M.Jr: It's kept us from coming to an agreement - the General Counsel's office has kept us from coming to an agreement because they said the principals had to be held responsible for the title of the gold and we couldn't do business with Belgium because Belgium had no gold - the government - is that right?

Viner: But I don't want to resume -

H.M.Jr: But is that right?

Viner: Of course there was a general covering agreement with the Belgian -

H.M.Jr: No, but Jake, am I right or am I wrong?

Viner: Yes, you're right.

H.M.Jr: And - I mean I - wasn't that the whole argument the General Counsel's office said?

Viner: Yes

H.M.Jr: Because Belgium had no gold.

Viner: They wanted individual transactions in perfect legal order with respect to principal and agent, and I raised the question as to whether they were doing it that way up to that time; but they said yes and they apparently were right.

H.M.Jr: Who? The lawyers said yes.

Viner: Yes, they had conducted their transactions so far with France and England on this strictly principal-and-agent basis, which I had questioned.

H.M.Jr: Well, in New York is account number one.

Viner: But that account is an account with the Bank of

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England for the Government of Great Britain.

H.M.Jr: All right. Is that what you say (to Oppen)?

Oppen: Yes

H.M.Jr: That's what I'm trying to find out. Account number one is in the Federal Reserve Bank of New York with the stabilization fund, which is the fiscal agent of the British Treasury.

Viner: It is the British Treasury.

H.M.Jr: Wait a minute - but it's with the Bank of England.

Viner: As agent.

Oppen: As agent.

H.M.Jr: As agent. Is that right? Then I say if we can do business with the British with the Bank of England as agent for the British stabilization fund - I say that we then can do business with the Bank of Belgium as agent for the Belgian Government -

Viner: But then -

Oppen: May I interrupt to -

H.M.Jr: - with a letter signed by the Secretary of Treasury guaranteeing - of Belgium.

Viner: Well, I agree with you, but they say -

H.M.Jr: But this is the thing that's been going on for one month, and these fellows have been arguing about it for one month. I don't want to hound you fellows, but you're here, you're supposed to be the men that carry this thing on.

White: I think we ought to do justice to the position that the legal department has taken. Clarence has just said that where they may have fallen down is in not building up their records, but so far as the position they have taken, they are

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quite consistent. They have insisted that the dealings be with somebody who is the principal.

Viner: And that the principal must be the government.

White: And that the principal must be the government. They have further stated that the arrangements which they have made up to now - that those facts have been fulfilled; and their insistence upon it upon the question of Belgium was not that they couldn't do business with Belgium, but they couldn't do business with Belgium unless the Government of Belgium were known or were stated to be the principal in the transaction.

H.M.Jr: Now, will you please tell me this? Since October 28, we have had the following letter from the Belgians, which they offered to sign, which reads as follows: "With reference to the declaration of October 17 (I think they mean October 13) 1936, I have the honor to confirm to you that the Belgian Government fully guarantees with regard to the Government of the United States the obligations assumed in this declaration by the National Bank of Belgium, which is moreover, as you know, the fiscal agent of the State."

Viner: I hadn't heard that.

White: I didn't see that.

Viner: Well, I insist that is all you need.

White: Is it to be made public?

H.M.Jr: Now wait a minute. That doesn't make any difference - whether it is secret or not.

White: It didn't say.

H.M.Jr: October 28, Cable 1061, which is - subsequently they have signed.

Viner: That's a cable from -

H.M.Jr: From Cochran to me.

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Viner: And is it an oral statement or a written statement?

H.M.Jr: I'll go back; I'll take the time. Here - "Toward this end" - he says here "I realize there is not likely to be a change made - - - on the basis of the Belgian - - as given in the October 17" - I don't know why they keep referring to the October 17 - "Therefore, I sought some sort of additional statement by the Minister of Finance which might make it - - - - Toward this end the text of the letter was drafted and the provisional approval of the Minister of Finance, DeMan, was obtained for it. However, it was requested that I find out from you before asking DeMan to sign whether your requirements would be met by the draft. Then I went to the American Embassy at Brussels" - and so forth and so on. And this is the French translated: "With reference to the declaration of October 17, 1936, I (Mr. DeMan) - I have the honor to confirm to you that the Belgian Government fully guarantees with regard to the Government of the United States the obligations assumed in this declaration by the National Bank of Belgium, which is, moreover, as you know, the fiscal agent of the State."

And then Friday, in the mail, unsolicited, came this document, which was signed, and is now in the mails to us. It arrived in Paris unsolicited - that document - signed by the Secretary - Minister of Finance of Belgium.

Now, if you have a letter like that from the Minister of Finance of Belgium, guaranteeing -

Viner: I want to remind you that that question came up. I hadn't heard that, but at the last meeting here the question came up - I've forgotten who brought it out, one of you or myself - that is, would a guarantee do?

H.M.Jr: (To Goldenweiser) I get excited in here, but what goes on doesn't go out. I mean these men here know me, but - and they're still with me and will be with me for a long time yet. So what you hear here - you can report the factual, but not

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the temperament. O.K.

Viner: The question came up; somebody raised it.

H.M.Jr: (To Goldenweiser) In other words, you're in the Treasury now for the moment.

Viner: - as to whether a guarantee would suffice. You see, with the guarantee, you still might be dealing with the National Bank of Belgium as the principal, but there would be a guarantee by the government; and the question was whether we are to insist upon dealing with the government as principal and not merely with the government as guarantor.

Now, to me that is the difference between Tweedledee and Tweedledum, but - and only a lawyer would make something of it.

H.M.Jr: One month they had. But they were so positive that this is not satisfactory. They insist on the -

Viner: They insist on the principal-agent arrangement. This is the guarantor, and they make the distinction.

H.M.Jr: Now let me ask this, Clarence. Can I tomorrow - let's say that the proper things have been signed - open an account number two in the Federal Reserve Bank of New York with the Bank of Belgium as fiscal agent for the Belgian Government, with this letter of guarantee, and give them the right to do business on the same basis as we do business with England and France?

Oppen: Your relations will be different from the relations that you have with England and France.

H.M.Jr: Where?

Oppen: In that the relationship of guarantor and principal, which is the one that Belgium proposes, is not the same as the straight principal-agent relationship. You would be making your agreements from day to day with the - for the sale and purchase of gold, under this set-up, with the Bank of Belgium. The United

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States Government, on the one hand, would be entering into transactions with -

H.M.Jr: Excuse me.

Opper: - with the -

H.M.Jr: Excuse me - it would be the Federal Reserve Bank of New York - would be doing the thing as our fiscal agent - would be doing business with the fiscal agent of Belgium, which is the Bank of Belgium.

Opper: But with the Bank of Belgium as principal, the Federal Reserve Bank of New York as agent for the government.

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

Viner: Yes.

H.M.Jr: "I have the honor to confirm to you that the Belgian Government fully guarantees with regard to the Government of the United States the obligations" - and so on, then - "which is, moreover, as you know, the fiscal agent of the State."

Viner: Yes, but "fiscal agent" -

Opper: But not in this matter. They are generally the fiscal agents, but in this transaction they would be the principals, and if they fell down on their agreement then the theory of this would be that you would have a right to claim over - against the Belgian Government.

H.M.Jr: Right.

Opper: Just what the difficulties in that -

H.M.Jr: Now go through that once more. How do you, as a lawyer, make this difference, this distinction?

Opper: Can I take an example of individuals?

H.M.Jr: If you wish to.

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Opper: All right. If I have an agreement with Cy that he is to sell me a horse and he says, "I'm going to Europe; Jake Viner is my agent; in all your dealings under that contract about the horse you can deal with Jake Viner. He'll deliver the horse to you and take the money for me" - from that moment on I can deal with Jake Viner, and for every step that he is doing he is just a conduit. The principal in the transaction is still Upham, and everything that he does and everything that I do -

H.M.Jr: I cannot get the difference. Maybe this is - I don't yet get the difference between doing business - Let's take the Bank of France; take the case of the Bank of France. In the case of Bank of France, is the Bank of France or the French Government the principal?

Opper: The French Government.

H.M.Jr: But what have you got to show it?

Opper: Well, you've got, as I say, the conversations which took place preliminary to the issuance of that press statement in which both the French and the British said, "The Bank of France (on the one hand), the Bank of England (on the other hand), will be our agent for working out the individual transactions." See? Now, that was the only statement that you need, legally, for the definitive relationship of principal and agent to exist.

H.M.Jr: Could you collect any money, though, on that?

Opper: Yes, sir - no question about it.

H.M.Jr: Well, why can't I have the same conversation with the Belgians?

Opper: You can, sir, but I don't think they'll give you the same assurances.

H.M.Jr: Why not? Why isn't this letter that they have given us - why isn't that better?

Viner: This is better. You have recourse here both to

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the National Bank and to the Government of Belgium, whereas in the other case you have recourse only to the Government.

- H.M.Jr: I mean why can't I duplicate my conversation with them?
- Opper: Because they won't agree to the same things, because our day to day agreements under this set-up will have to be with the Bank of Belgium as principal and the Government of Belgium as guarantor; they will not be the principal. They will not be making the day to day contracts.
- H.M.Jr: Then why can't we say we make it - we simply insist that the day to day transactions be with the Bank of Belgium - I mean with the Belgian Government?
- Opper: Well, that's Mr. Oliphant's position.
- H.M.Jr: I mean that the day to day transactions will be with the Belgian Government and they make the Bank of France - the Bank of Belgium their agent.
- Opper: That is exactly the relationship you are in with England.
- H.M.Jr: But don't they say that in this letter?
- Opper: No, sir.
- Lochhead: You're starting to insist that they - you're telling them, "You have to follow our exact set-up over here or else we won't play with you."
- H.M.Jr: All right.
- Lochhead: Now, that's the whole point.
- H.M.Jr: O.K. For the moment I'm going to brush it aside. I'll tell you why. Now we've got the legal thing straight. Let me, before I brush it aside - let me say this to you. With this signed letter from the Minister of Finance of Belgium, the Belgian Government guarantees the acts of the Bank of Belgium. Do you feel that there is the slightest



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risk of -

Opper: There is one further risk, Mr. Secretary.

H.M.Jr: What's that?

Opper: And that is in dealing with a surety, a guarantor, which is what the Belgian Government would be, you must be extra careful always to be protecting their rights. The minute there is any kind - the slightest flaw in our arrangements with the Bank of Belgium, the slightest variation, the slightest detail in which they didn't live up to what they agreed to, we would immediately have to notify the Belgian Government, because otherwise we'd lose our rights against them. Now, we don't have that with this other arrangement.

H.M.Jr: Well, I've said this thing was a gentlemen's agreement, and if any one of these governments or banks or agents, or God knows what want to do us, why, they can do us, and there's nothing in writing. There isn't anything in writing. I'd like to go in before - I'd like to go before the International Court at the Hague and try to collect something on my verbal conversations with these people.

Viner: I think you could do it, but you could do it under this in the same way.

Opper: If you have a case, you can make it all right. But your cases are different. You might have a case in one case and not in the other.

Lochhead: Mr. Secretary, in the original conversations that you had with the Chancellor of the Exchequer this was said, these words: "these arrangements taking the form of working understandings rather than that of a formal contract." That was the basis for all these contracts.

H.M.Jr: And - wait a minute - and besides this, don't forget that we have this document of September 26 from the Belgian Embassy in which they say that they back up our arrangement - you know, that September 26. We have a diplomatic document

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besides.

Golden.: Mr. Secretary, it seems to me that the fundamental difference, which I think is a legal difference, is that the French Government and the British Government actually own gold and the Belgian Government does not own any gold; that's the difference.

H.M.Jr: True.

Now let me - I mean I've been doing all this for a definite reason. I just wanted for a moment to push aside the legal thing, for a moment, and then give you what I am leading up to, see?

Now, there's several purposes that I think can be accomplished through this tripartite agreement. The one - the obvious one is keeping exchange as near level as possible, which we have been able to do fairly successfully.

The other thing is the political one, and that is the moral backing it gives to England and France at this time, which is more - most important, particularly to France. Personally, I think that is just as important as the stabilizing of the exchanges, because if France doesn't grow in strength no stabilization fund could keep her currency stable. Is that right?

Viner: (Nods affirmatively)

H.M.Jr: Now, it is very plain in a polite way that the French say to us, "For God's sake, hurry up and do something, and quit fooling around over there" - and we've been stalling - "you've been stalling on this" - and they say this very politely.

Now I go back to my original idea; that's what I wanted to show. I think through cancelling the October 13 it looks as if we didn't know our own mind, and if we suddenly substitute an entirely new document it weakens this arrangement. And they very quickly say to me - the French and the English -: "That's all right; you substitute this, but please give us a copy of what you are going to

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say verbally in explaining it." And I defy anybody in this room to write a document explaining why we withdraw the October 13 - why we cancel the January 1934; and when you get through, if you won't give me pretty near the same document as we had in October 13 - -

Now, the conclusion I have come to and I want to put up for you people to tear down is that I - what I think the thing to do is to take the October 13 - to take the October 13 and after - where you say "United States will also sell gold for immediate export to or earmark for the account of the exchange equalization or stabilization funds" - or treasuries - "of those countries;" just add the words "or treasuries" and I think we have it, not only for this, but Sweden has sent word to us that they are coming to - that the Governor of the Bank of Sweden is coming to Paris on the 24th and they want to come in. Now, how are you going to let Sweden in? They have no stabilization fund.

- Hoas: They have no treasury either in the sense that you have.
- Viner: Say "treasuries or other fiscal agencies." Then you take care of this letter.
- Opper: I think that's going beyond what you want to do. "Treasuries or governments."
- Viner: Then you are still leaving Belgium out.
- White: Not if we are willing to recognize and put her in by virtue of the fact that we assume it is the government that has guaranteed it and if it has satisfied us there is nothing further involved.
- Viner: But then -
- H.M.Jr: Wait a minute, Jake. Let's say - whether it's "governments" or "treasuries" let's make that - they are more or less synonymous - whether it is the one word or the other - let's just say one or the other. Then we simply - I don't know what we do - whatever the legal - but we just say "withdraw this" or just say we added the words "or treasuries."

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Then at that time we announce that we have added to the list Belgium, Holland, and Switzerland, and we also at the same time announce we have cancelled January '34.

Now, first the press asks "Why did you cancel January '34?"

"Because there is no country at present that needs the services of January '34, because under this amended October 13 we can take care of anybody who wants to get gold from us, as far as we know at present. Therefore, we have cancelled January '34."

Now, everybody I think agrees that I have talked to that it is the sensible thing to cancel the declaration of January '34, which is the one between gold points. I don't know anybody that said it shouldn't - I cancel that. I simply add those words.

"Why do you add, Mr. Morgenthau, the words 'or treasuries'?"

"In order to permit the three countries to come in."

I won't differentiate. That accomplishes what the French are so anxious about - that England, France and the United States stand out as the three partners, and we simply add these other people to the list. I don't have to tear down and explain in a very - I don't know how I'd do it. Very difficult explanations - that England, France and the United States are still the three original partners and the other three are simply countries which we give this privilege.

And the thing I have - I am fearful - and that is why I've changed my own mind - I've changed it over ten days - I think it is most important, for the political reasons, in assistance to France, that we keep it in the public mind that England, France, and the United States are the three partners and that we don't in any way give the enemies of France and England a chance to say "Couldn't even

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last a month; the thing had to go."

I think right now, with France showing very slight improvement, but some improvement, that we must keep in mind that that country must be saved. The democracy of France must be saved, and I think that is about as important a thing as possible and that's why I've changed and - I haven't made up my mind - that's why I say this last thing that we sent Cochran - but we go back to the October 13, go over it once, just add the words "or treasuries." I accept the Belgian Secretary of the Treasury's agreement. I don't have to - I've changed on that - I don't have to make it public. It's an agreement with him. I haven't made my correspondence with Neville Chamberlain public.

Viner: I'd say only this thing: if you did it that way, you should at the same time send a letter to them in which you quote that letter.

H.M.Jr: Do you get why I've changed? I don't make the thing - I've simply - I simply - I add these countries, either treasuries or governments, to October 13, cancel January '34, and I take the word of the Secretary of Treasury of Belgium that - take his guarantee.

Lochhead: Can you keep that secret? As soon as you make that statement, some newspaper reporter will say, "You say Belgium; but the law says that the Belgian Bank is the one that is buying and selling gold, and you haven't mentioned the Bank. You say treasury."

Now then, you've got that guarantee and you'll say, "Well, I've got the guarantee of the Treasury."

H.M.Jr: I'll answer you. No one has asked me. They've tried to find out what, if anything, there was about the 495 with the British, and I wouldn't answer that.

I'll answer it this way. I'll simply make a flat statement that this is an agreement which has been entered into by the United States Treasury with the Belgian Treasury.

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- Lochhead: Well, you'll have to - well, when they say to you -
- H.M.Jr: "What is the correspondence that you have with Neville Chamberlain on what you agreed about 490?"
- I say, "Gentlemen, I won't discuss that."
- Lochhead: As long as you are willing to say that you have an arrangement, the arrangements are - all these arrangements are with the governments and with the treasuries, how could you prove it.
- H.M.Jr: "You'll have to take my word for it, gentlemen."
- Golden.: And if they ask you, "What about the National Bank of Belgium?" you can simply say that they are fiscal agents of the government. Right?
- H.M.Jr: That my arrangements are with the Belgian government and not - that my arrangements are with the Belgian government and the Belgian government has seen fit to designate the Bank of Belgium as their fiscal agent.
- Opfer: This may perhaps be saying or raising the same question in another way, Mr. Secretary, but I don't know whether it wouldn't be necessary to make a further change in this press release in order to bring the Belgians in. The statement is that "the Secretary of the Treasury states that -
- H.M.Jr: What are you reading from?
- Opfer: The October 13 statement.
- " - will also sell gold for immediate export to or earmark for the account of the exchange equalization or stabilization fund" etc.
- Now, as I understand the Belgian arrangement, the day to day transactions, that is, the sale of gold, will be for the account of the Belgian Central Bank as principal, and therefore it seems to me to that extent we are going beyond this press release. Now, I am just suggesting that, in the interest of

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accuracy, if that arrangement is to be made, that the press release should be changed to that extent.

Viner: - "or other fiscal agencies"

Opper: Well, if you want to say "other fiscal agencies," then you open this up - that even though that "any fiscal agency's" transactions are not guaranteed, the press release would still cover it.

Viner: We'll put -

Opper: And the Secretary has said that it is the guarantee that seals the bargain.

Viner: Put in "or other fiscal agency with the government as principal or as guarantor."

Opper: That's different.

H.M.Jr: What's that?

Viner: Put in "or other fiscal agency with the government as principal or guarantor."

H.M.Jr: Would that satisfy you (to Opper)?

Opper: That will take care of the Belgian situation, Mr. Secretary.

Viner: What situation wouldn't it take care of?

Opper: I don't say that it wouldn't take -

H.M.Jr: Let me just read this thing, number 445, that we sent Cochran. "Superseding the announcements made by him on January 31, 1934, and October 13, 1936, relating to the sale of gold" etc. - "likewise offer to sell gold" etc. Now, what you - you have " earmark for the account of the treasuries or the exchange equalization or stabilization fund" and the only thing you have added there is "treasuries or."

Viner: That isn't enough.

Opper: But that was on the understanding that the treasury

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was to be the principal.

- H.M.Jr: Well, it is evident you can't get the Belgians to do that. Now, what did Viner say?
- Viner: - "or other fiscal agencies with the government as principal or guarantor."
- H.M.Jr: How does that hit you?
- Opper: Well, that would undoubtedly make the press release conform to what you are suggesting in connection with Belgium. It would also take care of Sweden, because there you'd be dealing with the treasury, presumably.
- H.M.Jr: How did you say (to Viner)?
- Viner: - "or other fiscal agent." Then I'd put a comma so that the "with the government as principal or guarantor" would cover all the previous stuff.
- H.M.Jr: But I want to stick to this text, you see, of the 13th. "The United States will also sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization fund -
- Viner: - "or treasury," if you want it, "or other fiscal agent."
- White: Then I'd take the comma -
- Viner: - "or other fiscal agent - comma - with government as principal or guarantor."
- White: Leave the comma out there. - "other fiscal agent -
- Viner: - "with the government as principal or guarantor."
- Golden.: Then you'd better say treasury instead of government - with the treasury instead of government as principal or guarantor.
- Opper: I wouldn't.



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- Viner: I wouldn't.
- Opper: I don't think we would. In the sense we are using it, it would seem that the treasury is just a fiscal branch of the government.
- Viner: I think it is a little unusual to have an international contract that isn't between the governments as such; and the arrangement that you have is, I think - I wouldn't say necessarily unique, but it hasn't got much precedent. So I wouldn't stress that difference of procedure and I'd assume that when you make an agreement you are making it on behalf of the United States Government.
- H.M.Jr: I think you've got to carry this thing out, Jake; I think you've got to make this thing consistent.
- Golden.: That's the reason I suggest treasuries.
- H.M.Jr: I'd say "or treasuries or other fiscal agencies with the treasury as principal or guarantor." That's the way I'd say it. Now, if you don't - I'd just - I don't know my international law, but I - it doesn't become a treaty and it doesn't have to go up for ratification, I mean.
- Opper: It's an executive agreement this way, rather than a treaty.
- Viner: But, you see, even though it is an arrangement between these parties, it isn't an executive agreement either.
- H.M.Jr: I think it should stay that - I think that is what makes it a gentlemen's agreement, the very fact it is between departments.
- White: Doesn't that satisfy the Belgian government, that phrase "or treasuries" etc., since their treasury guarantees it?
- H.M.Jr: "With reference to the declaration of October 17, 1936, I have the honor to confirm to you that the Belgian Government fully guarantees with regard to

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the Government of the United States the obligations assumed in this declaration by the National bank of Belgium, which is moreover, as you know, the fiscal agent of the State." But it is signed by the Secretary - by the Minister of Finance.

Viner: That's unusual; I don't -

Haas: I don't think so. The Department of Agriculture makes international agreements on quarantine regulations. I think the Post Office makes some international agreements.

Viner: They don't create legal obligations of a financial sort, I don't think. But I say that's their problem, the legal department's problem.

Opper: Now, could I make one suggestion, Mr. Secretary? Instead of the word "other" I'd like to see you substitute the word "any."

H.M.Jr: Now listen what I'd like to - I'd like to give you a chance to polish this thing off when we get down to the words. I'm going to give you three or four hours so you can weigh your words, so forth and so on. I mean I'll give you all the rest of today to take this thing and talk to people, the Federal Reserve in New York. What I want - I'm going to see the President at 9:15 tomorrow morning. I'll give you all day. You'll come to the house tonight after supper if you want to, and we'll have this out, weigh each word, each comma, each period - if we agree this is the thing to do. You've got, let's say, from now to 8:30 to get down to the actual weighing of each word.

But before we get down to the words, let's say - Is everybody satisfied on this? I think it is terribly important. Now, let me say - let me say again I think it is important to burn the bridge of January 1934. I'd like to have that behind us. I don't want to, in the mind of the public, in any way change their thought that the principal - I don't want to use the word principal - that this is a three-cornered thing and that the main countries in this are Great Britain, France, and the

- 25 -

United States, and that these other three countries are simply being given this privilege by us but the tripartite agreement still stands. And I believe that that is as important as the agreement itself on account of the conditions in Europe. Am I exaggerating it, Jake?

- Viner: No, I think it is important; I think it would be terrible if a minor legal point would smash this thing.
- H.M.Jr: Now let's go around and give everybody a chance to have a crack at me. I think we are making monetary history here and we want to be as near right as possible. White?
- White: I approve of the suggested change and also of your change with regard to the publicity aspect of their statement.
- Viner: You mean no publicity unless forced to.
- White: That it is not necessary; that this in itself will accomplish the same objective that you had in mind.
- H.M.Jr: Upham?
- Upham: Mr. Secretary, I'd like to know what your answer is, or would be, to the question that I would ask at your press conference: "Does the Belgian government guarantee the transactions which you have with the Bank of Belgium?"
- Viner: Well, he can read it. He just says, "I am conforming strictly to this executive order's regulations, which says governments."
- Upham: Now wait a minute. You say that you will buy and sell gold with a government or with the fiscal agent of the government if the government guarantees -
- H.M.Jr: (On phone) Hello, hello? (Has phone conversation).

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- Upham: Before I go on, Mr. Secretary, let me say that I am in favor of what you're trying to do. I think it's splendid. But I'm worried about this not being as perfect as it might. You can't buy and sell gold with the Belgian government, because they don't have any. The only ones you can buy and sell gold with are the Central Bank of Belgium. Now, you say that you will deal with governments or their fiscal agents if guaranteed by the government. So the natural question for me to ask at once is: Does the Belgian government guarantee the transactions with the Belgian Bank?
- H.M.Jr: My answer to that would be that my arrangement is with the Belgian government.
- Upham: Well, I don't believe that is a satisfactory answer.
- Viner: The person selling you gold doesn't have to have gold.
- White: Never has to see it, own it, or anything. Doesn't the letter definitely state that the letter does guarantee it?
- Upham: I'd rather have a lawyer's answer to that.
- H.M.Jr: Now remember which room you're in, gentlemen. You can do that in there. In here we're talking about a "gentlemen's" agreement. (Laughter) Whoopee! (Laughter)

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Now, in this thing here it says: "It is understood that this declaration is not to be made public without the common consent of the two governments." I don't think it's necessary. I don't know that they've put that in the second letter.

White: Are you making it public when you merely say, "Yes, the government does guarantee it"? You wouldn't say under what circumstances the guarantee is made. They state that they don't want that particular letter made public.

H.M.Jr: "It is understood that this declaration is not to be made public without the common consent of the two governments."

White: Now, are you making it public when, in response to such a question, you say "Yes"?

Viner: Well, you can ask them in advance. Just state the question and say if you are asked this what answer should you give.

H.M.Jr: We could put it something like this: that in announcing this declaration we wish to say that our arrangement is with the Belgian government and that they are guaranteeing the transactions.

Upham: That's the thing that the Belgians didn't want to happen.

H.M.Jr: We could put that in the cable to Cochran. "Will it be agreeable to the Belgian government for us to say the following?"

Viner: - "if we have the guarantee of the Belgian government that these transactions - that these obligations will be carried out."

H.M.Jr: Yes

Hses: I don't think anybody outside, unless they've heard all this month's discussion, would think of that.

Upham: There's some pretty smart financial writers.

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- H.M.Jr: What else?
- Upham: I think that's all; that's all.
- H.M.Jr: Jake?
- Viner: Nothing.
- H.M.Jr: George?
- Haas: I agree.
- Lochhead: I agree. I'm very glad to see the arrangement go through and I think that possibly with this wording the legal staff can reconcile themselves to the statements they couldn't do on the previous wording.
- Bernstein: No comment.
- Golden.: I'd like to ask the question, Mr. Secretary - I'm in favor of the agreement, as you know - but you have made the point that you want to make the distinction between the tripartite agreement as being something separate, and that this is just an extending of a privilege. I just am not quite clear in my mind how your statement is going to do that, whether it wouldn't look as though these others were becoming part of the same agreement.
- H.M.Jr: Well, let me see if I can answer that. The way I see it is this. The first thing that you people have to do is to draw up a new statement for the President to sign, in which he will withdraw the January '34 and we will say - I've amended the wording - use that word - "supplementing," I think, would possibly be a better one, because, - you see, part of it - the other one starts - the October 13 - with "supplementing" - Can't you use another word?
- Viner: October 13 says supplementing the January. Now, if you cancel the January one.
- H.M.Jr: Well, it would be - October 13 starts out with the word "supplementing" -

- 29 -

- Golden.: I think you can start this one with "further supplementing."
- White: The point is, Mr. Secretary, that we will not be - we will be supplementing the October 13 statement and not the January. You might say "supplementing the October 13 and in lieu of the January 31 statement, which is being withdrawn" etc.
- Opper: Some part of the October 13 statement will continue just as it has been.
- H.M.Jr: The other one started off "superseding the January 31" - I don't want to use that.
- Golden.: My question was just that I want to make clear in my mind that you are maintaining the tripartite agreement as a separate thing, and that these are just privileges granted.
- H.M.Jr: Now then, the statement will come out "supplementing" - so forth and so on - the October 13, you see. We give that out; let's say we do it Monday - Friday. Then I will say for tomorrow morning's papers: "We have added to this list three countries, Belgium, Holland, and Switzerland."
- Now, they will say, "Does that mean that they become part of the tripartite agreement?" And the answer is - and I think we ought to put this in too - and the answer is that the three countries are extending this privilege to the additional countries, that the three countries are making a simultaneous declaration, and that the three countries simultaneously are extending this privilege to Holland, Switzerland, and Belgium.
- Golden.: They are the Board of Directors and they are admitting these others to membership.
- Viner: I have one question. I don't quite remember what the wording was, but weren't the others to join in as major parties?

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Upham: There's been a good bit of talk about new partners.

H.M.Jr: It says here "desires and invites the cooperation of other nations."

Golden.: Will you have simultaneous statements, then, by France and England?

H.M.Jr: Yes

Golden.: Well then, that answers my question.

H.M.Jr: We invited the cooperation, you see, not to become members of the tripartite, but to extend them this privilege of exchange of gold.

Golden.: Uh huh.

H.M.Jr: Does that clear up that?

Golden.: Yes, that clears my question.

H.M.Jr: Now, anything else?

Golden.: No

H.M.Jr: Clarence?

Opfer: Well, I would like to add one thing, and that is just following along Cy's thought. Regardless of the newspaper element here, aren't we entitled to know why it is that the Belgian government insists on keeping this very important part of the transaction secret?

H.M.Jr: They've already stated -

White: But it might not be a very good reason. This morning is the first time I've heard about it.

H.M.Jr: I don't know why you haven't seen it.

Upham: Hurt the Bank of Belgium.

White: The reason, as I understand, is it would introduce some question of reduction of prestige of the



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Bank, and also introduces some question of uncertainty.

H.M.Jr: The point is they feel the Bank of Belgium doesn't need any guarantor. That's the argument they use.

But I think that the two things that you people have to do for me - and if you can have them ready by 8:30 it'll be good. One is I want to lay on the President's desk tomorrow morning a statement supplementing October 13. That's number one, see? - which, in view of what's happened I'll again have to show it to the French and the British first. This time I want to tell them "Hurry up." And in sending it to the French I have to have a cable to Cochran explaining why I have changed and explaining to him what we expect to say when we announce this thing. See? Now, I want two things. I want the thing for the President to sign and I want a cable to Cochran drafted by 8:30 tonight. Now, that's possible, isn't it? And it's clear what's in my mind, what I say to Cochran.

Opper: Will you -

H.M.Jr: These fellows are all set. You (to Opper) get your legal document. When you get that out, they will take it and draft a cable for me to send to Cochran. Is that all right? - Jake, George, and the rest of you.

Haas: Yes, we can draft it.

H.M.Jr: I mean do you know - in order to save time - I want 24 hour service this time because I want it immediately. I want the French to say yes or no. I don't want to be - I want 24 hour service and I want yes or no; and that when I announce it, this is the statement, and they can tell the French I am going to make in announcing it - and that I think the best thing is to quote from that paragraph that we have invited the cooperation and therefore these people have come, and so on. And in the case of Belgium I would like to be

- 32 -

able to say that our arrangement is with the Belgian government, that we have their guarantee. I'd like to be able to say that.

Now, I think - now, that isn't - the French ought to have no objection. But in order to save time I'd like to have it in Cochran's cable what I propose to say.

I've talked enough here this morning that you fellows ought to know what I have in mind. Huh?

Viner: I think it's clear.

H.M.Jr: But, you see, the big difference that we have decided here this morning is that the other - the other thing started "superseding" - this will be "supplementing." And then if you go back to our press release and I quote this thing that the government and the others - it invites and desires the cooperation, and I say, I put it some way, that Holland - I mean this is my verbal statement - Holland, Switzerland, and Belgium have accepted -

Viner: Responded to our invitation to cooperate.

H.M.Jr: - to cooperate - yes.

White: Is it clear that you are putting in this proposed draft the very statement which the Belgian government wished you to have secret? That is, your sole addition is "treasuries (which doesn't apply to them) or fiscal agents guaranteed" and if they come in under the new draft and didn't come in under the other it is implied by the document that they have fulfilled those conditions, namely, the guarantee arrangement, so if they accept that they will have less hesitation about being willing to have you make the statement.

Viner: Except that dots the i's and crosses the t's that way.

White: Well, I would go so far in Cochran's cable as to let them turn it down if they want to.

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- H.M.Jr: And say that I'd like to be able to say in my verbal statement that we have the assurances - that's a good word - of the Belgian government that this agreement, reciprocal agreement, will be carried out.
- Viner: The assurances of the Belgian government that the obligations will be carried out; that's stronger.
- H.M.Jr: Then if we can have that tonight I can go over it and we can have somebody there to do the typing so the thing can be changed on the spot. And my last chance to see the President is tomorrow morning and I can get him to sign it. We can have this cable; he may want to make some changes in it for Cochran. I can show it to him. If he approves I'll give it to the British tomorrow and we'll shoot it over to Cochran and tell him we want an answer in 24 hours, and if the French and the British agree to it - and he'll show it to the Dutch and Swiss and Belgians.
- Upham: May I ask one question?
- H.M.Jr: And the reasons for changing our wording is because - well, we don't have to give any reasons, huh? We don't have to give Cochran any reasons.
- Upham: Can I state one question? This does not mean, does it, that Switzerland, Holland, and Belgium have reciprocal arrangements among themselves to buy and sell gold to each other? That's something else.
- H.M.Jr: No, that isn't ours; that's their affair. And another reason I don't want them as members of the tripartite agreement - now here before I can make this agreement I've got to show it to the British and French first. They agree. Then I - Cochran puts it up to these others and each of them has it and it gets more and more complicated.
- White: Mr. Secretary, you're not changing your mind. You don't have to take the position that you change. You insisted upon publicity; it was one of the things that you wanted. That publicity is now being incorporated in the draft which you are

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asking them to sign. Therefore, it meets with your requirements. I wouldn't say that you are changing your mind.

H.M.Jr: Well, I am changing my mind to this extent: that I - the original thought was - God! you're - you better go on the legal side. (Hearty laughter)

White: I mean you are not certainly changing your mind from their point of view necessarily.

H.M.Jr: Well, I defy anybody in this room in a week to take this thing that we sent over to Cochran last week and explain why I am doing it, without going into this whole question of the Belgian business, etc. And I think this is a very smooth way to do it.

Are you happy about it, Jake?

Viner: Oh yes. I want the agreement to go on. I don't care about these - about any of these legal points. If we have an undertaking by the governments, that's good enough for me.

H.M.Jr: I think the earliest I can expect would be tonight.

Opper: Well, I take it that we will have to be through some time before that, because you said you wanted us to turn it over to the others.

Viner: I'll stay until midnight.

H.M.Jr: Is this a one-day trip?

Viner: It was going to be, because you gave me short notice; my students will expect me at nine o'clock tomorrow morning. But I'll stay until midnight.

Upham: They'll be glad you're not there.

Viner: That's why I want to be there.

H.M.Jr: Well, all right. You want to come to the house (to Goldenweiser)?

Golden.: Very glad to, if I can be of any help.

November 18, 1936  
12:00 p.m.

64

DEPARTMENT OF STATE

OFFICE OF THE ECONOMIC ADVISER  
November 17, 1936.

Mr. Lochhead:

I return for Treasury files  
this text of the telegram sent to  
Mr. Cochran, at the particular  
request of Secretary Morgenthau.

A handwritten signature in cursive script, appearing to read "Sweeney", is written in dark ink on the white paper.

November 16, 1938  
12:00 p.m.

64

(For Cochran:)

Submit to M. Auriol, for his comments, the draft of a statement to be issued by the Treasury Department which terminates this telegram. Please urge upon M. Auriol the importance of prompt consideration. I am also submitting the draft ~~here~~ <sup>in Washington</sup> to the British for their comment. It is not to be submitted to the Belgians, Swiss or Netherlanders until after we have heard from the British and French.

If a statement such as is here proposed were made, the press might put to me some such question as the following: "Since the Belgian government owns no gold, does this mean that the Belgian government is guaranteeing the execution by the National Bank of Belgium of the obligations undertaken under this arrangement?" If the accompanying draft is approved by the British, French, and Belgian governments, I intend that you shall then inquire of the Belgian government whether it would be agreeable to it if I should reply to a question such as the foregoing by simply saying "yes." Communicate to M. Auriol my intention indicated in this paragraph.

Notice that the significant phrase in the new statement is "or any fiscal agencies acting for or whose acts in this connection are guaranteed by the Treasuries,..." That would include, of course, the Bank of Belgium as indicated in the contents of the letter from M. DeMan noted in your cablegram

- 2 -

No. 1061, of October 23. That letter will be an important item in our file.

I further suggest to the French and British Governments that it would be helpful if the Swiss and the Netherlanders would send via their Foreign Offices to the three governments participating in the original tripartite declaration of September 25, 1936, a declaration of adherence to the general principles of that statement, similar in spirit to the statement issued on September 26, 1936, by the Belgian government and communicated on that date to the State Department and the Foreign Offices of the other two governments.

I further suggest that, 24 hours after the receipt of such a statement from the Swiss and Netherlanders, England, France and ourselves issue the following declaration simultaneously:

"The governments of the United States, Great Britain, and France welcome the declarations of the governments of <sup>Belgium</sup> Switzerland and the Netherlands expressing their adherence to the principles stated in the tripartite declaration of September 25."

The Treasury proposes to issue with this statement the following Treasury announcement, and suggests that the British and French governments make such statements as fit

their special circumstances:

"Supplementing the announcement made by him on October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that hereafter, and until, on twenty-four hours' notice, this statement of intention may be revoked or altered, the United States, in addition to sales of gold to the exchange equalization or stabilization funds of foreign countries, will also sell gold for immediate export to, or earmark for the account of, the treasuries, or any fiscal agencies acting for or whose acts in this connection are guaranteed by the treasuries, of those countries whose treasuries or fiscal agencies so acting or guaranteed are likewise offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold by the United States will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the



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following terms and conditions, which the Secretary of the Treasury deems most advantageous to the public interest:

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

"The Secretary further announces that his statement of January 31, 1934, relating to the sale of gold for export, is accordingly withdrawn."

MED

TELEGRAM SENT

GRAY

November 16, 1936

12 p.m.

AMEMBASSY

PARIS (FRANCE)

462.

URGENT

For Cochran from the Secretary of the Treasury.

Hold the following without action until further instructions.

Submit to M. Auriol, for his comments, the draft of a statement to be issued by the Treasury Department which terminates this telegram. Please urge upon M. Auriol the importance of prompt consideration. I am also submitting the draft to the British in Washington for their comment. It is not to be submitted to the Belgians, Swiss or Netherlanders until after we have heard from the British and French.

If a statement such as is here proposed were made, the press might put to me some such question as the following: "Since the Belgian government owns no gold, does this mean that the Belgian Government is guaranteeing the execution by the National Bank of Belgium of the obligations undertaken under this arrangement?" If the accompanying draft is approved by the British, French, and Belgian Governments, I

intend

MED - 2 - #462, November 16, 1936 12 p.m. to Paris  
intend that you shall then inquire of the Belgian Government whether it would be agreeable to it if I should reply to a question such as the foregoing by simply saying "yes". Communicate to M. Auriol my intention indicated in this paragraph.

Notice that the significant phrase in the new statement is "or any fiscal agencies acting for or whose acts in this connection are guaranteed by the Treasuries,..." That would include, of course, the Bank of Belgium as indicated in the contents of the letter from M. DeMan noted in your cablegram No. 1061, of October 28. That letter will be an important item in our file.

I further suggest to the French and British Governments that it would be helpful if the Swiss and the Netherlanders would send via their Foreign Offices to the three governments participating in the original tripartite declaration of September 25, 1936, a declaration of adherence to the general principles of that statement, similar in spirit to the statement issued on September 26, 1936, by the Belgian government and communicated on that date to the State Department and the Foreign Offices of the other two governments.

I further suggest that, 24 hours after the receipt of such a statement from the Swiss and Netherlanders,  
England,

MEMO - 3 - 6362, November 16, 12 p.m. to Paris

Engl  
England, France and ourselves issue the following  
declaration simultaneously:

"The governments of the United States, Great Britain, and France welcome the declarations of the governments of Belgium, Switzerland and the Netherlands expressing their adherence to the principles stated in the tripartite declaration of September 25."

The Treasury proposes to issue with this statement the following Treasury announcement, and suggests that the British and French governments make such statements as fit their special circumstances:

"Supplementing the announcement made by him on October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered, the United States, in addition to sales of gold to the exchange equalization or stabilization funds of foreign countries, will also sell gold for immediate export to, or earmark for the account of, the treasuries, or any fiscal agencies acting for or whose acts in this connection are guaranteed by the treasuries, of those countries whose treasuries or fiscal agencies

so

so acting or guaranteed are likewise offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold by the United States will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions, which the Secretary of the Treasury deems most advantageous to the public interest:

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

"The Secretary further announces that his statement of January 31, 1934, relating to the sale of gold for export, is accordingly withdrawn."

EA:FL:LMS

MOORE  
ACTING  
FL

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 14, 1936, 2 p.m.

NO.: 1112 FROM COCHRAN.

Feature of unofficial exchange trading at Paris this afternoon has been weakening of dollar which is attributed to President Roosevelt's statement in regard to problems arising from heavy foreign buying of American securities. Dollars being offered in London. British control sold gold in London this morning, with Switzerland and Belgium most likely destinations considering today's rates of exchange. Forward franc more bid.

Financial press continues to carry various rumors in regard to the Netherlands considering joining tripartite gold arrangement. Swiss adherence thereto is considered practically an accomplished fact following the press reports of the past two weeks from Swiss cities.

These reports show reason for haste in deciding question of eligibility of the Netherlands, Switzerland, and Belgium to enjoy our gold facilities and in the issuing by all the interested countries of appropriate announcements. The Swiss hope this can be done before their Parliament meets in December. Just at the time when the French Government is facing a better parliamentary struggle on its financial and budget policies, strengthening of the Tripartite Agreement would be most welcome to France. Just now at the week-end the franc is looking better and some of the British newspapers which have evinced

skepticism

- 2 -

skepticism over the post-devaluation situation in France appear a little more kindly disposed and admit that there is some economic recovery in France. However, it was clear at Basel a week ago that a number of people were being influenced by Schacht to share his alleged lack of confidence in the permanency of results of the three-country agreement. For these reasons I submit that it is highly desirable to announce at an early date the addition of new countries - preferably all of the three I have mentioned.

Plans for several important changes in the French Ministry of Finance which are under consideration may result in Monick taking Baumgartner's place as Director of the section of movement of funds if and when Baumgartner takes a new position in the "Crédit National".

BULLITT.

EA:FL:LWW

November 16, 1936  
12:03 P.M.

H.M.Jr: Hello - Poletti.  
Poletti: Hello - how are you?  
H.M.Jr: I'm all right. Morgenthau talking.  
P: How have you been?  
H.M.Jr: O.K.  
P: That's good.  
H.M.Jr: Look, I asked for the Governor first but when he -  
I heard he was at Palm Springs.  
P: Yes, he's having a good time out there.  
H.M.Jr: Well I didn't want to disturb him and I'll get to  
the point. In talking yesterday with the President -  
P: Yes.  
H.M.Jr: ....he seemed to be under the idea that you were  
getting out....  
P: Yes.  
H.M.Jr: .... and I wanted to ask you, if you wouldn't mind,  
is that so or not?  
P: Yes, well I talked to the Governor about it and he  
feels that I'm entitled to some new experience. I  
mean he's - ah - I mean this is confidential. He  
told me that he'd appoint me to the bench down there -  
there's a vacancy now if.....  
H.M.Jr: Yes  
P: .....he promised it to me and I'm not sure that I  
want to take it.  
H.M.Jr: I see.  
P: And some of my friends are counseling me not to do it -  
that I'm too young and go down (clicking noise)  
H.M.Jr: Hello - hello



- 2 -

Operator: Hello.

H.M.Jr: I'm cut off.

O: Oh I'm sorry. Here he is.

H.M.Jr: Hello.

P: Yes, how are you?

H.M.Jr: Hello - Poletti.

P: Yes.

H.M.Jr: We were cut off.

P: I'm sorry. I started telling you that - I mean - I've talked it over with the Governor - as a matter of fact talked it over with him quite a long time ago.....

H.M.Jr: Yes

P: .....and he feels, of course, he'd like to have me stay here but at the same time he thinks that I'm entitled to a change, having put in four full years of good hard effort every day in the year.

H.M.Jr: Yes.

P: So that he is willing to admit (laughing) that I'm entitled to get out.

H.M.Jr: Yes.

P: I told some of my friends the situation and that's probably how the President knew about it.

H.M.Jr: I see. I suppose through Sam Rosenman maybe.

P: Yes, Sam or somebody - I don't know whom but I talked to Sam about it - Sam knows and he's known it for a long time.

H.M.Jr: Well - here's - I mean - I don't want - ah - how shall I say - make an offer with Herbert Lehman away or anything like that, you know?

- 3 -

P: Yes, well I know the situation and I know that the President felt the same way (laughing).....

H.M.Jr: Yes.

P: .....because about a year ago people kept calling me up on various things and he - he called up the President and said, "Stop bothering Poletti and leave him here." Now you can take it or not that's from him but....

H.M.Jr: Well what would you suggest - I mean under the circumstances?

P: Well I mean I don't think at the present time the way I've arranged it with the Governor if I do come down there instead of going on the bench that he would resent it at all because I mean he's - we've talked it over several times - my wife and I have talked it over with both Mrs. Lehman and the Governor...

H.M.Jr: Yes.

P: ...and of course he'd like to have me stay....

H.M.Jr: Yes.

P: .....but I mean that's perfectly natural.

H.M.Jr: Well I don't know whether the President or anybody was thinking - I was talking with the President yesterday about this position which was formerly held by Bob Jackson in Internal Revenue.....

P: Yes.

H.M.Jr: .....and that's what I was discussing....

P: Yes.

H.M.Jr: ....and he said, "Didn't you offer it to Poletti?" So I said, "No." He said, "Well I understood that you had" and I said, "No, because I talked to you before the Philadelphia Convention....

P: Yes.

H.M.Jr: And then when I saw Lehman was going to run and....

P: Yes

- 4 -

- H.M.Jr: .....be elected why I wouldn't think of offering anything to anybody working for him without first talking to him.
- P: Right - right.
- H.M.Jr: Now but the President seemed to be under the idea that - that you had that under consideration. I don't know where he got it from and I'm not.
- P: Well you never talked to me about it that I remember.
- H.M.Jr: No, I never talked to you about it.
- P: No I don't know where he could have gotten that idea.
- H.M.Jr: Well the point is.....
- P: He certainly didn't get it from me. (laughing)
- H.M.Jr: No, well that's - I mean - but anyway the point is that he wanted to and I want to talk to you and that's why I'm calling you up. The only reason I'm seeming a little hesitant is on account of Herbert Lehman being away.
- P: Oh well that's - I understand that.
- H.M.Jr: Now the point that I'm making is if it was agreeable to Herbert, would that position interest you?
- P: Well I want to think about it and talk to some people including Bob Jackson about it - I mean I don't know enough about it.
- H.M.Jr: Ah-ha.
- P: And I want to probably talk to - I want to talk to the Governor and I want to talk to Bob Jackson and probably want to talk to - does Eddie Greenbaum know about it? Is he familiar with it - the job? I don't know enough about it.
- H.M.Jr: Yes, he does know all about it and, of course, I'd want you to talk to Oliphant.
- P: Yes.

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H.M.Jr: But he's away now and will be gone another week or ten days.

P: Yes - yes.

H.M.Jr: But Eddie knows all about it. He'd be an excellent person to talk to and so would Bob Jackson.

P: Yes.

H.M.Jr: Well why - why don't you discuss it with both of them?

P: Yes.

H.M.Jr: And I wouldn't want to - I'd want to talk to Herbert and I want to have you talk to Oliphant when he gets back.

P: Yes.

H.M.Jr: Now.....

P: I didn't know - I didn't know that position was open. I thought you had somebody.

H.M.Jr: No, the trouble is the man who fills it is a very good man but - he taught law, but he's never passed his bar exam.

P: Oh. (laughter)

H.M.Jr: He never took one rather.

P: That's the answer.

H.M.Jr: And so we - the Senate told us that they wouldn't confirm him and they said - but he's there and he's holding the job down until....

P: Yes.

H.M.Jr: ....we do find somebody.

P: Yes.

H.M.Jr: He's an excellent man but like a lot of these professors they just never took their bar examination.

- 6 -

P: Yes - yes - that's too bad. What's his name?

H.M.Jr: Ah - oh just a minute - Kent.

P: Kent.

H.M.Jr: Kent. And we have another place for him so it isn't a question of pushing somebody out.

P: Yes - yes.

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

P: Well - I - I'd - I don't know just - I mean - what I'd do when I come down there. I'd want to think about it. I don't have to move right off do I because...

H.M.Jr: No - no.

P: ...somebody told me - I haven't put out any efforts to get in touch with anybody down in the Department of Justice but somebody told me there might be some vacancy down there - I don't know.

H.M.Jr: Well why don't you talk - I don't know what the situation is over there but why don't you talk with Eddie.....

P: Yes.

H.M.Jr: .....and as soon as Oliphant gets back I'll let you know.....

P: Yes.

H.M.Jr: ....and then come down and have a talk with him and with Bob Jackson.

P: Yes, when is he leaving?

H.M.Jr: Who?

P: I mean when is he coming back?

H.M.Jr: Well it will be about a week or ten days.

- 7 -

P: I see. Well that's all right.

H.M.Jr: And when will Herbert Lehman get back?

P: Well he's coming back about Thanksgiving time.

H.M.Jr: Oh.

P: About Thanksgiving time.

H.M.Jr: But you feel that - I mean now I'm.....

P: Oh yes, you shouldn't feel embarrassed.

H.M.Jr: I mean if you think so I'd call him up.

P: No, no, no, you don't have to feel embarrassed. I mean - certainly not - this is only at the exploratory stage.

H.M.Jr: Yes.

P: I mean you don't - you don't have to feel embarrassed. I know just what you have in mind.

H.M.Jr: O.K.

P: But, as I said, I talked it over with the Governor a good many times and we've got a perfect understanding on it.

H.M.Jr: Fine. Well you talk with Eddie, will you?

P: Yes, I will. I mean I - you can see my plans are unsettled too. I don't know whether I should try to go on the bench now or not. You see I'm in a position to choose but I'd like to get the slant of some of these people on it.

H.M.Jr: Fine.

P: All right and I appreciate your calling.

H.M.Jr: Not at all.

P: I'm grateful to you.

H.M.Jr: Thank you.

P: Goodbye.

H.M.Jr: Goodbye.

U

GRAY

London

Dated November 16, 1936

Rec'd 1:30 p.m.

Secretary of State

Washington

535, November 16, 5 p.m.

FOR TREASURY

Today's comment in the London press and in the city follows in general that reported in my 533, November 14, 2 p.m. However, the following excerpt from the MANCHESTER GUARDIAN may be worthy of note.

"Mr. Roosevelt has no wish to see the Wall Street stock exchange once again a casino for non-American gamblers. He has said so this week and is even hinting at prohibitive legislation. Many London financiers would consider any interference on either side as an attempt to part the merchant from his profit. The same people are urging M Blum to be sensible and allow French owners of fugitive capital to take unmolested the full profit of their intelligent anticipation of September 26. England has in the past profited by the merchant's freedom to use his money anywhere. But if the Treasury already controls and limits the serious and carefully planned business of making loans abroad for defined purposes, how can . . . uncontrolled

U -2- #535, Nov. 16, 5 p.m. from London

uncontrolled buying for the Wall Street boom, not to say indirect exchange gambling, be justified?"

BINGHAM

RR



RB

GRAY

Paris

Dated November 16, 1936

Rec'd 3:55 p. m.

Secretary of State

Washington.

1119, November 16, 6 p. m.

FROM COCHRAN.

Paris exchange market quiet. Dollar continues Saturday's weak tendency with Swiss franc and belga declining in sympathy. Bank of France believed to have given out only small amount of sterling today to hold rate at 105.15. Sales of dollars coming from London are believed to emanate from investors who had acquired the dollars to purchase American securities. Forward franc more bid. French rentes up more than two francs. French share market active with chemicals especially strong.

Principal attention of European financial press is given to possibility of United States restricting foreign purchase of American securities. While the general impression seems to be that we ought not to permit too much of a boom on our... market we have already prepared the way therefor and Europe's unsettled condition is hastening its realization.

Reports

RB

-2-#1119, November 16, 6 p.m.  
from Paris

Reports from the Netherlands indicate considerable nervousness over possible American regulations in view of heavy Dutch investments on New York market. A press report of the 15th from Amsterdam to the FINANCIAL TIMES London of today says in part:

"It is held here that if President Roosevelt passes inflation measures the Dutch authorities will perhaps reconsider their attitude towards joining of the gold agreement. Such measures would be a great blow to Holland. After Great Britain and Canada, Holland is the third largest foreign holder of American investments with at the end of 1935 a total holding of 784,000,000 of which 429,000,000 was in securities. This total has increased during 1936 particularly during the last few weeks. The announcement of President Roosevelt's intentions led to decided weakness on the Amsterdam Bourse and American shares were sold in rather large parcels. The domestic market was also affected with losses of from two to ten points. In the foreign exchange market dollars suffered from selling pressure until the control intervened".

An article in the Lombard columns of the London FINANCIAL NEWS today begins "As we pointed out in this column on Thursday the idea of checking the flow of funds to Wall Street in order to avoid danger to the tripartite agreement (end section one)

BULLITT

Regraded Unclassified

RB

GRAY

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Dated November 16, 1936

Rec'd 3:55 p. m.

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Washington.

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BULLITT

Regraded Unclassified

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U

GRAY

Paris

Dated November 16, 1936

Rec'd 4:23 p.m.

Secretary of State

Washington

1119, November 16, 6 p.m. (SECTION TWO)

has been subject to much discussion. President Roosevelt's statement on Friday in which he envisaged the possibility of legislation to prevent the influx of what he picturesquely calls 'hot money' nevertheless, came as a surprise. An official pronouncement was not expected at such an early stage and in any case it was believed that the problem would be tackled on this side. It was feared that our authorities which, by their various efforts to discourage exchange speculation, were so willing to interfere with the freedom of the London market for the sake of bolstering up the franc for another few months, might show the same willingness to add to the unofficial embargoes for the sake of bolstering up sterling. For this reason the announcement that action would be taken not on this side but in the United States came in one sense as a relief to the city. Since the continued overvaluation of sterling is desired not by this country but by the United States

U -2- #1119, Nov. 16, 6 p.m. Section 2, from Paris  
States it is only fair that the London market should  
not be called upon to sacrifice a further part of its  
freedom for the sake of pleasing Mr. Morgenthau. It is  
for the Washington authorities to devise the means by  
which sterling is to be prevented from finding its  
natural level. And if the means adopted should impair the  
position of New York as an international center it is for  
American interests to decide whether the result is  
worth the sacrifice". (END OF MESSAGE)

BULLITT

HPD

November 16, 1936.  
3:56 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Cochran: Hello Mr. Morgenthau.

H.M.Jr: How are you?

C: Fine, thank you.

H.M.Jr: Have they communicated your promotion to you?

C: NO - didn't know anything about it.

H.M.Jr: Well now I'm telling it to you as one friend to another.

C: Oh my.

H.M.Jr: You've been promoted to Class One.

C: Well that's splendid. I'm very happy.

H.M.Jr: Ah - but don't tell anybody but Mrs. Cochran and wait till it comes through officially.

C: I see. Fine. Thanks a lot for that.

H.M.Jr: Well I followed it through last week through the Chief Clerk at the White House and asked why they hadn't done anything .....

C: Yes.

H.M.Jr: .....and yesterday the President told me he had signed it.

C: Yes.

H.M.Jr: So it - I imagine it will come through in a week or ten days but it's - it's an accomplished fact.

C: Surely. Well thanks a lot. I'm very happy over that.

H.M.Jr: I think it's quite rare, isn't it, that they've jumped a man like that?

- 2 -

C: Well it - ordinarily you have to be in the grade two years, you see?

H.M.Jr: I see.

C: But I've only been in one year now.

H.M.Jr: Yes.

C: Second year in October.

H.M.Jr: Yes.

C: It would be quite exceptional to have a promotion within that short a time.

H.M.Jr: Yes and I think there's a letter from the President going with it.

C: Oh fine.

H.M.Jr: Yes.

C: Oh - oh that's too much almost.

H.M.Jr: (Laughs) Now, Cochran, - well I'm pleased for you. I'm seeing the President tomorrow morning.

C: Yes.

H.M.Jr: And I - we've changed this proposal again.

C: You have.

H.M.Jr: Yes.

C: Yes.

H.M.Jr: And I'm quite sure that he will approve it. When I get back from seeing him, which will be around 10 o'clock, I'll put in a call for you.

C: 10 o'clock - yes, that will be 3 o'clock our time.

H.M.Jr: Yes. Now I'm anxious to hurry it now.

C: Yes.



- 3 -

- H.M.Jr: And I thought that you might ask for an appointment to see Auriol, say, 5 o'clock tomorrow.
- C: All right.
- H.M.Jr: And get the appointment and tell him that you're going to have an important communication and, at this time - well you can put it that I want to comply with their request and our own and hurry the thing along now.
- C: Surely.
- H.M.Jr: But instead of - of canceling October 13th we've just supplemented it so that it will take care of Belgium, see?
- C: I see.
- H.M.Jr: After thinking it over - I mean when it gets down to explaining why we cancelled it but still keep the three original it was too difficult.
- C: I see.
- H.M.Jr: So I'm going to leave the October 13th and simply supplement it and making it possible for Belgium to come in.
- C: I honestly think that's good and I know they'll feel relieved.
- H.M.Jr: And the - the cable to you is now being drafted and we're having Livesey sit in on it and Goldenweiser and Viner and our own people and I'm showing it to the President. I'm quite sure he'll approve it and we'll put it immediately on the cable but when I call you at 10 o'clock I'll read it to you over the telephone, you see?
- C: I see. You're giving me the text tonight in case you have it approved tomorrow.
- H.M.Jr: No - No I don't think I'll send - I don't think I'll - I think I'll telephone you the text.

- 4 -

C: I see. "ell what are you putting on the wire then?

H.M.Jr: Nothing.

C: Nothing.

H.M.Jr: No I - but I'll telephone you - no I - I can get the text. I'll arrange with Livesey that as soon as I approve it to send the thing tonight, pending the President's approval.

C: I see. All right.

H.M.Jr: That'll - that'll save a day.

C: And will save quite a bit of time on the telephone, you see.

H.M.Jr: Yes.

C: And then when I - when you telephone me you can just confirm it.

H.M.Jr: Yes.

C: And then give me the insertions and I'll make the appointment early in the morning.

H.M.Jr: Yes. I'll tell you what you might do in order to save time.

C: Yes.

H.M.Jr: I was just wondering whether we'd save time to fly a copy to London. I guess not. I guess we'll just hand the British a copy here.

C: Yes - yes.

H.M.Jr: But I'll put it on pending the President's approval, see?

C: Yes - yes.

H.M.Jr: I'll see that it goes on at midnight and you'll have it in the morning.

- 5 -

C: All right. Then you'll get the answers of the British and the French before you do anything more.

H.M.Jr: Get the French and the British but I'm going to ask both the French and the British to give me an answer immediately.

C: Yes. Well with that clause I'm sure I can get an approval here at once.

H.M.Jr: And then as soon as I get that - what I want to try to do is I want to try to be able to announce it a week from to-day.

C: Yes, I see.

H.M.Jr: I want to get the thing out 4 o'clock next Monday.

C: All right.

H.M.Jr: And I'm going to jam the thing through now.

C: Yes. I think these people can do a lot by telephone here.

H.M.Jr: They can.

C: Yes.

H.M.Jr: You mean to help.

C: I - I mean when - when once he approves it. Then these people can get into relations with Belgium and Switzerland ....

H.M.Jr: Fine.

C: And Netherlands - they telephone quite a bit.

H.M.Jr: Right. Now did you mail me that letter from the Minister of Finance of Belgium?

C: I - it will go tomorrow. Tomorrow is the first pouch.

H.M.Jr: All right. All right.

- 6 -

C: I mean I talked to them Friday night and there's no - and the pouch is closed Friday afternoon.

H.M.Jr: All right - all right but you'll get it off.

C: Tomorrow evening. I'll put it in that. I'll mark it for you.

H.M.Jr: But what I told you about Class One you keep to yourself until you get it officially.

C: Oh absolutely.

H.M.Jr: Fine.

C: All right that certainly is some good news.

H.M.Jr: Fine. All right, Cochran.

C: Then I'll - I'll wait till I hear from you tomorrow afternoon.

H.M.Jr: That's right.

C: And I'll make the appointment to see Auriol.

H.M.Jr: Thank you.

C: All right sir.

H.M.Jr: Thank you. Goodbye.

November 16, 1936.  
4:12 p.m.

Bewley: Yes.

H.M.Jr: Secretary Morgenthau.

B: Hello - how are you?

H.M.Jr: Oh I'm fine.

B: I hope you had a fine holiday.

H.M.Jr: I did.

B: Good.

H.M.Jr: Bewley, I expect to see the President tomorrow and get a final clearance on this agreement which I have again changed .....

B: Oh.

H.M.Jr: - .... because I wasn't satisfied with my - with it myself .....

B: Yes.

H.M.Jr: ....and I've - I've changed it quite a lot.

B: Yes.

H.M.Jr: And I'm going to ask you and Mallett to come down some time in the forenoon.

B: Surely - yes - yes.

H.M.Jr: I thought you might want to get a cable off saying that there will be a final - ah - ah - how should I say this - draft tomorrow morning.

B: Yes.

H.M.Jr: And that the President will most likely approve it in the morning and now if this does come I'm in quite a hurry to get it through, see?

B: Yes.

- 2 -

H.M.Jr: Because the French are quite restless about it.

B: Yes.

H.M.Jr: And so as soon as I get back from the White House I'll call you and then I'm going to ask you and Mallett to come down .....

B: All right.

H.M.Jr: .....somewhere around 11 o'clock.

B: Yes.

H.M.Jr: And, if you wouldn't mind sort of getting off a cable saying that there will be a message coming.

B: Yes.

H.M.Jr: It's going to be different again. It will be easier to accept than the one we had before.

B: Yes.

H.M.Jr: Ah - it - it - it's ..

B: Well I don't expect that we'll make any difficulties anyhow - we'll .....

H.M.Jr: No but last time you remember Mr. Mallett asked if there was any hurry and I said, "No" .....

B: Yes.

H.M.Jr: .....and this time I'm going to say, "Yes."

B: Yes.

H.M.Jr: So I thought you might like to let your Treasury know it's coming.

B: Right you are. Thank you very much indeed.

H.M.Jr: Thank you.

Pages 97 & 98 - originals of Page 99 (photostat) -  
given to Miss Chauncey by Miss Diamond 2/9/39



THE SECRETARY OF THE TREASURY  
WASHINGTON

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Press Service

Supplementing the announcement made by him on October 13, 1936, relating to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours' notice, this statement of intention may be revoked or altered) the United States, in addition to sales of gold to the exchange equalization or stabilization funds of foreign countries, will also sell gold for immediate export to, or earmark for the account of, the treasuries, or any fiscal agencies acting for or whose acts in this connection are guaranteed by the treasuries, of those countries whose treasuries or fiscal agencies so acting or guaranteed are likewise offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold by the United States will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

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

The Secretary further announces that his statement of January 31, 1934, relating to the sale of gold for export, is accordingly withdrawn.

APPROVED:

*Franklin D. Roosevelt*  
White House  
November 17, 1936

*Henry Myerthman Jr.*



November 16, 1936.  
9:50 a.m.

Operator: Mr. Burgess.

H.M.Jr: Hello

Operator: Go ahead

H.M.Jr: Hello - hello

Burgess: Hello - well sir - welcome home again.

H.M.Jr: How are you?

B: I'm fine. Have a good chance to get a rest?

H.M.Jr: Very good. Burgess, do I understand you're coming down here?

B: Yes, the - there's an Open Market meeting on Thursday.

H.M.Jr: Oh.

B: The Governors are meeting on Wednesday.....

H.M.Jr: I see.

B: .....and I want to have a pow-wow with you. I think we've got lots of problems on hand.

H.M.Jr: Yes. Now I wanted you to think this over before you came down. I- I'm thinking seriously of not offering my financing until December 7th.

B: Yes, I think that's all right.

H.M.Jr: Because on account of Thanksgiving.

B: Yes.

H.M.Jr: See?

B: Yes

H.M.Jr: And Bell is checking it here to find out whether our Treasury machinery would be all right and he seems to think so.

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B: Well I'll go over it here.

H.M.Jr: And will you go over it there?

B: Yes.

H.M.Jr: Because on account of Thanksgiving the week before - that's one thing and then also it gives us a chance to - maybe the market will settle down.

B: Yes, I - I'm bothered about the market - it's been going so fast.....

H.M.Jr: Yes.

B: .....that you just can't tell what to do about it.

H.M.Jr: No and I'd be hopeful that by December 7th we'd - ah - the market might settle down and I - I know - I only know what we'll want in the way of cash and so forth.....

B: Yes.

H.M.Jr: .....and I'll talk to you about it when you come - when you come down.

B: Yes, yes.

H.M.Jr: Well when - when will you get down?

B: Well now I don't know. I was just talking with George to-day about that. I don't know whether they want me there Wednesday or not.

H.M.Jr: Well when - when you do know would you call me up?

B: Yes I will.

H.M.Jr: Because I want to save some time and I want to see George also.

B: Yes.

H.M.Jr: So.

B: We've got lots of problems here. I think that this thing has been going a little too fast.

H.M.Jr: Yes, well would you mind telling Harrison also to let me know when he is going to be here....

B: Yes I will.

H.M.Jr: .....because I'd like to save some time because I can't do it the last minute always.

B: Yes, I think it would be a good idea if we had a little session before the Governors met so that we could go over some of these problems. This is a time when the Treasury and the Reserve System need to work together.

H.M.Jr: Well it's - you know how I feel about it.

B: Yes, sure.

H.M.Jr: Well - but I want you before you leave just to clear that thing on the December 7th.

B: All right I will.

H.M.Jr: Righto.

B: Very good.

H.M.Jr: Thank you.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 16, 1936

TO Secretary Morgenthau  
FROM M. A. Harris

Preliminary Memorandum Concerning the  
December 15th Treasury Financing

In view of the fact that the terms of the December 15th financing will have to be announced in less than three weeks it may be of interest to note the present level of the U.S. Government security market and from this gather some preliminary possibilities.

On December 15th the Treasury has 358 million Treasury notes and 400 million Treasury bills maturing. Also, if the future financing is to be confined to quarterly periods, there is outstanding 429 million Treasury notes maturing on February 15, 1937, which may be included in the December financing, making a total of 1,187 million. (It should be noted also that there are no obligations maturing on either March 15, 1937 or June 15, 1937, the next two quarterly dates, but there are 502 million Treasury notes due April 15, 1937). To this amount may be added any new money that is desired. Under the present program there is a balance of slightly more than 300 million to be financed during the current

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fiscal year. Taking this amount as the amount of new money to be asked, the total will be 1,487 million as follows:

	<u>Millions of Dollars</u>
2-3/4% Treasury notes due 12/15/36	358
Treasury Bills due 12/15/36	400
3% Treasury notes due 2/15/37	429
Possible cash offering	300
	<hr/>
	1,487

A table attached shows a number of suggested possibilities, the current market basis and the probable premium that they will show above this market basis.

Also attached is a table showing the closing bid prices on the last day before the announcement of the September 15th financing and the closing bid prices November 14th and the net changes for this period, also the yields based upon the closing bid prices November 14th. From the advances recorded in this period by Treasury bonds it is interesting to note that the greatest gains have been recorded by the intermediate maturities, that is, those bonds callable between 1944 and 1950. Gains by these issues range from slightly more than 1 1/4 points to about 1 3/4 points. The three short issues are only slightly above their September level and the

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longest maturities show gains for the period ranging from 26 to 34/32nds of a point.

It is rather difficult to ascertain just what is the current market basis for a five year note as the March 15, 1941 maturity at present yields 1.08% and the June 15, 1941 maturity 1.04%, this being also the yield shown by the December 15, 1940 maturity, a six month shorter note. Assuming that the June 15, 1941 maturity is selling out of line and taking the December 15, 1940 and the March 15, 1941 maturities as being nearer a correct market, a December 15, 1941 maturity (5 years) appears to have a market basis not greater than 1.12%. Using 1.12% as the basis for a five year note, a note with a 1 1/4% coupon appears to carry a premium of about 5/8 of a point and a 1 3/8% coupon about 1 point and 6/32nds.

If the program that has been followed in the last four financings is continued, that is, maintaining the same coupon and lengthening the maturity, a 23 or 24-year 2-3/4% bond is at present possible, this being three or four years longer than the last 2-3/4% issue. Another possibility is one of shortening the maturity and reducing the coupon. In this light a 13-year 2-1/2% bond or a 16 or 17-year 2-5/8% bond could be offered. If this is done then the present carrying

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charge would be further reduced. All of these possibilities would carry a premium of about one point or slightly more as shown by the attached table.

Currently, the December 15, 1936 and the February 15, 1937 notes are selling at prices which carry a premium of about 1 point and  $3/32$ nds and  $19/32$ nds on the "rights", respectively.

November 16, 1938

Listed below are various maturities of Treasury notes and bonds, also their current estimated market basis and the premium they would show above this market basis.

<u>Suggested Coupon</u>	<u>Maturity</u>	<u>Market Basis</u>	<u>Probable Premium</u>
<u>NOTES</u>			
1-1/4% (5 yrs.)	12/15/41	1.12	5/8 point
1-3/8% (5 yrs.)	12/15/41	1.12	1 pt. 6/32nds
<u>BONDS</u>			
2-1/2% (13 yrs)	12/15/49 *	2.40	1-1/8 points
2-5/8% (16 yrs.)	12/15/52	2.53	1-1/4 points
2-5/8% (17 yrs.)	12/15/53	2.55	1 point
2-3/4% (23 yrs.)	12/15/59	2.87	1-3/8 points
2-3/4% (24 yrs.)	12/15/60	2.88	1-1/8 points

\*The 3-1/8% Treasury bonds 12/15/49-52 are callable on this date.



<u>Treasury Bonds</u>		<u>Closing Bid Prices Sept. 5, 1936*</u>	<u>Closing Bid Prices Nov. 14, 1936</u>	<u>Yields based on Closing Bid Prices Nov. 14th</u>	<u>Net Changes</u>
4-1/4s	due 1947-52	119.7	120.17	2.13	+ .42
4s	" 1944-54	114.7	115.17	1.92	+ .42
3-3/4s	" 1946-56	112.14	113.26	2.11	+ .44
3-3/8s	" 1943-47	109.9	110.6	1.73	+ .29
3-3/8s	" 1940-43 (Jun)	108.10	108.14	.97	+ .4
3-3/8s	" 1941-43 (Mar)	109.9	109.14	1.13	+ .5
3-1/8s	" 1946-49	107.5	108.22	2.12	+ .49
3s	" 1951-55	105.11	106.5	2.50	+ .28
3-1/4s	" 1941	109.6	109.13	1.19	+ .7
3-1/4s	" 1943-45	108.22	109.27	1.73	+ .37
3-1/4s	" 1944-46	108.13	109.26	1.83	+ .45
3s	" 1946-48	106.4	107.25	2.10	+ .53
3-1/8s	" 1949-52	106.21	108.7	2.39	+ .50
2-7/8s	" 1955-60	103.12	104.8	2.58	+ .28
2-3/4s	" 1945-47	104.15	106.6	1.98	+ .55
2-3/4s	" 1948-51	102.28	104.7	2.32	+ .43
2-3/4s	" 1951-54	102.1	102.31	2.50	+ .30
2-3/4s	" 1956-59	101.9 **	102.11	2.80	+ .34

Treasury Notes

2-3/4s	due 12/15/36	101.21	101.10	---	- .11
3s	" 2/15/37	101.23	101.10	---	- .13
3s	" 4/15/37	102.6	101.27	---	- .11
3-1/4s	" 9/15/37	103.13	103.00	---	- .13
2-5/8s	" 2/ 1/38	103.13	103.2	.09	- .11
3s	" 3/15/38	104.6	103.26	.12	- .12
2-7/8s	" 6/15/38	104.17	104.8	.18	- .9
2-1/2s	" 9/15/38	104.3	103.30	.33	- .5
1-1/2s	" 3/15/39	101.24	101.31	.64	+ .7
2-1/8s	" 6/15/39	103.14	103.21	.69	+ .7
1-3/8s	" 12/15/39	101.14	101.22	.83	+ .8
1-5/8s	" 3/15/40	102.3	102.9	.93	+ .6
1-1/2s	" 6/15/40	101.20	101.28	.97	+ .8
1-1/2s	" 12/15/40	101.17	101.27	1.04	+ .10
1-1/2s	" 3/15/41	101.16	101.26	1.08	+ .10
1-3/8s	" 6/15/41	101.3	101.15	1.04	+ .12

\* The last day before the announcement of the September 15th financing.

\*\* Price as of September 9th.

Figures after decimal point in closing bid price and net change columns represent 32nds of one percent.

Prepared by Lawrence H. Seltzer,  
Assistant Director of Research and Statistics,  
Assisted by Henry C. Murphy, and  
Sidney G. Tickton.

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INTER OFFICE COMMUNICATION

DATE November 17, 1936

TO Secretary Morgenthau  
FROM Mr. Hase  
Subject: Statutory and other considerations that should restrict further Treasury bond issues to medium-term maturities or longer-term maturities containing early and extended call periods

The following considerations, mostly of statutory origin, appear to call for the restriction of all future Treasury bond issues to medium-term maturities, or alternatively, to longer-term bonds containing relatively early and extended call periods:

1. The gross interest-bearing public debt on October 31, 1936 was \$33.1 billions, including all direct Federal obligations held by all governmental trust funds, corporations, and credit agencies.

The operation of the statutory Sinking Fund, alone, assuming balanced budgets, is estimated to require the retirement of \$10½ billions of the outstanding public debt during the next 15 years, and \$4½ billions during the succeeding 5 years.

The operation of the Old-Age Reserve Account, as at present constituted, will absorb, it is estimated, \$14 billions during the next 15 years and \$7 billions additional during the succeeding 5 years.

Hence, these two sources alone, if unchanged by law, will be sufficient to provide funds for the retirement of about \$24½ billions of the Federal debt during the next 15 years and \$36 billions (more than the total outstanding direct interest-bearing debt) in the next 20 years.

2. The Unemployment Trust Fund, other governmental trust funds, and the FDIC, as well as other governmental corporations and credit agencies, may also require large but indeterminate amounts of Government securities.

3. Finally, the use of budgetary surpluses for debt retirement -- and our present tax structure is capable of producing very substantial surpluses -- is made extremely difficult unless a large part of the outstanding bonded debt contains extended call periods. The Treasury experienced such difficulties in the late '80's. Between 1889 and 1891, inclusive, for example, the Treasury was forced to pay premiums aggregating \$48 millions in retiring \$270 millions face amount of bonds, an average price of about 118.

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4. These considerations, largely of statutory origin, would appear to make it almost mandatory for the Treasury to confine its future bond issues to obligations callable well in advance of 1953. This means that all future bond issues should be either relatively short- or medium-term in maturity, or, if longer-term issues, should contain extended call periods beginning about 10 or 12 years hence. Indeed, were it not for unforeseeable contingencies, such as Congressional revisions downward in the Sinking Fund and Old-Age Reserve Account provisions, or further increases in the public debt as a result of war or another major depression, no reason would exist for offering bonds with final maturities later than 1953. On the other hand, if we confine our bond issues to final maturities of 17 years or less, the Treasury might be faced with an embarrassing concentration of maturities in the event of such contingencies being realized. By issuing longer-term bonds that are callable after the first 10 or 12 years, the Treasury is enabled to take full account of the existing statutory requirements and to protect itself against the contingencies mentioned.

5. The growth of the funds that will become available through the operation of the statutory Sinking Fund and the Old-Age Reserve Account, alone, for the retirement of the public debt is portrayed on the accompanying chart. The cumulated amounts of the interest-bearing public debt available for retirement at their earliest call dates are likewise portrayed. It will be seen that the funds made available through the statutory Sinking Fund and the Old-Age Reserve Account will exceed the cumulated amounts of the gross public debt callable, by 1954. In practice, barring changes in law, this point should be reached several years earlier, so far as securities outstanding in the hands of the public are concerned, because the Unemployment and other governmental trust funds can be counted on to absorb several billions of the public debt.

6. Even if it were assumed that changes in law will be made to reduce the rate at which funds will become available for retiring the publicly-held Federal debt, cogent reason would still remain for incorporating extended call periods in further issues of long-term Government bonds.

Important movements in long-term interest rates do not usually occur within a short period of time. Such movements, on the contrary, commonly take place only over periods of more than a decade. A short call period in long-term bonds, therefore, reduces the opportunity to take advantage of lower interest rates through refunding. The refunding of the  $3\frac{1}{2}$  percent (fully tax-exempt) and  $4\frac{1}{2}$  percent First Liberty Bond issues by this Administration, and the refunding of the Second Liberty Loan Bonds by Secretary Mellon, were made possible by the fact that Secretary McAdoo had incorporated 15-year call periods in these issues.

Secretary Morgenthau - 11/17/36 - 3

In contrast, we have the Treasury  $4\frac{1}{2}$ 's of 1947-52, which were issued by Secretary Mellon on October 16, 1922. If this issue had been made callable between 1937 and 1952, even at the expense of an increase in the coupon rate to  $4\frac{3}{8}$  percent (market conditions at the time really indicated a  $4\frac{3}{8}$  percent rate on either issue, for the bonds actually offered sold at a discount within two weeks), they would have been eligible for refunding next October with a coupon rate of  $2\frac{3}{4}$  percent or lower, assuming continuance of present interest rates. Even if we allow for  $1/8$  of one percent additional interest during the 15 years from 1922 to 1937, the net interest saving over the term of the bonds, if it were possible to refund them on a  $2\frac{3}{4}$  percent basis next October, would have approximated \$100 millions on this one issue.

While the existing level of interest rates is considered low by past standards, there is no assurance that they will not go lower, and the Treasury should not restrict its freedom to take advantage of a possible further decline.

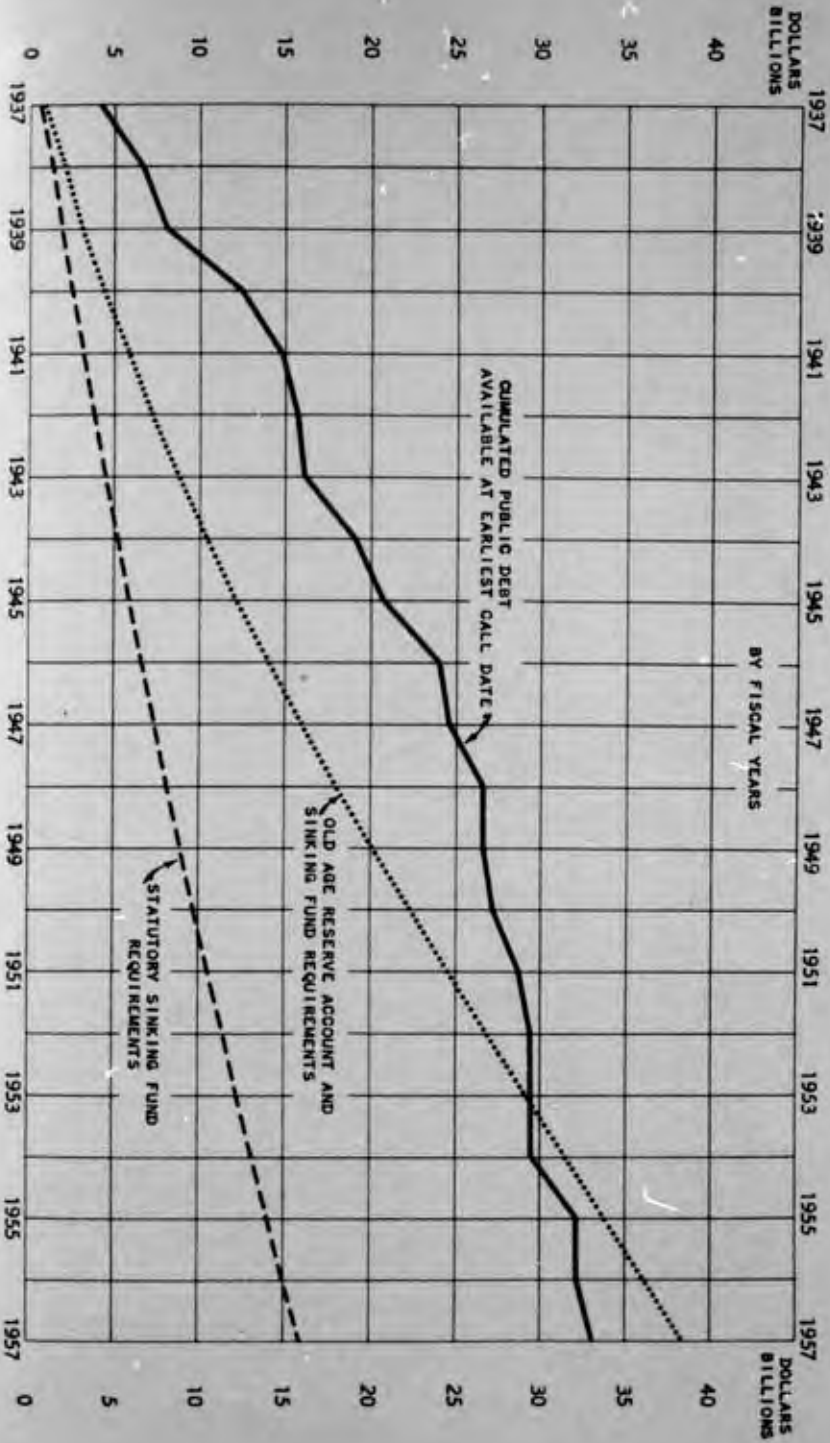
The cost to the Treasury of obtaining relatively long option periods has never been very great, and, apparently, would be insignificant at the present time. The Federal Farm Mortgage Corporation has outstanding  $3\frac{1}{2}$  percent bonds maturing in 1964, but callable for 20 years prior thereto; yet these bonds are selling to yield only 2.39 percent to the earliest call date. In connection with several financing operations, the only objection offered against proposals by this Division to lengthen the call period was that such lengthening might make the issue sell too high. Mr. Coolidge objected to a longer call period in the  $2\frac{7}{8}$ 's of 1955-60 on the ground that, though the market might price the issue on a better basis, the market would be acting irrationally if it did so. The following list of outstanding issues illustrates the negligible effects upon market yields of extended call periods in direct and guaranteed Government obligations:

	Issue	Yield	Option period
Treasury	$3\frac{3}{4}$ 's 1946-56	2.11	10 years
Treasury	$3\frac{1}{8}$ 's 1946-49	2.12	3 years
Treasury	3's 1946-48	2.09	2 years
FFMC	$3\frac{1}{4}$ 's 1944-64	2.39	20 years
HOLC	3's 1944-52	2.33	8 years
FFMC	3's 1944-49	2.32	5 years

7. This memorandum is submitted as background material for the December 15 and subsequent financing operations. A preliminary analysis embodying tentative recommendations for the December 15 financing is now in preparation, and will be submitted in a day or two.

Attachment

**SINKING FUND AND OLD AGE RESERVE ACCOUNT REQUIREMENTS FOR PUBLIC DEBT SECURITIES AND THE CUMULATED AMOUNTS OF INTEREST-BEARING PUBLIC DEBT AVAILABLE FOR RETIREMENT AT THE EARLIEST CALL DATES\***



\* GROSS INTEREST-BEARING DEBT AT OCT. 31, 1936; ADJUSTED SERVICE AND U.S. SAVINGS BONDS SHOWN AT DATES OF FINAL MATURITY

November 17, 1936

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

~~(Filed Stabilization Folder, under date of November 9, 1936)~~

SEE BOOK XLIV pp. 194-196

November 17, 1936

At 10:35 this morning, Mr. Mallet and Mr. Bewley came in to see the Secretary. Mr. Taylor and Mr Lochhead were also present.

Following is a stenographic report of their meeting:

HM,Jr: This is a cable which I am sending to Cochran and then if you will go back to Wayne Taylor's room, you can jot down notes, but the actual statement I am going to give you a correct copy of it. We have been working and working and we think we finally have caught on to a formula which will permit the Belgians to come in and, secondly, will accomplish what the French are very desirous of, viz: that the three members of the tri-partite agreement will stay by themselves. The other people, we will extend the privilege to them, but they will not really become members. And that has been very difficult.

Mr. Mallet: That has been difficult to arrange?

HM,Jr: Very difficult and it really has taken a month and the great difficulty has been on the fact that gold belongs to the Bank of Belgium and not to the Government of Belgium and the lawyers have been very much concerned on the title of the gold and who is the principal and we think we have circumvented this so that the lawyers are satisfied and I think it is a considerable improvement over what we showed you ten days ago, but it has been very very hard to do it on account of the Belgian situation. And, as I say, you can go into Wayne Taylor's office and make notes.

At this point the conference was interrupted while the Secretary spoke to Mr. Cochran, the British gentlemen leaving the room. Following is transcript of the telephone conversation:

November 17, 1936.  
10:43 a.m.

Operator: Mr. Cochran.  
H.M.Jr: Hello.  
C: Hello Mr. Morgenthau.  
H.M.Jr: Hello Cochran.  
C: Yes sir.  
H.M.Jr: How are you?  
C: All right, thank you.  
H.M.Jr: Now the President has approved what I sent you last night.  
C: Just as it came?  
H.M.Jr: Just as it came.  
C: Good.  
H.M.Jr: No changes.  
C: Fine.  
H.M.Jr: Now have you read it?  
C: Yes I read it - I have it just before me.  
H.M.Jr: Any comments?  
C: No I think it's much better.  
H.M.Jr: Much better.  
C: Yes and I spoke to Baumgartner on the telephone.  
H.M.Jr: Yes.  
C: And I told him that it looks as if we might please them a little more by not passing that 13th.  
H.M.Jr: By not what?



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C: By not passing that declaration of the 13th.

H.M.Jr: Yes.

C: Just supplementary.

H.M.Jr: Yes.

C: That pleased him very much.

H.M.Jr: Good.

C: That's all I told him. Auriol is at Toule.to-day.

H.M.Jr: Where?

C: At Toule.

H.M.Jr: Yes.

C: But I'm to see Baumgartner at 4:15.

H.M.Jr: Yes.

C: And he's going to telephone Auriol and get the answer yet this evening.

H.M.Jr: Good. Now this is the schedule that I'd like to follow if possible.

C: All right.

H.M.Jr: I'd like to have the Swiss and the Dutch give out a release - say Sunday night for their Monday morning papers, you see?

C: Swiss and Dutch.

H.M.Jr: Yes. Sunday night.

C: You want it released Sunday night.

H.M.Jr: Yes, we'll give it out Sunday night for their Monday morning papers, you see? Hello?

C: Yes.

H.M.Jr: I mean if they're going - you noticed I asked that they send us a statement similar to what the Belgians did.

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C: Yes about the original 27th of February.

H.M.Jr: Yes, well the schedule I'd like to follow would be to have them give that out - say Sunday night for Monday morning papers.

C: Yes.

H.M.Jr: Then they would also send that to us Sunday and the State Department would have it Monday morning, you see?

C: Yes.

H.M.Jr: Then we would give out our statement and have the British and French give out a statement Monday night for Tuesday morning, you see?

C: I see.

H.M.Jr: Now that's what I'd like to accomplish if we can.

C: I see.

H.M.Jr: Have you got it all right.

C: Yes - yes.

H.M.Jr: Shall I repeat it again?

C: No, I got it.

H.M.Jr: That - I mean I'd like to do it that quickly, if possible.

C: Yes.

H.M.Jr: And - so if you'd keep that in mind.

C: Yes - yes - all right.

H.M.Jr: Any questions you want to ask me?

C: I can get the answer/<sup>this evening</sup> yet for you and I shall cable it then. There's no use telephoning it back tonight is there?

H.M.Jr: No - cable it.

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- C: I will only telephone you if there are any questions. I'm sure that they will approve it in this form.
- H.M.Jr: Well just as soon as I hear from you and the British I'll 'phone you and then you can immediately get in touch with those other three countries.
- C: Yes, well the French there won't be any trouble about. I might have to see the Belgians on this thing.
- H.M.Jr: Ah-ha.
- C: And I might have to see the Dutch - I don't know.
- H.M.Jr: Now have you got a copy of the statement the Belgians sent us on September 26th.
- C: I could get a copy from Baumgartner this afternoon.
- H.M.Jr: Yes because you'll get the French copy, won't you?
- C: Beg pardon?
- H.M.Jr: You'll get the original copy.
- C: I'll get the original copy from him.
- H.M.Jr: O.K.
- C: I have a press report of it but I'll get a copy from him.
- H.M.Jr: All right. I think this is a big improvement.
- C: I - I do too. I think it's much better.
- H.M.Jr: All right.
- C: May I ask you one question.
- H.M.Jr: Please.
- C: Are you going to let me know the forms which will announce the addition of these one or two or three countries?
- H.M.Jr: Say that again please.

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- C: Are you going to let me know the wording of the declaration about the announcement of the addition of these countries to your eligible list?
- H.M.Jr: Well it's just like the one of October 13th. It will be just three lines.
- C: Just those same words.
- H.M.Jr: Well I can send you a copy of it. I'll have them send you a copy right away.
- C: Let me have that phraseology.
- H.M.Jr: I'll have them fix up a copy and send it to you right away.
- C: Then there's just one other thing. Do you want to see the announcements that these countries will make. Do you want them submitted to you preliminary to any issuance of your statement?
- H.M.Jr: Well the Belgians didn't and if - if they have time yes and if they haven't got time let it go.
- C: I see.
- H.M.Jr: I mean if they have time, "Yes", but if they haven't got time as long as it follows the spirit of the - so that they say they wish to conform with the September 25th declaration.
- C: Yes - yes.
- H.M.Jr: I mean we didn't see the Belgians; they just went ahead and did it.
- C: Yes.
- H.M.Jr: But....
- C: ..... I meant more in regard to the working of the gold.
- H.M.Jr: Oh yes. Yes, I do. I would like to see it.
- C: You would like to see the statement that they're going to give out?

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H.M.Jr: Yes, I would.

C: All right.

H.M.Jr: Yes I would but I think it's pretty well set now.

C: Yes.

H.M.Jr: Anything else?

C: No, I mailed you this afternoon, in the pouch that goes tonight, the original Belgian letter. I made a translation of it.

H.M.Jr: Thank you.

C: And Governor Rygg of the Bank of Sweden will be here on Tuesday.

H.M.Jr: Tuesday.

C: The 24th - that would be just in a good time, you see. It would be just after this thing should have been completed.

H.M.Jr: Yes. Now I'm very anxious to have the thing - the Dutch - those countries to give out their statement Sunday night for Monday morning's papers and we want to do ours Monday night.....

C: Yes.

H.M.Jr: .....for Tuesday morning's papers, you see?

C: Well if you will let me know just as soon as you get the British.....

H.M.Jr: I will.

C: .....I can get in touch with the other three.

H.M.Jr: I will.

C: Fine.

H.M.Jr: Thank you.

C: All right and I'll send you a wire tonight if I get this which I can yet tonight.

H.M.Jr: Thank you.

C: All right sir.

H.M.Jr: Goodbye.

C: Goodbye.

Upon the conclusion of the telephone conversation, Mr. Mallet and Mr. Bewley returned to the Secretary's office.

HM;Jr: The point is -- you will see this when you have a chance to go over it -- some smart newspaper man would say, 'The Belgians have no gold. How are you going to do this thing.' I want to be able to say that the Belgian Government is guaranteeing that the Bank of Belgium will carry this thing out and, of course, the thing that has held us up is that the Belgians say that if the Belgium Government guarantees what the Bank of Belgium does, it is a sign of weakness. I don't know whether you know it or not, but I have received, or will receive, from the Secretary of Finance of Belgium, in writing, a guarantee that the Bank of Belgium will carry this thing out, but in that is a paragraph that I can't make that public without their permission. That's been the stumbling block. So I am trying to get around this in this way and that has been the whole stumbling block because they have, up to now, never said that I can say, 'I have your letter from the Minister of Finance saying that the Belgian Government guarantees that the Bank of Belgium will carry this out.' Now that's something I do not understand, but that's their problem.

But after all, I can't say I am doing business with the Bank of Belgium. I want to say I am doing business with the Belgian Treasury. I think this is going to do it. I have just talked to Cochran and he says he thinks this will help a lot and he has already talked to Baumgartner and Baumgartner thinks it will help immensely. He's the number-one Civil Service man in the French Government. He corresponds to Phillips, I think.

Mr. Mallet: Warren Fisher, perhaps.

Mr. Bewley: No; he is not as high as Warren Fisher; he corresponds with Phillips.

HM,Jr: He's the tops. He has a title which is meaningless, but he's tops. Rueff comes under him.

Mr. Mallet: Rueff is under him?

HM,Jr: Rueff is much better known, but Rueff is

under Baumgartner.

(The Secretary then read from the cable to Cochran, as follows.)

"Notice that the significant phrase in the new statement is 'or any fiscal agencies acting for or whose acts in this connection are guaranteed by the Treasuries...'

Now that takes care of the Belgians and we are going to say that and if they don't want us to say that, I can't go any further. I have to say it, because they will say, right away, 'Who guarantees the Bank of Belgium? It is a privately owned bank.'

Mr. Bewley: Yes; quite.

HM, Jr.: (Reading.) "That would include, of course, the Bank of Belgium as indicated in the contents of the letter from M. DeMan noted in your cablegram No. 1061, of October 28. That letter will be an important item in our file."

I have this letter from DeMan, Minister of Finance, guaranteeing this.

(Reading.) "I further suggest to the French and British Governments that it would be helpful if the Swiss and the Netherlanders would send via their Foreign Offices to the three Governments participating in the original tripartite declaration of September 25, 1936, a declaration of adherence to the general principles of that statement, similar in spirit to the statement issued on September 26, 1936, by the Belgian government and communicated on that date to the State Department and the Foreign Offices of the other two governments."

If you will remember, the day we came out with our announcement the Belgians sent a very fine statement. No other country has done that, you see, and I thought before we take in the Swiss and the Netherlanders, let them come through with a statement first saying that they adhere to the principles of the tripartite agreement, and they can do that very easily because they have already begun to knock down their currency.



"I further suggest" -- and then comes the declaration which we are preparing to issue -- "that, 24 hours after the receipt of such a statement from the Swiss and Netherlanders, England, France and ourselves issue the following declaration simultaneously:

'The governments of the United States, Great Britain, and France welcome the declarations of the governments of Belgium, Switzerland and the Netherlanders expressing their adherence to the principles stated in the tripartite declaration of September 25.'

"The Treasury proposes to issue with this statement the following Treasury announcement, and suggests that the British and French governments make such statements as fit their special circumstances:" -- then the statement comes along which I won't take time to read. The main thing is it brings in this thing of the Treasuries' or any fiscal agencies acting for or whose acts in this connection are guaranteed by the Treasuries'. That's the new part.

Mr. Bewley: Yes.

HM, Jr: Then it ends. Where it is different from the other one I proposed to you, this statement starts off, 'Supplementing the announcement made by him on October 13, 1936, etc.' We are not going to cancel. That worried Baumgartner because they thought the Germans would say, 'You get a statement one month and then they cancel.' So instead of cancelling, this supplements it. This is important. It ends, "The Secretary further announces that his statement of January 31, 1934, relating to the sale of gold for export, is accordingly withdrawn."

Mr. Bewley: Yes.

HM, Jr: That was the one where the countries could operate between gold points.

Now, the thing in this is this: first, we say to these countries, 'Now, you come through and say you adhere to the principles of the September 25th announcement.' My thought

is I would like them to announce this Sunday night for Monday morning's papers. I would like to do it that fast. Then I suggest that Monday night the members of the tripartite agreement say, 'Thank you very much, gentlemen; we like this and in view of this thing, we now extend you this privilege.'

Mr. Mallet: You want to get the Dutch and Swiss to send in their thing Sunday night; we announce Monday night for Tuesday morning's press?

Mr. Bewley: Tuesday morning's press in London and here?

HM, Jr: I am going to do it at four o'clock Monday and you do it nine o'clock Monday.

Mr. Mallet: They will probably do it before they close.

HM, Jr: I would a little bit rather they do it at nine o'clock, London time. It would be easier for both of us.

Mr. Bewley: Yes, I will make a note of that.

HM, Jr: I told Cochran I want to jam this thing through now and I want the Swiss and Dutch to come through with their statement Sunday night for Monday morning press and that they would notify your Foreign Office and ours of this thing. Then we come along Monday night and say, 'Thank you. In view of this, we extend this privilege.' I think that at least we have accomplished this: it leaves the original members of the tripartite agreement still the three original members. This privilege is extended to the other members, but they do not become a part of the tripartite, because I think there are many reasons. We are all in agreement. We want to keep it between the three countries.

Mr. Bewley: We have had no indication, but I should imagine so.

HM, Jr: The French feel that very strongly and you can see the difference. Then we come along, and the only thing in this thing, in order to take care of the

Belgians we have put in that phrase 'fiscal agencies who are guaranteed by the Government'. If they ask me, I want to be prepared to say that the Belgium Government has guaranteed the acts of the Belgian Bank. This has taken a month. It sounds simple now, but we sweated and sweated about how we could take care of Belgium and how we could keep the three original members and it has been very difficult and in the end we cancelled the January 31 statement and the only things outstanding will be the October 13th statement and this statement supplementing the October 13th statement.

Now, you will get this little statement to Cochran showing the announcement -- how it will read -- and in addition we have only three lines, including the countries. As soon as that is prepared we will send one to Cochran and send one up to the British Embassy by messenger. That's not important; it's just three lines long.

Mr. Mallet: A headline for the paper?

HM,Jr: No. The one where we have to name the countries.

Mr. Mallet: Oh, yes; quite.

HM,Jr: If you will do this, Wayne: let them go into your room and make copies, but I am going to give them the actual text.

Mr. Bewley: Is everything else smooth, apart from these points?

HM,Jr: The Swiss, they have to go through so many Councils and they have been waiting for about two weeks. That's all set. The Dutch are all set. We have Colijn and I can't think of the name of the Minister of Finance.

Mr. Bewley: I must have heard his name, but I have forgotten.

HM,Jr: It's all done; all finished. The only trouble (and I am willing to bet ten to one; I am willing to bet we will have no trouble) will be with Belgium. I think that they will take this. If they won't take

this, then I am going to go ahead without them because I have fussed with this for a month. If the Belgians won't take this -- if they have one or two words, yes -- but if they won't take this about 95% then I feel I have done everything I know how.

Mr. Bewley: Yes.

HM,Jr: But I am quite sure that they will. I don't know why, but to give you the background, the French were very anxious for Belgium to announce and when they read this, this morning, (it was 'phoned to them) they said 'That's all right.' Now, the French have also said that once we agree to it, they will bring pressure on the other countries to get it out by Sunday night and anything you people can do over there to hurry it ... It is so difficult, but now that it is clear in our own minds definitely, I think the quicker it is done, the better.

Mr. Bewley and Mallet: Yes.

HM,Jr: For the first time I am satisfied. I have not been satisfied. For us it has been particularly difficult.

Mr. Mallet: To get a legal definition?

HM,Jr: Yes. This whole question of -- this is monetary history -- the whole question of the relationship as between Treasuries and Central Banks and the gold standard. It is -- I don't want to overemphasize it, but it is terrifically important.

Mr. Mallet: Yes.

HM,Jr: And then you have all these other countries, whose names I won't mention, who are sitting on the sidelines hoping we will trip.

Mr. Bewley: Yes.

Mr. Mallet: Yes; that's intelligible.

HM,Jr: The interesting thing is, if these three

countries come in, again they are the three so-called Democracies who have joined this thing and you have got about everybody then who has a Democratic form of Government.

Mr. Mallet: Apart from Scandinavian countries.

HM,Jr: Apart from those, and then they are interested. But I am not going to bring that up now, but if Norway and Sweden should come in, then the thing would be completed.

Mr. Bewley: Yes.

HM,Jr: Doesn't this sound all right?

Mr. Bewley: It sound all right to me.

HM,Jr: You don't have the problem that we have.

Mr. Bewley: No, quite. It isn't so important with us whether we deal with Governments or banks.

HM,Jr: Because you have a free gold market, but it is to us.

Mr. Bewley: Yes, quite.

HM,Jr: Anything on your mind? Anything you want to ask?

Mr. Mallet: No, I think everything is cleared.

HM,Jr: You asked me before if I was in a hurry and I said no. This time, I am.

Mr. Bewley: We sent a little warning last night.

HM,Jr: Because Cochran said he will have an answer for me tomorrow morning, because they have arranged with Auriol. They also gave them a warning and Auriol has promised to give this clearance tonight.

Mr. Bewley: I can't imagine there will be any objections.

LMS

SPECIAL GRAY

Paris

Dated November 17, 1936

Rec'd 3:50 p. m.

Secretary of State,  
Washington.

1121, November 17, 7 p. m.

FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.

At 5 o'clock this afternoon I submitted to Baumgartner at the French Ministry of Finance the proposals contained in the Department's 462, November 16, 12 p. m., which proposals the Secretary of the Treasury told me at 3:30 this afternoon by telephone had been definitely approved in Washington.

Baumgartner was unable to get in touch with Minister of Finance Auriol who was en route from Toulouse to Paris by automobile. Baumgartner was sure that the Minister would approve the statements and arrangements described in the telegram under acknowledgment and promised to give me definite word before noon on Wednesday since Auriol will arrive in Paris tomorrow morning.

Baumgartner will draft an explanatory statement to be issued by the French Ministry of Finance in accordance with

the

LMS 3-No. 1121, November 17, 7 p. m., from Paris.

the schedule which the Secretary of the Treasury may suggest and will submit this draft statement for our advance information.

BULLITT

CSB

## TELEGRAM SENT

LMS

GRAY

November 17, 1936

4 p. m.

AMEMBASSY

PARIS (FRANCE)

RUSE.

465.

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

Following is the form you asked about this morning:

QUOTE. Press release. The Secretary of the Treasury today named the following additional countries: (blank) as complying with the conditions specified in his press release of October 13, 1936, as supplemented by his press release of November ... 1936, for the purchase of gold from the United States for immediate export or earmark. END QUOTE.

MOORE, ACTING

EA:FL:LW



## TELEGRAM SENT

LMS

GRAY

November 17, 1936

2 p. m.

AMEMBASSY

PARIS.

463.

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

Please proceed at once along the lines of No. 462,  
November 16, 12 p. m.

MOORE, ACTING  
(JCD)

WE:JCD/vas

U

SPECIAL GRAY 

Paris

Dated November 18, 1936

Rec'd 8:20 a.m.

Secretary of State

Washington

RUSE

1123, November 18, noon.

FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.

Baumgartner telephoned me at 10:30 this forenoon that Minister of Finance Auriol had returned to Paris and is in complete agreement with the proposals of the Secretary of the Treasury as set forth in the Department's 462, November 16, midnight.

I informed Baumgartner of the contemplated form of press release quoted in the Department's telegram 465, November 17, 4 p.m.

BULLITT

November 17, 1936.  
12:13 p.m.

H.M.Jr: Hello.

Burgess: Hello.

H.M.Jr: Burgess.

B: Yes.

H.M.Jr: About tomorrow.

B: Yes.

H.M.Jr: Ah - Mrs. Klotz talked to me.

B: Yes.

H.M.Jr: Now the only time that I can do it - see you - would be 12 o'clock.

B: Well let's make it 12 o'clock then.

H.M.Jr: And I'm sorry I can't make it for lunch tomorrow.

B: Yes - yes.

H.M.Jr: So, even if Harrison cannot come, I'd like very much to see you.

B: All right.

H.M.Jr: And Bell wants to see you also.

B: What's that?

H.M.Jr: I mean our - Bell and I want to sit down and talk with you.

B: Yes - all right.

H.M.Jr: And - but - even if Harrison can't make it we'd very much like to have you here.

B: All right, I'll be there then.

H.M.Jr: You'll be here?

B: Yes.

H.M.Jr: I'm sorry I have a previous lunch engagement.

B: And I'll - I'll get word to the Governor because I think he'll be able to make it.

H.M.Jr: Well if he can't you come.

B: What's that?

H.M.Jr: If he can't, you do please.

B: Yes - well....

H.M.Jr: And - and will you - will you speak to Harrison and then let Mrs. Klotz know?

B: I will - yes.

H.M.Jr: Thank you.

B: Yes.

H.M.Jr: Thank you.

B: All right sir.

November 17, 1936. FR

Chairman Eccles, Vice-Chairman Ransom, Mr. Taylor and Mr. Upham had lunch with the Secretary at 1 o'clock.

Mr. Eccles said that upon the occasion of his visit with the President last week he informed the President that he thought it would be valuable if he and Secretary Morgenthau could get together and discuss the possibility of securing some banking legislation at the 1937 session of Congress.

When Mr. Morgenthau said that the President had not mentioned the subject to him, Mr. Eccles related that the President had written in red pencil on a small memo "speak to Morgenthau about conferring with Eccles on banking legislation".

Mr. Morgenthau surmised that this memorandum would be forthcoming within a few days.

Mr. Eccles suggested that Mr. Taylor and Mr. Upham, together with himself and Mr. Ransom constitute a committee to study banking legislation.

Mr. Morgenthau agreed that that might be done so long as there were no commitments. He said that he had no pre-conceived ideas as to what legislation there should be, if any, and would give consideration to whatever ideas such a study might bring forth. He said that he had paid little attention to the banking picture as such since the summer of 1934, when Dr. Jacob Viner directed some studies in that field.

Mr. Eccles expressed the opinion that the banking structure of the country needs complete reorganization -- that there has really been no fundamental change in it since the weaknesses were revealed in the years just prior to 1933. While the insurance of deposits was

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necessary and proper, and probably will be continued in some form for a long time, it is not a permanent or fundamental solution of banking difficulties. He spoke particularly of the duplication of examination and the possibility, under present law, of banks being chartered by the Comptroller of the Currency and forced upon the Federal Reserve system contrary to their wishes.

Mr. Morgenthau suggested that bank examination and bank chartering, when done by the Comptroller of the Currency, is done by the Government, whereas when it is done by the Federal Reserve system it is done by private banks.

Mr. Eccles was inclined to think that the Federal Reserve system is essentially a government institution.

Mr. Morgenthau was inclined to think proposals to which he would consent might go even further than those proposed by Eccles.

Mr. Ransom said that when he was in Washington during the pendency of the Banking Act of 1935 in Congress, he was impressed with the fact that it was the beginning of a job. He said that President Roosevelt had picked the banking system up from nothing and placed it where it is, and that there is a greater opportunity under his leadership now to perform a major operation upon the banking system and erect a permanent and logical structure to replace the crazy quilt jig saw that it now is than there ever has been and perhaps than there ever will be again.

Mr. Taylor said that he checked one hundred percent with what Mr. Ransom said, and added that it would be a tragedy if the effort were not made.

Mr. Eccles said that Mr. Crowley was willing to go along with

almost any banking program device.

Mr. Morgenthau asked if Mr. Eccles knew what Mr. Crowley was going to do and Mr. Eccles replied that he was not sure but that there would be "some place" for Mr. Crowley. He said that he had urged Mr. Crowley to stay until the proper man could be secured to take his place because of the likelihood, in other circumstances, that the corporation would come completely under the control and domination of the Comptroller of the Currency.

Mr. Eccles said that at the White House, the President asked him about the stock market and he had remarked that the inflow of foreign capital was creating a problem for the Federal Reserve in connection with the control of domestic credit and a problem for the Treasury in stabilizing exchanges. He said that the funds coming in were not caused by the regular flow of trade but a desire for market profit. Since the gold inflow creates excess reserves and increased bank deposits, he said it looked as if the Federal Reserve and the Treasury were being operated for the accommodation of foreigners who desired to send funds here.

Mr. Morgenthau commented that we were very glad to have that inward flow of funds during the last two months, particularly since the date of the three-power agreement, and Mr. Eccles agreed, going on to relate that when he had expressed some such sentiment at the White House, the President had replied to the effect that he had waited until after the election to say anything about it.

Mr. Eccles suggested that the situation be studied to see if anything could be done about it. There was mention of the fact that the last Revenue Act gave some tax concessions to foreigners and Mr. Taylor gave as the reason the impossibility of enforcement.

Mr. Eccles asked if the Treasury had objection to some reduction in the Federal Reserve portfolio of Government bonds and Mr. Morgenthau replied that as he had frequently said before, he was in favor of a change from the dead level of two and a half billion which has been constantly held since he came into the Treasury three years ago.

It was agreed that the Open Market Committee would discuss this at their meeting this week and further discussion would be had later with the Secretary.

Mr. Eccles was of the opinion that the long term portfolio should not be reduced but that some of the bills or notes might be allowed to run off. He suggested the possibility of reducing the portfolio by the 300 or 400 million by which excess reserves have advanced as a result of gold inflow since reserve requirements were raised some months ago.

Mr. Morgenthau brought Mr. Eccles and Mr. Ransom up to date on the pending negotiations with Belgium and Switzerland and Holland with respect to reciprocal gold dealings and mentioned that Sweden is also interested.

Mr. Morgenthau suggested that before they leave the building they stop and read a cable which went to Mr. Cochran in Paris this morning. He stated that we now have a formula which includes reciprocal gold dealings with Treasuries and fiscal agents whose dealings are guaranteed by Treasuries. He expressed the belief that there is a good chance that Belgium will come in under the arrangement. He told Mr. Eccles that Dr. Goldenweiser had been very helpful and had "held his end up" in the discussions.

Mr. Morgenthau said that in view of Thanksgiving coming next week he would like to postpone announcement of the December 15 financing



until December 7th. That would mean that he would like to have the Executive Committee of the Open Market Committee meet here at 11 A.M. two weeks from tomorrow, on December 2nd.

Mr. Eccles was sure that could be arranged.

Mr. Morgenthau said that it looked as if the December 15th financing would total one billion including the notes which mature, the bills which mature then and 250 million new cash. He then might ask some new money on February 15th when there is a maturity. By that time he would have the Budget Message, he would know what relief requirements are, he would know whether the windfall tax has been received and whether social security taxes are tied up. The program outlined for December 15th will give him enough cash to last until the 15th of February with a reasonable cash balance, a reduction which will be pleasing to the Federal Reserve. Delay until December 7th will also give an extra week in which the market can settle down. The present fluctuations of from 8 to 10/32nds daily make it a little difficult to tell just what kind of an issue to offer.

Upm.

P. S. During the luncheon Mr. Eccles commented upon the meeting of the Federal Advisory Council. He related that Dr. Goldenweiser had "tied them in knots". Some of the members are now in the position of having urged a balanced budget three years ago on the grounds that without one confidence would be destroyed and inflation would result. They now seem to fear a balanced budget as resulting in such a great measure of confidence that it will lead to a business boom and inflation.

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TREASURY DEPARTMENT

WASHINGTON

November 17, 1936.



MEMORANDUM FOR THE SECRETARY:

Following is a list of the awards to be made as the result of the final matches held yesterday in the Department's pistol-shooting contest:

THE SECRETARY'S CUP.

The match was won by the team representing the Customs Border Patrol at El Paso, Texas. This team survived a competition entered by 65 teams representing all the Treasury services in the 15 regional districts. It will be presented with the Secretary's Cup. This cup will be retained in the headquarters office of the Southwest Division of the Customs Border Patrol at El Paso, Texas, until next year's competition.

INDIVIDUAL AWARDS, TEAM COMPETITION.

The following individual awards will be made:

Gold Medals to members of the winning team, Customs Border Patrol, El Paso, Texas, as follows:

- E. L. Ballinger
- O. A. Toole
- Charles P. Gardiner

Silver Medals to members of the second high team, Customs Border Patrol, Seattle, Washington, as follows:

- M. R. Rogers
- P. M. Chapman
- L. J. Trones

Bronze Medals to members of the third high team, the White House Police, Washington, D. C., as follows:

- J. J. Cash
- R. G. Ford
- R. F. Hallion

AWARDS, INDIVIDUAL MATCHES.

The individual competition was won by E. L. Ballinger of the Customs Border Patrol, El Paso, Texas. Ballinger is the winner of a competition including all members of the several Treasury law-enforcement agencies, and, for the time being, may fairly be regarded as the best revolver shot in the Treasury. He will be awarded a gold medal.

Second place in the individual matches was won by M. R. Rogers, of the Customs Border Patrol, Seattle, Wash. He will be awarded a silver medal.

Third place in the individual matches was won by L. H. Anderson, of the Customs Border Patrol, Havre, Montana. He will be awarded a bronze medal.

GRAVES.

November 17, 1936.  
3:40 p.m.

Operator: Go ahead.

H.M.Jr: Hello - hello

Peletti: Hello.

H.M.Jr: How are you?

P: How are you - fine.

H.M.Jr: Morgenthau talking.

P: Yes sir.

H.M.Jr: Have you had time to think about what we were talking?

P: Yes, I did - I thought about it and I talked to Eddie Greenbaum and also Larry and my wife and Eddie particularly seemed to think that it was not - not the thing that I want to do. He thinks that it's too restrictive and it doesn't fit my temperament particularly and it doesn't give me a chance to use other qualities which he thinks I possess, etc., etc. In other words, he and I felt that it would not be a wise thing from his point of view and my point of view.

H.M.Jr: I see.

P: And I talked to Eddie again this morning about it and he couldn't - after we thought about it overnight and he felt the same way - even stronger - and I felt the same way even stronger and he said, "I think you're doing the right thing."

H.M.Jr: I see.

P: And so I was going to call you up.....

H.M.Jr: Well

P: .....and let you know.

H.M.Jr: Well I - I saved you that trouble.

P: (Laughing)

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H.M.Jr: Look - why don't we do this.....

P: I asked Eddie whether he thought I ought to come down and see you because I did want to show my appreciation.....

H.M.Jr: Oh.

P: .....and - and I'd be perfectly willing to come down and see you.

H.M.Jr: Well are you coming down anyway?

P: What?

H.M.Jr: Are you coming down anyway?

P: I don't think so.

H.M.Jr: You don't.

P: I don't think so. I mean I want to stay on deck here as much as I can while the Governor's away and - and tend to business.

H.M.Jr: Well - well why don't - look - I'll be up on the farm over Thanksgiving. Why don't you - will you still be in Albany then?

P: I - I shall, yes sir.

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

P: ....I'll be here at that time.

H.M.Jr: Well why don't you give me a call then and maybe by that time you'll know about this Judgeship.

P: (Laughing) All right.

H.M.Jr: What?

P: All right. Well I mean I don't think I will know by that time.

H.M.Jr: Yes, well then I'll tell you what I think I'd.

P: He won't be back until the beginning of December.

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H.M.Jr: Ah-ha.

P: But...

H.M.Jr: I think I'll go ahead and make other plans as Internal Revenue goes.

P: Yes. Yes I don't think the advice - I mean Larry felt the same way. I had a chance to talk to Larry. He called me up just after you did and said, "I'm down at the DeWitt here. How about coming down for lunch?" And I went down and then I talked to Eddie in the afternoon and he felt very clear about it. Then we chatted it over again this morning to make sure that we hadn't acted too hastily and he felt that that was the wise thing.

H.M.Jr: Ah-ha.

P: And I asked him, "Shall I go down and see the Secretary because I don't want him to feel that I'm not grateful - "

H.M.Jr: No no

P: - to you because I do appreciate it. As a matter of fact, I want to clear another thing.

H.M.Jr: Please

P: You know, when Bob went out, Eddie did speak to me about it.

H.M.Jr: Oh, did he?

P: Yes, he spoke to me at that time and asked me whether I'd be interested and I said, "Eddie, if people keep calling me up on various things down here" - and I said, "I can't consider anything because I told the Governor I was going to stay the whole term and I'm going to stay no matter what people -

H.M.Jr: Yes

P: - hold out." I mean I - I have made a promise

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and I was going to stay until the end of the term.

H.M.Jr: I see.

P: And - so that we just dropped it then. But Eddie had talked to me about it -

H.M.Jr: Oh

P: - and that's probably the basis for that talk that you'd gotten that it had been offered to me.

H.M.Jr: I see.

P: It was Eddie who talked to me about it, and I don't know whether he was acting - acting sort of as a general authority on your part or was just trying to help you out or what, but I -

H.M.Jr: I think he - I think I'd put it on the basis he was trying to help me out.

P: Yes, I think that - that's what I'd take it, and he was - he did talk to me about it just very briefly because I had to cut it right off. I said, "I can't do it, Eddie."

H.M.Jr: Uh huh.

P: I mean no use talking about it.

H.M.Jr: No, well, there - we had - I talked about it before Philadelphia, but I refused to approach anybody that worked for Governor Lehman -

P: (Laughs)

H.M.Jr: - until after he made up his mind.

P: Well, thank you (laughing).

H.M.Jr: Because I know he's been hot, and bothered about Paris -

P: Yes

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H.M.Jr: - and I didn't want to have another -

P: Yes. I mean you're in a particularly vulnerable position, you might say, and - and I can sympathize with your -

H.M.Jr: You mean on account of being related?

P: Yes, right.

H.M.Jr: Right.

P: Without being - I - I know that that'd be the last thing you'd want to do, is to -

H.M.Jr: No

P: - is to irritate him.

H.M.Jr: Well, Poletti, let's get in touch with each other over the Thanksgiving weekend.

P: Fine, I'll be very glad to. You're going - you're going to be down to where I saw you last time?

H.M.Jr: That's right.

P: Fine.

H.M.Jr: That's right.

P: Give my regards to Mrs. Morgenthau.

H.M.Jr: I'll do that, Poletti.

P: Fine.

H.M.Jr: Thank you.

P: And take care of yourself.

H.M.Jr: Thank you.

P: Goodbye, Mr. Secretary.

H.M.Jr: Goodbye.



MATERIAL FOR A RADIO TALK BY THE HONORABLE THE  
SECRETARY OF THE TREASURY, HENRY MORGENTHAU, JR., ON THE  
OCCASION OF THE OPENING OF THE TREASURY DEPARTMENT ART  
PROGRAM'S EXHIBITION AT THE CORCORAN GALLERY ON TUESDAY,  
NOVEMBER 17th, 1936

to Announcer:

During the next few minutes we will have the privilege of hearing from the Secretary of the Treasury, Mr. Henry Morgenthau, Jr., who will present a message from the President of the United States. First, let me present Mr. Edward Bruce, Chief of the Section of Painting and Sculpture of the Treasury Department.

Bruce:

Mr. Secretary, it is a signal honor to invite you to open this exhibition which represents most of the work done during the last two years under the far-flung program for the embellishment of public buildings, inaugurated by you.

Our effort has been to follow your instructions and to secure for the Government the best art which this country could produce. There is, unfortunately, no standard, or yardstick, by which the quality of a work of art can be accurately measured. We have maintained, however, a high technical and professional standard. The work exhibited gives a fair cross section of the work accomplished. Your program is, in my opinion, the most far reaching, liberal and impartial plan which the artists of this, or any, country have ever been privileged to engage in. It is a challenge to the American artist. I hope you will agree with me that he

- 2 -

has given his best without stint and without reservation.

I have the honor to introduce The Honorable The Secretary of the Treasury,  
Mr. Henry Morgenthau, Jr.

Secretary Morgenthau:

It gives me great personal pleasure to be able to open this exhibition. I am proud of this showing of the work of American artists in the decoration of United States Government buildings. To you, Mr. Bruce, should go, I think, the major credit for what the Treasury Department has been able to accomplish for native American art in the last three years.

The Treasury Department Art Program is a part of the work of the Procurement Division, *under the able direction of Admiral Peoples,* ~~which designs and builds Federal buildings.~~ Its section of Paintings and Sculpture supervises the suitable decoration of ~~these~~ <sup>Federal</sup> buildings with murals and carvings. We have here a representative selection of art works designed for this use. It is an impressive example not only of our resources in art ability, but also of the co-operation of architects, painters and sculptors to make this work really expressive of American genius and the American spirit.

It seems to me that there is a double gain in the artistic embellishment of our public buildings with paintings and sculpture. It provides a new opportunity and a new stimulus for artists by permitting them to work on subjects of the broadest cultural interest with the knowledge that if their work is soundly conceived and well executed it will form a part of a permanent exhibition, ~~always in the eye of the public.~~ For the public it means a better opportunity to enjoy modern works of art and thus to develop that knowledge

- 3 -

of and feeling for works of grace and beauty which is an essential part of a National culture. It means also that this age will be able to leave behind it, along with the achievements of the machine, a record of our art sense and our art progress.

I now have the privilege of reading to you a statement by the President. He says:

"I have learned with sincere interest of plans to hold, at the Corcoran Gallery of Art, an exhibit of painting and sculpture done under the Treasury Department Art Projects.

It is clear that the extensive building of new court houses, post offices and other Federal buildings that come within the scope of the Treasury Department's activities brings with it an important opportunity for the artists of America to make our public buildings more beautiful with painting and sculpture. The decoration of these buildings will make it possible to bring those two noble arts back to a close and fruitful relationship with architecture, and, at the same time, to give to our artists a chance to practice their professions under conditions fostering this revived relationship.

I am glad to learn that in the preliminary competitions no attempt was made to seek out for special favor, artists of established name, but that the competitions were open to the unknown, to the young, and to established and famous artists,

- 4 -

on exactly the same terms. The merit of this plan, in my opinion, is that youth and experience have had equal opportunities.

I hope for the exhibit the fullest measure of success.

Franklin D. Roosevelt."

Through the courtesy of the Director and Trustees of the Corcoran Gallery of Art, we are enabled to hold this exhibition which will last through December 13th. ~~To see it is to be proud of it, for, though flaws can be picked in the work by critics, it proves we have a vital group of painters and sculptors working for the Government.)~~

I want to <sup>most heartily</sup> thank the artists who have done this work, and to recommend this exhibition to you. I hope you will all come and see it and enjoy it as much as I have.

Nov. 16, 1936

To Mr. Gaston

From Fussenell

## Secretary's talk at Corcoran Gallery

Arrangments have been made for WMAL (National) and W. J. S. V. (Columbia) to handle Secretary's talk, opening Treasury Art Projects exhibit at Corcoran Gallery, at 4:45 p.m. Tuesday (Nov. 17).

Mr. Dows is to handle details (as to opening and closing music, etc.)

W. J. S. V.

## TREASURY DEPARTMENT

Washington

FOR RELEASE UPON DELIVERY,  
4:45 P.M. Eastern Standard Time  
Tuesday, November 17, 1936.

Press Service  
No. 8-87

Following is the text of the remarks of Edward Bruce, Consulting Art Expert of the Treasury Department, and of Secretary Morgenthau on the occasion of the opening of an exhibit of murals and sculpture for public buildings, at the Corcoran Art Gallery in Washington, on Tuesday, November 17, 1936.

Mr. Bruce:

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ooOoo

November 18, 1936.  
9:50 A.M.

H.M.Jr: Hello?

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

H.M.Jr: Good morning.

C: Mr. Secretary -

H.M.Jr: Yes

C: Did you receive the wire that I sent this morning?

H.M.Jr: No. Which one?

C: It starts with "The Ministry of Finance this morning - "

H.M.Jr: No, I - I have not received it.

C: Yes, sir. I wired you that he was in complete agreement with the proposal set forth in your long message of night before last.

H.M.Jr: No, I have not received anything. When did you send it?

C: Well, it - it was filed at eleven this morning. That's three hours ago.

H.M.Jr: No - well, I have not got it yet.

C: Well, I - I wired that he was in complete agreement.

H.M.Jr: Good.

C: And I also informed them of your short declaration you would make when the three countries - whatever countries are added to your list.

H.M.Jr: Good.

C: The thing transpired last night.

- 2 -

Have you heard from the British yet?

H.M.Jr: No, because, you see, I only saw them yesterday morning and you had a - really a day's head start.

C: Yes

H.M.Jr: But I - hello?

C: - is this, Mr. Morgenthau.

H.M.Jr: What's that?

C: I say my point is simply this: if - if you want to - to follow the schedule which

H.M.Jr: Yes

C: - I'm afraid I'd better go to Brussels pretty quickly.

H.M.Jr: Well now, I tell you what you do. Let's take a chance.

C: Yes

H.M.Jr: When does the train go to Brussels?

C: The train leaves at six o'clock tonight.

H.M.Jr: Well, you plan to take that.

C: Beg pardon?

H.M.Jr: You plan - I would plan to take that train, see?

C: Yes

H.M.Jr: Hello?

C: Yes

H.M.Jr: And if I get any word - I mean it - it'd be better to have you, say, waiting maybe a half a day in Brussels than to lose a day. You see?

- 3 -

C: I think so, yes.

H.M.Jr: And you go directly to the Embassy there.

C: Well, or if - if you get word tonight to cable -

H.M.Jr: Yes

C: I mean you could still cable me at Paris because we have a night shift here which they don't have in Brussels.

H.M.Jr: Oh

C: So they could decode the message so much faster here.

H.M.Jr: I see.

C: Then telephone me at my hotel.

H.M.Jr: But - well, where will you be in Brussels?

C: I - I will be at the Hotel Astoria.

H.M.Jr: Yes, but I'm - I get word to you through the Embassy.

C: Well, the - whichever way is - only if you - if you get the thing yet today -

H.M.Jr: Yes - oh yes

C: You could - he could wire it here and the night post clerk would telephone me tonight. I get there at 9:30.

H.M.Jr: Well, what I'll do is I'll call up the British now and tell them that I have this message, -

C: Yes

H.M.Jr: - that the French have agreed, and won't they please use the telephone and find out from the French, you see?

C: I see.

- 4 -

H.M.Jr: Now, how are you going to get word to the Swiss and the Dutch?

C: I think I'd better go there.

H.M.Jr: Well, can you cover it all?

O.O.: Three minutes.

C: Hello.

H.M.Jr: Hello. Can you cover it all?

C: I can cover it all if I leave here tonight.

H.M.Jr: I see.

C: I mean I could be in - in Belgium tomorrow, -

H.M.Jr: Yes

C: - then go up from there tomorrow evening to - to the Hague -

H.M.Jr: Yes

C: - and if I finish there by three o'clock in the afternoon -

H.M.Jr: Yes

C: - I think I could -

H.M.Jr: Yes

C: - get a train to Bern which would get me there at eight o'clock Saturday morning.

H.M.Jr: Oh, that's pretty slow. I - I'd rather have you use the telephone from Brussels.

C: I know, but - you see, the Dutch haven't signed this first declaration yet.

H.M.Jr: What's that?

- 5 -

- C: You see, the Dutch haven't even signed the first declaration, and there's so much explaining to do.
- H.M.Jr: Yes. Well, let's put it this way: then why don't you handle the Swiss thing by telephone and go on to Holland?
- C: Well, the Swiss are the - are the thickest of - of the group.
- H.M.Jr: Are the what?
- C: Are the hardest to - to make understand.
- H.M.Jr: I see.
- C: I mean their Minister - their Minister speaks only German and I know that - that he would have to speak to his Minister of Foreign Affairs -
- H.M.Jr: Oh yes
- C: - in regard to that adhering to the - to the 25th of September -
- H.M.Jr: Yes
- C: - declaration.
- H.M.Jr: I see.
- C: What I can do is telephone ahead.
- H.M.Jr: Yes
- C: But what I want to do now this afternoon, between now and train time, is to - to get the three of them lined up.
- H.M.Jr: Well, you better wait until I hear from the English. I think I can get the English here to use the telephone and maybe I can have something for you. You see - your train leaves at six?
- C: At six.
- H.M.Jr: Well, that's one o'clock here, isn't it?



- 6 -

C: I - I have two hours yet. I have to leave here at about ten past five.

H.M.Jr: Well, let me see whether I can't get something, but in the meantime you make your plans to go to Brussels. I wouldn't talk to anybody, to the Swiss or anybody - I'd just go to Brussels and - and see if I can't get a clearance from the English for you.

C: Hello?

H.M.Jr: I wouldn't communicate with the Swiss until I get word from the English, see?

C: Oh, I see. Then - then I shall wait till I'm in Brussels, or if I hear from you in time this afternoon I'll telephone to the Swiss.

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

C: I shall go on to Brussels tonight -

H.M.Jr: Yes

C: - and then if I hear from you late this evening or in the morning there -

H.M.Jr: Yes

C: - and get arranged with the Belgians, then I would telephone the other two.

H.M.Jr: How many hours is Brussels from the Hague?

C: It's between three and five hours, about four hours - depends on the train.

H.M.Jr: By train.

C: Yes

H.M.Jr: I see.

C: So - I mean the - the best way, though, is not to come back via Paris - to go -

H.M.Jr: No

- 7 -

C: - between States.

H.M.Jr: Well, don't they have an aeroplane from Holland to Switzerland?

C: They - they do to Basel, but not to - to Bern.

H.M.Jr: Oh

C: And just now the - the - the weather is awfully heavy over here. It's dark as night.

H.M.Jr: Well, then you don't want to fly. Well, I'll - I'll telephone the British Embassy here at once -

C: Yes

H.M.Jr: - and you - you plan to go on the train tonight.

C: Yes

H.M.Jr: Now, did the French like it?

C: The French were very much pleased -

H.M.Jr: Yes

C: - and they - they said they were in complete agreement.

H.M.Jr: Fine.

C: Hoped we could get these others. And I - I asked their advice. I said, "Do you think I ought to see these people or explain it by phone?"

H.M.Jr: Yes

C: And they said go to see them by all means; that was their advice too.

H.M.Jr: Fine. Now, how did they like this idea of Sunday night and then Monday night?

C: They - they can get ready all right.

- 8 -

H.M.Jr: They can.

C: And Baumgartner is especially anxious to push it because he's leaving that post in a few days.

H.M.Jr: Oh, really?

C: He's promoted to be head of what they call the Societe National.

H.M.Jr: What is that?

C: Well, that's a separate office that was set up to finance certain - the construction acts of the war.

H.M.Jr: Oh yes

C: And I - I'm sorry that he's leaving. There was the talk that Monick might get the job.

H.M.Jr: Oh, won't - won't Rueff go in there?

C: But he would not.

H.M.Jr: He would not?

C: He would not get it.

H.M.Jr: Oh

C: There's likely to be another young man named Duray.

H.M.Jr: Oh

C: Or possibly Ruper.

H.M.Jr: Oh

C: Monick is out definitely.

H.M.Jr: Monick is out?

C: He will not get the job, they told me.

H.M.Jr: He will not.

- 9 -

C: The press has carried him as the likely one.

H.M.Jr: That so? Well, I did a little work here. I had the French ambassador for dinner here about a week ago.

C: What?

H.M.Jr: I had Laboulaye here for dinner about a week ago.

C: Yes

H.M.Jr: And I did a little work over here.

C: Good. Well, you know, I did some -

H.M.Jr: I know.

C: Yes

H.M.Jr: And Laboulaye, of course, was very much upset about Monick coming over here.

C: Yes

H.M.Jr: And I told Laboulaye plenty.

C: Well, he's - he's had a lot of schemes in his head here that he's been seeing the new chief about.

H.M.Jr: Yes, well -

C: Concerning us with something else that -

H.M.Jr: Uh huh

C: - sort of -

H.M.Jr: Now, Bullitt knows all about this?

C: I haven't told him yet, but he's seen all my telegrams.

H.M.Jr: And everything's all right?

C: Yes, yes, he's quite agreeable and - and wants to

- 10 -

help. I haven't told him that I may be going this evening, but I'll go right in and get his O.K.

H.M.Jr: You think I could talk to him sometime?

C: Sometime, yes.

H.M.Jr: Uh huh. Well, may be -

C: - helpful.

H.M.Jr: It would be helpful.

C: He is being very nice -

H.M.Jr: Good

C: - and helpful.

H.M.Jr: Fine.

C: The only thing, he - he don't sound like contacts think quite a lot of him.

H.M.Jr: Good

C: But we can't help that.

H.M.Jr: No. All right.

C: - and tell him that I'm leaving, and that the message should be relayed to me -

H.M.Jr: Right

C: - through here.

H.M.Jr: Right. But be sure and keep in touch with the Embassy in - in Brussels tomorrow.

C: Tonight -

H.M.Jr: No, tomorrow - I mean if I can't reach you through Paris I'll reach you through the Embassy in Brussels.

C: Yes, through - through the Embassy there.

- 11 -

H.M.Jr: Yes

C: But if you get it yet today -

H.M.Jr: I under- - I know, I know, but if I don't, be -  
I'll call up - I'll reach you through the Brussels  
Embassy tomorrow.

C: That's right, and I shan't make any engagements  
there till I get word from the Embassy.

H.M.Jr: That's right.

C: Through the Embassy from you.

H.M.Jr: That's right.

C: Then I'll go ahead with this schedule unless  
there's some hitch.

H.M.Jr: That's right.

C: And report to you by cable from Brussels and from  
the Hague.

H.M.Jr: Thank you.

C: And also from Bern.

H.M.Jr: By telephone.

C: By telephone preferably?

H.M.Jr: Well, yes - telephone and then confirm it by cable.

C: All right, and if there's time before my train  
goes -

H.M.Jr: Yes

C: - in each case.

H.M.Jr: O.K.

C: And Baumgartner is going to see me here at the  
Embassy on Sunday.

- 12 -

H.M.Jr: Yes

C: Sunday morning. I get back here at eight or nine o'clock.

H.M.Jr: When will Baumgartner resign?

C: In a few days.

H.M.Jr: Yes; well, tell him to stay on until this gets through.

C: A week certainly.

H.M.Jr: All right.

C: But he - he wants to stay on till this thing is settled.

H.M.Jr: Fine, fine. All right, good luck.

C: I'll leave this evening.

H.M.Jr: All right, good luck.

C: And while he's here he can give me anything that the French want to - to pass on.

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

C: Fine. All right, sir.

H.M.Jr: Goodbye.

November 18, 1936.  
10:03 A.M.

Operator: Operator.

H.M.Jr: Mr. Mallet, British Embassy.

O: All right.

H.M.Jr: Hello.

O: Mr. Mallet.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

V.A.L.  
Mallet: Yes, good morning, sir.

H.M.Jr: Good morning, Mallet. Secretary's talking.

M: Good morning, sir.

H.M.Jr: Mallet, I just had a phone call from Paris.

M: Oh yes.

H.M.Jr: The French are delighted with the new proposal.

M: Yes

H.M.Jr: Now here's the thing. On account of the time schedule, Mr. Cochran feels that he's got to make the swing around and see the - see the Belgians and the Dutch and the Swiss actually himself.

M: I beg your pardon, sir.

H.M.Jr: He's going to have to go - actually go to Belgium and Holland and Switzerland and -

M: - and see them himself, yes.

H.M.Jr: So it - the time is very short.

M: Yes



- 2 -

H.M.Jr: I wondered if you wouldn't telephone Mr. Chamberlain, see? -

M: I see.

H.M.Jr: - and try to get an answer for me.

M: I see. Right, and we'll see what - see what we can do.

H.M.Jr: Because if we're going to get this thing through by Sunday night now, it's -

M: That's right. You need an answer.

H.M.Jr: Yes

M: Yes

H.M.Jr: And if you wouldn't mind -

M: I'll have a word with the Ambassador in - in a few minutes' time and then -

H.M.Jr: Yes

M: - and then ask him whether we - we can do that today.

H.M.Jr: Yes. I'd appreciate it if you would.

M: Yes, sir. Right.

H.M.Jr: Thank you.

M: It ought to be quite easy to get the answer.

H.M.Jr: Pardon me?

M: It ought to be quite easy to get an answer.

H.M.Jr: Yes, that's what I think. I can't see any reason why the answer shouldn't be yes. And I have no objection to your telling your people on the other side that the French have agreed to it.

M: I see. Thank you very much, sir.

- 3 -

H.M.Jr: Thank you.  
M: Right. I'll do my best.  
H.M.Jr: Thank you.  
M: Right. Goodbye.

\* \* \* \* \*

10:13 A.M.

H.M.Jr: Hello.  
Operator: Go ahead.  
H.M.Jr: Hello.  
M: Mr. Secretary?  
H.M.Jr: Yes  
M: It's Mallet speaking again.  
H.M.Jr: Yes.  
M: I just this moment got the answer to the telegram.  
H.M.Jr: Oh, grand.  
M: It's to the following effect: to inform you that Mr. Chamberlain notes your object in revising the draft agreement was so that it would act to serve in the case of Belgium; and provided that the new draft is satisfactory to the Belgian government he concurs.  
H.M.Jr: I see.  
M: And he also agrees in the procedure and time table prepared.  
H.M.Jr: Well, that's fine.  
M: Everything's O.K.  
H.M.Jr: You don't want to give me something on it beside that, do you?

- 4 -

M: What?

H.M.Jr: I mean you don't want to - I mean give Wayne Taylor something - you just wanted to give it to me verbally like that?

M: Well, that's all I thought I could write; I can send it down in writing all right.

H.M.Jr: Would you mind?

M: No, sir.

H.M.Jr: I -

M: But in the meantime it's O.K., except that provided the Belgian government agrees with your new draft, we agree.

H.M.Jr: Provided the Belgian government agrees.

M: Yes. To your procedure and time table we agree.

H.M.Jr: Provided that the Belgians agree.

M: Yes.

H.M.Jr: Thank you very much.

M: All right, sir -

H.M.Jr: And you -

M: and I'll send it down to Wayne Taylor.

H.M.Jr: Well no, if - if - if you're sending it down you might as well send it down directly to me.

M: Direct to you.

H.M.Jr: Yes.

M: All right, sir.

H.M.Jr: Thank you very much.

M: Right.

H.M.Jr: Thank you.

November 18, 1936.  
10:03 a.m.

H.M.Jr: How are you?  
Oliphant: I'm I'm feeling fine.  
H.M.Jr: I don't hear you.  
O: (Fade out)  
H.M.Jr: What's that, Herman?  
O: I'm sleeping good and feeling fine.  
H.M.Jr: Good. Where are you now?  
O: I'm in Kingston.  
H.M.Jr: Kingston. Well this isn't as good as the usual connection so I'll be.....  
O: Hello - I didn't hear that.  
H.M.Jr: I've only got a fair connection.  
O: I can't hear you.  
H.M.Jr: I can only - I can hear you.  
O: Good.  
H.M.Jr: Can you hear me?  
O: Well once in a while I'm cut-off.  
H.M.Jr: What?  
O: It's cut off once in a while. Try it again.  
H.M.Jr: Herman.  
O: Yes.  
H.M.Jr: What I'm calling up about is the position over in Internal Revenue.  
O: Yes.  
H.M.Jr: You see, when I came back Sunday.....

- 2 -

O: Yes.

H.M.Jr: .....I thought I would find you here.

O: Yes.

H.M.Jr: Because when you left, if you remember, you told me you'd be back.

O: Yes.

H.M.Jr: And then I had no word from you. I didn't know that you would not be back, see?

O: Yes.

H.M.Jr: Of course I'm delighted that you're taking this extra vacation.

O: Thank you.

H.M.Jr: And I only knew when I called up Annapolis and spoke to Mrs. Oliphant that you would not be back.

O: Oh.

H.M.Jr: So, therefore, when I got - I telephoned Morrison Shafroth to be here Sunday.....

O: Yes.

H.M.Jr: .....and told him that I wanted him to see you and myself.

O: . Yes.

H.M.Jr: Then when I saw the President Sunday.....

O: Yes.

H.M.Jr: .....he **seemed** to have it pretty much in mind that he was going to put Poletti over there.....

O: Yes.

H.M.Jr: .....which was news to me.

O: Yes.

- 3 -

H.M.Jr: And the President thought that I offered Poletti this job.....

O: Yes.

H.M.Jr: .... .which I had not.

O: Yes.

H.M.Jr: But Poletti seems - then I got in touch with Poletti and he seemed to think that Greenbaum had offered it to him.

O: Yes.

H.M.Jr: Well I said Greenbaum had no authority to offer it to him.

O: I never heard of it.

H.M.Jr: And so - ah - ah - well then I went through the motions - I told him that the President wanted me to know - find out whether he wanted it.

O: Yes.

H.M.Jr: And then there's a lot of stuff developed and it seemed that Tommy Corcoran had been after him.

O: I see.

H.M.Jr: And not only had offered him that but - this is strictly between you and Greenbaum and myself, see?

O: Yes.

H.M.Jr: Because this I got from Greenbaum - that he'd offered him the position of Under-Secretary.

O: I see.

H.M.Jr: See?

O: Yes.

H.M.Jr: Well then I got busy and Shafroth was here and the President said have him go over and see Bob Jackson....

O: Yes.

H.M.Jr: .....which I did.

O: Yes.

H.M.Jr: And Bob speat an hour with him.

O: Yes.

H.M.Jr: And then called me and said that he didn't know where I could get as good a man.

O: He didn't know where you could get as good a man.

H.M.Jr: As good a man.

O: Yes.

H.M.Jr: He was very enthusiastic.

O: Yes well I'm glad to hear that.

H.M.Jr: Well then with all this business going on.....

O: What?

H.M.Jr: With all of this funny business going on.....

O: Did you close with him?

H.M.Jr: What's that?

O: Did you close with him?

H.M.Jr: Close with him?

O: Yes.

H.M.Jr: Well what I did was this - before the President left - hello

O: Hello

H.M.Jr: Hello - hello

O: Hello

H.M.Jr: Well we'll get this thing. Can you hear me? - Hello

O: Hello.

H.M.Jr: Wait a minute - take your time.

Operator: Hello

H.M.Jr: See if you can clear this up a little.

Operator: Allright. His line is busy. I'll call you back in a minute.

H.M.Jr: Thank you.

O: Yes.

H.M.Jr: Yes, hello.

O: What were you saying?

H.M.Jr: I have not closed with him.

O: Well why don't you go ahead and close with him, Henry. I'm perfectly satisfied and I've talked to people about him.....

H.M.Jr: Yes.

O: .....and we'll be lucky if we get him.

H.M.Jr: Well that's what I think - hello - Herman.

O: Yes.

H.M.Jr: I got the President to sign his.....

O: Appointment.

H.M.Jr: .....commission.

O: Yes.

H.M.Jr: But nobody knows it and Shafroth does not know it.

O: Well I'll feel better if you go ahead and close it.

H.M.Jr: All right.



O: I think we're lucky to get him and the sooner we close that up the better off we'll be.

H.M.Jr: Well -

O: Hello

H.M.Jr: Yes, well that's the way I feel....

O: Well....

H.M.Jr: And.....

O: When can he come, Henry?

H.M.Jr: What's that?

O: When can he come?

H.M.Jr: Well I haven't talked to him yet. I was waiting to talk to you.

O: Yes.

H.M.Jr: But you - I - Poletti turned me down yesterday afternoon.

O: That's all right.

H.M.Jr: Now - well I think that that's all right.

O: Yes.

H.M.Jr: And, of course, when they talked to me about Poletti for Under-Secretary I just roared with laughter.

O: Well why don't you go ahead and talk to him and close.

H.M.Jr: Well I will now that you think....

O: (fade out)

H.M.Jr: Well..

O: Hello

H.M.Jr: Hello.

O: Yes

- 7 -

H.M.Jr: I found out he teaches - gives an hour every day to teach law.

O: Well that's fine.

H.M.Jr: And he's - Bob said, unhesitatingly, he said we - I'll repeat - Bob said, "I don't know where you'll get as good a man".

O: No, that's right. I had talked to Bob about him before I left.

H.M.Jr: And McReynolds likes him.

O: Yes.

H.M.Jr: And he - he spent an hour with Mac and Mac said, "Fine". He spent an hour with Helvering.

O: And I've checked with a couple of people up at Yale.....

H.M.Jr: Yes.

O: .....and some people in New York (fade out)

H.M.Jr: Good.

O: And I - I'd feel a lot easier if you went ahead and closed it now.

H.M.Jr: All right.

O: Now, Henry.

H.M.Jr: Yes.

O: If I want to talk to anybody in the Treasury which I may before I leave here Friday night.....

H.M.Jr: Yes.

O: The lines of communication are wide open and I'm afraid of them.

H.M.Jr: I see.

O: The Coast Guard cutter is leaving at noon to-day.....

H.M.Jr: Yes.

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O: And if Waesche thinks it is inconvenient and they're waiting till I get away.....

H.M.Jr: Yes.

O: .....there's a couple of things I'm going to have to talk to the office about - I mean to communicate with the office about.

H.M.Jr: Oh.

O: And they have a code that - that

H.M.Jr: Well I - I don't quite get the point.

O: Well I really have no dependable method of communicating with the office.

H.M.Jr: Well you're lucky then.

O: What?

H.M.Jr: You're lucky.

O: Oh.

H.M.Jr: And no one should bother you but me.

O: Well -

H.M.Jr: Don't worry about the office, Herman.

O: All right.

H.M.Jr: This is the only thing and I don't want the office to bother you.

O: Well I thought - something might come up, don't you know.

H.M.Jr: Oh don't worry and listen - the only thing that might come up would be something that I have, see?

O: Yes.

H.M.Jr: And there isn't going to be anything now.

O: Yes.

- 9 -

H.M.Jr: Now you go ahead - how is it? Is it nice sunshine down there?

O: Oh it's wonderful, Henry. I never saw such a place.

H.M.Jr: Well that's good.

O: Now I'm leaving here Friday night at midnight.....

H.M.Jr: Yes.

O: .....and the boat will get in to New York Wednesday morning.

H.M.Jr: Well don't hurry. Things are quiet and I want you to be well when you get back.

O: Well I - I'm feeling fine.

H.M.Jr: Do you want to stay over another boat down there?

O: No I don't. I want to come back and then I want to go up the Hudson a little bit.

H.M.Jr: Want to go up the Hudson?

O: Yes, a general check-over.

H.M.Jr: Fine.

O: Fine. I gathered, from what the Commander said, that there was no particular hurry about the boat leaving, see?

H.M.Jr: Yes.

O: And - well you can be judge as to whether or not we ought to have that method of communicating because every other method is wide open.

H.M.Jr: Ah-ha. Well it will be when you're on the boat coming back too.

O: When we're on the boat then we've got the code you know.

H.M.Jr: Well no but - no - but when you're on - coming back Friday.

- 10 -

O: No - then, of course, there won't be any.

H.M.Jr: No. I'll talk to Waesche and see what he has.

O: Will you have these charges paid at that end?

H.M.Jr: Oh yes.

O: Yes.

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

O: Yes. Now somebody was trying to call me last night. Was that you?

H.M.Jr: Yes.

O: So there was only one call and this cleans it all up.

H.M.Jr: Yes. Do you want to talk to Miss McGuire.

O: I might just a minute.

H.M.Jr: Now just a minute. Wait a minute. Now Herman.

O: Yes.

H.M.Jr: I - I want you to have a rest and I want you to have a good time.

O: Yes.

H.M.Jr: And don't worry. I've got this cleaned up. Now the only other thing I've got is Under-Secretary and I have nobody in mind and I've got.....

O: Till you say the final word.

H.M.Jr: Yes.

O: About this thing - I feel awfully good.

H.M.Jr: Well I think - I think you should and I tell you I do.

O: Well, Henry, I feel awfully good.

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H.M.Jr: Because if we didn't fill it that other crowd - the hot dog crowd would fill it for us.

O: Well I feel as good about it (fade out)

H.M.Jr: What?

O: I mean it takes a load off of my mind, regardless of the hot-pup stuff.

H.M.Jr: Yes.

O: See?

H.M.Jr: What's that?

O: It takes a load off of my mind anyway.

H.M.Jr: Yes. Well I - I think that - I know that this man has a very nice personality.

O: All right.

H.M.Jr: And I - I don't - I think he's going to be easy to get along with.

O: Oh I know.

H.M.Jr: And I think the appointment is going to be very well received.

O: That's fine.

H.M.Jr: And..

O: All right.

H.M.Jr: ....and this other business when you get back - what this hot dog crowd tried to do was just beyond me.

O: What?

H.M.Jr: This hot dog crowd you know.

O: The what?

H.M.Jr: The hot dog crowd.

- 12 -

O: Oh I know, yes.

H.M.Jr: Yes. Now just a minute. I'll have you switched over.

O: Well we'll take the (fade out)

H.M.Jr: Well if you want the England to stay there and it's all right with Waesche do you want us - would you - would you stay on board the England.

O: Yes, I'd stay on board and I'd like it very much. Then I'd be sure, if anything did come up, I could talk - I mean I communicate and it would be confidential.

H.M.Jr: All right, Herman.

O: All right.

H.M.Jr: O.K.

O: May I talk to Miss McGuire?

H.M.Jr: Sure.

Operator: Hello.

H.M.Jr: Give Mr. Oliphant to Miss McGuire please.

Operator: All right.

November 18, 1936  
10:30 A.M.

H.M.Jr: I just wanted to tell you that we're having a study made here as to two things: first, the foreigner who is buying our stocks from the standpoint of profit, you see?

J.M.  
Landis: Yes

H.M.Jr: What taxes he has to pay.

L: Yes

H.M.Jr: And second as to the difference - what the existing situation is; and then the other thing as to the United States citizen who is buying his stocks in London in order to avoid taxes here.

L: Yes

H.M.Jr: When we have that thing ready, I'd like to sit down and go over it with you; but I didn't want to go over it until I knew what the situation was from the stock - from the tax standpoint only, you see?

L: Yes

H.M.Jr: And I told our boys to have something ready by Monday.

L: Yes. Now, would you be interested in also seeing the effect of our - of the market rules on those two situations?

H.M.Jr: Yes. What I thought was that after we had what -

L: Yes

H.M.Jr: - I consider my responsibility, which is purely the tax point, I thought that you and Eccles and I could sit down.

L: Yes

H.M.Jr: But I wanted to tell you that I wouldn't be ready before Monday.

L: All right.



- 2 -

H.M.Jr: You see?

L: Yes

H.M.Jr: And we're just exploring it from the tax angle.

L: Yes

H.M.Jr: How - how does that sound to you?

L: Well, that's - I - I - I'd like to see that very much.

H.M.Jr: Yes. And then when I have it I thought that if it's agreeable to Eccles and you and myself, we could sit down - we'll put on the tax show and you have what's yours; but -

L: Yes

H.M.Jr: And then - I mean we're not going any further than to - just to - You see, under the last tax bill foreigners got certain privileges which -

L: Yes

H.M.Jr: - were not extended to our own citizens.

L: Yes

H.M.Jr: Frankly for the moment I'm not very much worried, but I'm glad to look into it.

L: Well, I'm glad to look into the myself.

H.M.Jr: Right. Right.

L: Yes

H.M.Jr: How are you otherwise?

L: Oh, pretty good.

H.M.Jr: Fine.

L: All right.

H.M.Jr: Thank you.

L: Thank you.

November 18, 1936.  
10:48 A.M.

H.M.Jr: Hello Cochran?  
H.M.  
Cochran: Hello, Mr. Secretary.

H.M.Jr: I've heard from the British.

C: You have?

H.M.Jr: Yes. And they say that it's acceptable to them provided that it's agreeable to the Belgians.

C: Acceptable to them -

H.M.Jr: It's acceptable to them -

C: - provided it is agreeable to the Belgians.

H.M.Jr: Yes

C: Fine.

H.M.Jr: Well, that's all we need.

C: Yes. Then - then I shall go see DeMan tomorrow.

H.M.Jr: Yes. Now you can phone ahead and make your engagements.

C: Yes, I - I have time now to do that.

H.M.Jr: Yes, I'll leave that to you. But the British say that Mr. Chamberlain says that this new proposal is acceptable to him if it's - agreeable to him if it's acceptable to the Belgians.

C: Agreeable to - to Chamberlain if acceptable to the Belgians.

H.M.Jr: That's right.

C: I see.

H.M.Jr: Yes

C: Then I - I shall go right up there; I'll try and phone now to get an appointment.

H.M.Jr: Yes

C: And then I - I'll make my plans after I get their agreement.

H.M.Jr: Well, I'll leave that to you; but use the telephone freely.

C: Yes, all right; I'll certainly phone you from there.

H.M.Jr: O.K.

C: All right, then I'll go on tonight at six o'clock.

H.M.Jr: Thank you.

C: Thank you.

H.M.Jr: Goodbye.

C: Oh, Mr. Morgenthau?

H.M.Jr: Yes

C: I meant - I intended to tell you this two or three times; I didn't know how many people were there. But that message came through the night that you spoke to me.

H.M.Jr: Oh, did it?

C: Yes

H.M.Jr: Good.

C: So everything's splendid.

H.M.Jr: Fine.

C: Very accurate.

H.M.Jr: Fine.

C: Well, thanks a lot; then I'll go on tonight.

H.M.Jr: Thank you.

C: Goodbye.

H.M.Jr: Goodbye.

BRITISH EMBASSY,  
WASHINGTON.

November 18th, 1936

My dear Mr. Secretary,

In confirmation of my telephone message of this morning I am writing to tell you that we have had a telegram from the Chancellor of the Exchequer in which he asks us to inform you that he notes that your object in revising the draft agreement announcement is to adapt it to the case of Belgium. Provided that the new draft is satisfactory to the Belgian Government Mr. Chamberlain concurs in its terms. He also agrees to the procedure and time table suggested by you.

Believe me,

My dear Mr. Secretary,

Very sincerely yours,

*Victor Mallet*

The Honourable

Henry Morgenthau, Jr.,

Secretary of the United States

Department of the Treasury,

Washington, D.C.

NOV 18 1936

My dear Mr. Secretary:

Your letter of November 6, 1936, informing me that you wrote Ambassador Bingham requesting him to arrange informal meetings between members of our Embassy in London and representatives of the British Treasury, together with copies of Ambassador Bingham's letter to Mr. Chamberlain and his reply thereto, has been received.

The meetings which you have been able to arrange should prove to be most helpful and you may assure the Ambassador that such information as he may be able to furnish us will be held in strict confidence.

Your cooperation in this matter is appreciated.

Sincerely,

(Signed) Wayne C. Taylor  
Acting Secretary of the Treasury.

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

GCH/egh  
11/17/36

Treasury Department  
Division of Research and Statistics

Date 11/14 1936

To:

*Mr. White*

From:

*Lot.*

*Please prepare  
ans. for Seelye  
[unclear]*

For  
acknowledgment

HSK

To Mr. Taylor

when you have  
been?

Make copy  
ask

MRS. FORBUSH  
ROOM 470

MR. MORGENTHAU'S OFFICE TO--

Mr. Gibbons  
Mrs. Roche  
Mr. Taylor

Mr. Oliphant  
Mr. Gaston  
Mr. McReynolds

====

Mr. Allen  
Mr. Anslinger  
Mr. Bartelt  
Mr. Batchelder  
Mr. Bell  
Mr. Berkshire  
Mr. Birgfeld  
Mr. Broughton  
Mr. Bryan  
Miss Chauncey  
Mr. Davis  
Miss Diamond  
Miss Flanagan  
Mr. Graves  
Mr. Greenberg  
Mr. Haas  
Mr. Hall  
Adm. Hamlet  
Miss Hanna  
Mr. Harlan  
Mr. Harper  
Mr. Heffelfinger

Mr. Helvering  
Mr. Hester  
Mr. Julian  
Mr. Kilby  
Mr. Lockhead  
Miss Lonigan  
Mr. Moran  
Mr. Murphy  
Mr. O'Connor  
Miss O'Reilly  
Adm. Peoples  
Miss Reynolds  
Mr. Rose  
Mr. Ryan  
Mr. Schoeneman  
Mr. Sloan  
Mr. Smith  
Mr. Spangler  
Miss Switzer  
Mr. Thompson  
Mr. Upham





DEPARTMENT OF STATE  
WASHINGTON

CONFIDENTIAL

November 6, 1936

My dear Mr. Secretary:

In accordance with our conversations on the subject, I wrote Ambassador Bingham requesting him to arrange for the inauguration and steady conduct of informal meetings between the members of our Embassy in London and representatives of the British Treasury.

I am glad to tell you that such arrangements now appear to have been made on a favorable basis. I enclose for your information copies of letters exchanged between our Ambassador at London and the Chancellor of the Exchequer. I trust that this is in accord with your ideas and wishes.

I believe the first report from London came in recently.

Sincerely yours,

Enclosures:

From Ambassador Bingham  
to the Chancellor of the  
Exchequer, and reply.

A handwritten signature in cursive script, reading "Cordell Hull".

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

**Department of State**

**EA**

**ENCLOSURE**

**TO**

Letter drafted

**ADDRESSED TO**

**TREASURY**

COPY  
AMERICAN EMBASSY  
LONDON

October 16, 1936.

Dear Mr. Chamberlain:

During my absence from London last May you were good enough to send for Mr. Atherton and in one or two conversations with him set forth your hopes that the possibility of misinterpretation of the attitudes of our two Governments, particularly in relation to matters then under discussion, might be reduced to a minimum. Subsequent to Mr. Atherton's return to the United States during the summer he had several talks with the Secretary of State and the Secretary of the Treasury, with his recent discussions with you in mind. At that time Mr. Atherton pointed out that he was not returning to London until well into September and it was doubtful whether he would have an opportunity to see you before your return to London, presumably in October.

Accordingly, I have only this week received the official instructions from my Government, which refer to Mr. Atherton's discussions with the Secretaries of the Treasury and State, including the prospect of regular informal meetings between representatives of this Embassy and the British Treasury. These instructions state that in the judgment of Mr. Morgenthau,

The Right Hon. Neville Chamberlain, M.P.,  
Chancellor of the Exchequer,  
Whitehall, S. W.1.

- 2 -

thau, as well as Mr. Hull, such meetings would serve a most useful purpose, and that, accordingly, after consultation between the Secretary of the Treasury and the Secretary of State, I am instructed to inform Mr. Ather-ton and Mr. Butterworth that they are authorized officially to undertake such conversations, on behalf of the American Treasury, with your Department. I am asked to emphasize in this connection that all exchanges of information will be most zealously guarded in Washington. I may add that in the closing sentence of my Government's instruction it is stated that recent events have clearly improved the measure of understanding between the American and British Treasuries, and that both Mr. Morgenthau and Mr. Hull consider that circumstances are favorable for the under-taking of this work.

Yours sincerely,

Robert W. Bingham.

COPY

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TREASURY CHAMBERS

WHITEHALL

23rd October, 1936.

My dear Ambassador,

I have read with much interest your letter of the 16th October in which you were good enough to inform me that you have received instructions from your Government stating that in the opinion of Mr. Morgenthau, and also of Mr. Hull, regular informal meetings, such as were suggested when I saw Mr. Atherton on June 15th, between representatives of the United States Embassy and representatives of the British Treasury would serve a most useful purpose. I am very happy to agree to this proposal and I should be grateful if you will so inform your Government.

I note that Mr. Atherton and Mr. Butterworth have been authorized to undertake such conversations with the Treasury on behalf of the United States Treasury. I have asked Sir Frederick Phillips and Mr. Waley to represent the British Treasury.

I note that all exchanges of information will be most zealously guarded in Washington and I am happy to give you the like assurance here.

His Excellency

The Hon. Robert W. Bingham.

- 3 -

I have read with particular pleasure that your Government feel that recent events have improved the measure of understanding between the American and the British Treasuries. As you know, it has been a great personal satisfaction to me to have cooperated so closely with Mr. Morgenthau during recent weeks, and with so satisfactory results.

Yours sincerely,

H. Chamberlain.

H

November 18, 1938

The Secretary today instructed that a committee be formed, to consist of Haas and Opper and a representative of the Internal Revenue Bureau. The latter will be named by Commissioner Helvering and Mr. McReynolds is to contact the Commissioner and ask him to select the Bureau's representative.

The Committee is to make a study, to be ready for presentation on Monday, November 23, of the following:

1. Extent of tax liability of foreign investors as to profits and dividends.
2. Tax liability of an American citizen who is placing his purchases abroad in order to avoid taxes.

Upon submission of the report, the Secretary will want to discuss the situation with Mr. Landis of the SEC.

The Secretary called the attention of Dr. Haas and Mr. McReynolds to an article appearing in the New York Times today listing 50 large companies who had announced increased, extra or special dividends. He instructed Mr. Haas to have a study made to show the method these companies are using to avoid paying taxes through withholding surplus and an analysis of the method they use to declare their dividends. The report also is to be broken down, by industries, to show the abuses by these firms. The report will cover the period since the tax law went into effect.

November 12, 1930

## 50 EXTRA DIVIDENDS EXCEED \$60,000,000

Day's Total Swells Flood of  
Cash in the Greatest  
Distribution Since 1929.

### BONUSES TO WORKERS RISE

General Foods and Coca-Cola  
Allot Large Sums—Cotton  
Mills Increase Wages.

The year-end flow of extra dividend payments, wage increases and bonuses continued yesterday to pour into the hands of stockholders and employes of scores of corporations, insuring larger purchasing power for the Christmas shopping season than in any year since 1929.

Fifty large companies announced increased, extra or special dividends payable before the end of the year, totaling between \$60,000,000 and \$80,000,000. These were in addition to the regular quarterly dividends. The bulk of the dividends announced were declared by industrial corporations, but several railroad and utility companies also voted increased distributions to stockholders.

The cotton textile industry, employing 434,000 workers, raised wages approximately 10 per cent in many mills in New England and the South. If all wage-earners receive the rise, the industry's annual payroll amounting at the current level of operations to \$275,000,000, will be increased by about \$27,500,000. This is the fifth large industry to raise the wages of its employes in the last two weeks, the steel, automobile, rubber and meat-packing industries having already announced rises for more than 1,200,000 workers.

#### Pay Rises Now \$200,000,000

In all it is estimated that wage and salary increases in the last fortnight have reached \$200,000,000 a year, while extra and special dividend payments declared by seventeen large corporations already have far exceeded this total. Many corporations have deferred action until later this month or to De-

in addition, regular dividend payments to stockholders and bonus payments to employes will swell the total pre-Christmas distribution by many millions. Bonus payments already have passed \$25,000,000.

The General Foods Corporation announced yesterday a bonus of two weeks' salary for all employes who were with the company prior to Jan. 1, 1928, and of one week's salary for all employed between Jan. 1, 1926, and yesterday. The bonus will be paid on Dec. 17 to all employes in sixty-three plants and sales offices throughout the country. In addition, the directors voted an extra dividend of 45 cents a share on the common stock, payable Dec. 17 to stockholders of record Nov. 27. This extra distribution will amount to \$2,412,000 and will be received by more than 63,000 stockholders. The half of the workers who are also stockholders will share in the extra dividend.

The Coca-Cola Company announced a month's extra pay for employes, in celebration of its fiftieth anniversary. At the same time a \$2 extra dividend amounting

Continued on Page Twenty

Continued From Page One

to \$7,983,600 was voted for shareholders.

The Commercial Investment Trust Corporation voted extra compensation to employes amounting to \$500,000. The bonus for each employe is based upon his salary, length of service and individual performance record.

Bloomington's and Abraham & Straus, which are members of the Federated Department Stores, announced yesterday that \$30,000 would be distributed this Christmas in bonuses to employes. All persons employed before Jan. 1, 1926, will share equally in the distribution, regardless of rank or position, and provision is to be made for persons employed since Jan. 1.

Regular employes will not be required to work longer hours at Christmas, as additions will be made to the staff.

Dividend by the C. & O.

By The Associated Press.  
CLEVELAND, Nov. 17.—Directors of the Chesapeake & Ohio Railway Company declared today an extra cash dividend of \$1 per share on 7,746,000 shares of outstanding common stock and \$2 per share in preference stock, Series A, both payable Jan. 11, 1931, to shareholders of record Dec. 15.

Directors of the Chesapeake controlled Pere Marquette Railway Company, also in session here, declared a dividend of \$20 per share on 112,000 shares of prior preference stock, payable Dec. 17 to stockholders of record Nov. 25.

The Pere Marquette dividend, an announcement explained, is to apply on accumulated preferential dividends on the basis of 5 per cent yearly for the period from Aug. 1, 1931, to July 31, 1935, inclusive.

The two Van Sweringen properties declared total dividends, including the stock issue, aggregating \$30,570,785.

Chesapeake Corporation, owner of a substantial amount of C. & O. stock, declared a regular dividend of 75 cents per share on common stock, payable Jan. 1 to shareholders of record Dec. 2.

C. & O. declared also a regular dividend for the fourth quarter of 70 cents per share on common stock, payable Jan. 1 to stockholders of record Dec. 2.

The C. & O. explained that issuance of the \$2 preference stock dividend was subject to "appropriate authority" from the Interstate Commerce Commission and the State Corporation Commission of Virginia.

C. & O. stockholders, at a meeting Nov. 5 at Richmond, Va., approved an amendment of the charter recommended by directors authorizing the preference stock dividend.

In a letter to stockholders, W. J. Harahan, president of the company, said issuance of the new stock would "broaden the financial structure of the company at this time."

The Chesapeake & Ohio announced that its net income for October was \$5,079,185, an increase of \$1,428,710 over the corresponding month of 1929.

For the ten month period since Jan. 1, the road's net income was \$34,569,752, an increase of \$2,802,289 over the corresponding 1929 period.

Railway operating revenues for October were \$15,742,824 and for the ten month period \$111,807,907. The respective gains over last year were \$1,094,110 and \$17,919,162.

Patterson-Sargent

Patterson-Sargent Company, paint manufacturers, declared today an extra dividend of 25 cents per share of common stock, payable Dec. 1 to stockholders of record Nov. 25. The concern also declared a regular 25-cent dividend on its 200,000 shares of outstanding common.

The Cleveland Hobbing Machine Company also announced an extra 30-cent dividend in addition to a regular 30-cent dividend on \$1,126 shares of outstanding common stock, payable Dec. 1 to stockholders of record Nov. 25.

Kelley Island Lime and Transport declared an extra dividend of 25 cents a share in stock of record Dec. 1, payable Dec. 15. Total stock outstanding is 508,952 shares.



### Public Service Corporation

NEWARK, N. J., Nov. 17.—The Public Service Corporation of New Jersey ordered an extra dividend totaling more than \$1,000,000 at the regular quarterly meeting of the board of directors. In addition to the quarterly dividend of 60 cents a share on common stock, the directors announced an extra dividend of 20 cents a share. The dividends apply to 5,503,193 shares of common stock outstanding, making the total of the extra dividend \$1,100,536.60.

The corporation also declared the usual quarterly dividends on its cumulative preferred stock—\$2 on the 4 per cent, \$1.75 on the 7 per cent and \$1.25 on no-par value \$5 shares.

The directors announced that the extra dividend was declared to "reduce the corporation's liability for Federal surtax on undivided profits."

The Public Service Electric and Gas Company declared a regular quarterly dividend of \$1.75 on 7 per cent preferred stock and of \$1.25 on \$5 cumulative preferred shares.

The dividends will be paid on Dec. 19. The Public Service Corporation will pay to stockholders of record of Nov. 27. The Gas and Electric Company will pay to stockholders of record of Nov. 20.

### Youngstown Sheet and Tube

SPECIAL TO THE NEW YORK TIMES.

YOUNGSTOWN, Ohio, Nov. 17.—Directors of the Youngstown Sheet and Tube Company today ordered nearly one-half of the back dividends of the company's preferred stock paid in cash. Directors ordered a payment of \$8.25 per share, representing a year and a half of unpaid dividends on the preferred issue, on Dec. 15 to holders of record Dec. 5. These deferred dividends accrued during the depression years, beginning with 1932, at the rate of \$5.50 a year, and after the payment ordered today there will be \$9.62½ per share unpaid. Until the preferred arrearages are paid, no dividend can be declared on the common shares.

Regular dividends on the preferred stock were also declared at the rate of \$1.37½ per share, payable Jan. 1 to stock of record Dec. 19.

The payment of the back dividend amounts to \$1,287,500.

Directors also called \$5,000,000 of the 3½ per cent debenture bonds for Dec. 22 at 104 plus accrued interest. The bonds are convertible into common stock at the rate of ten shares for each \$1,000 bond.

The company originally sold \$30,000,000 of these bonds last Spring. Several millions have been converted by holders and \$3,000,000 were called by the company Oct. 15. All of the called bonds have been converted into common stock.

### Payments in Chicago

By The Associated Press.

CHICAGO, Nov. 17.—Lincoln Printing Company directors today declared a dividend of 30 cents a share on the common stock payable Dec. 21 to stockholders of record

Dec. 10. This makes a total disbursement for the year of 75 cents per share on the common.

W. B. Jarvis Company directors voted a special dividend of \$1.25 on the capital stock payable Dec. 15 to stockholders of record Dec. 1, bringing total dividends declared for the year to date to \$2.37½ per share.

L. A. Jarvis, president of the company, said that provision also had been made for extra compensation for all employees, excepting officers, amounting to approximately \$50,000, payable during the rest of the year. He told directors the plant was running at full capacity with the largest volume of unfilled orders in its history.

### Cincinnati Railway Company

By The Associated Press.

CINCINNATI, Nov. 17.—The Cincinnati, New Orleans & Texas Pacific Railway Company declared an extra dividend of \$23 a share to common stockholders today. The dividend will result in distribution of \$2,063,100 to the holders of 69,700 shares outstanding.

In addition, directors declared the semi-annual dividend of \$5 a share, involving a distribution of \$448,500.

Both dividends will be paid Dec. 26 to stockholders of record Dec. 4. The railroad in June paid an extra dividend of \$2.50 a share plus its regular semi-annual \$5 dividend, making the total paid for the year \$35.50 a share.

Fairfax Harrison, president, said the distribution approximated 90 per cent of the estimated net profits for 1936.

The usual quarterly dividends of \$1.25 on the preferred stock were declared. Directors and officers were re-elected.

The \$5 regular and \$23 extra dividend declared by the Cincinnati, New Orleans & Texas Pacific Railway yesterday will add \$700,000 to the Southern Railway's income and \$338,000 to the Baltimore & Ohio Railroad's income. The Southern and the B. & O. control the C., N. O. & T. P. through the Southwestern Construction Company, a holding agency.

"The C., N. O. & T. P. is completing a fourth successful year," said Fairfax Harrison, president, in announcing the distribution. "In 1933, 1934 and 1935 the distribution of dividends was limited to an average of slightly more than one-half of the available net profits, but as the cash position remains strong and all immediately contemplated additions and betterments to the properties have been provided for, the board has now determined to meet the expectations of stockholders by a distribution of approximately 90 per cent of the estimated net profits in 1936."

### New England Telephone

By The Associated Press.

BOSTON, Nov. 17.—Directors of the New England Telephone and Telegraph Company today declared a fourth quarter dividend of \$2 per share, 50 cents more than previous

quarterly dividends this year. It brings the year's total dividend per shareholder to \$5.50, compared to \$6 in 1935.

The dividend will be paid Dec. 21 to stock of record Dec. 4. The company has paid \$8,666,916 in divi-

dends this year, compared to \$8,000,000 last year.

### Sunshine Mining Company

By The Associated Press.

YAKIMA, Wash., Nov. 17.—Plans to pay the largest dividend in the history of the Sunshine Mining Company were announced today. The directors yesterday increased the rate from 50 to 75 cents a share.

R. M. Hardy, president of the company, said \$1,116,515 would be paid in the dividend Dec. 15 to stockholders of record Dec. 1.

### Mines to Pay 100 Per Cent on Stock

TORONTO, Nov. 17 (By the Canadian Press).—Board of directors of Lake Shore Mines announced today a 100 per cent dividend together with a 100 per cent bonus will be paid Dec. 15 to shareholders of record Dec. 1. The disbursement will be \$2, the stock having a par value of \$1.

### Kimberly-Clark

Directors of the Kimberly-Clark Corporation declared a quarterly dividend of 25 cents on the common stock, payable Jan. 2 to stockholders of record Dec. 15. On Oct. 21, the company declared a special dividend of 25 cents, payable Dec. 23 to holders of record Dec. 3. On Aug. 18 a special dividend of 25

cents and a quarterly distribution of 12½ cents were voted.

### J. I. Case

J. I. Case Company resumed the payment of dividends on the common stock with the declaration yesterday of a \$4 disbursement. This is the first distribution on the junior shares since July 1, 1931, when \$1.50 was paid. In addition a dividend of \$7.75 a share was voted on the preferred stock, of which \$6 is to clear up arrears on the issue and \$1.75 to cover the regular quarterly payment. A 6 per cent bonus, payable at the Dec. 15 payroll date, was voted to the company's Rockford and Racine employees working on the active payroll Dec. 1.

### International Business Machines

International Business Machines Corporation declared a 5 per cent stock dividend, deliverable April 1, 1937, or as soon thereafter as practicable, to holders of record March 15, 1937. A stock dividend of 3 per cent was declared a year ago. The regular quarterly cash dividend of \$1.50 declared payable Dec. 21 ordinarily would have been paid on Jan. 10.

### Tide Water Oil

The Tide Water Oil Company declared a dividend of 70 cents a share on the 2,194,773 shares of common stock outstanding. Practically all the stock is owned by the Tide Water Associated Oil Company.

**Lord & Taylor**

Directors of Lord & Taylor declared a quarterly dividend of \$2.50 a share on its stock, payable Jan. 2 to holders of record Dec. 17. Action on the usual \$5 Christmas dividend has been deferred until after Jan. 1. The company said that it was unable to estimate earnings for the year until the end of the holiday season, and due to the undistributed profits tax, directors wanted to have definite indications of profit before taking action on any extra or special distribution.

**B. F. Goodrich**

A quarterly dividend of \$1.25 a share on the \$5 cumulative preferred stock was declared by the B. F. Goodrich Company. The dividend, the second one of \$1.25 to be declared since the stockholders of the company gave effect to the recapitalization plan on Sept. 9, is for the quarter ending Dec. 31. The first distribution on the new preferred stock was payable as of Sept. 30.

**American Radiator and Standard Sanitary**

In addition to a special dividend of 15 cents, a quarterly distribution of the same amount was declared on the common stock of the American Radiator and Standard Sanitary Corporation. A quarterly dividend of \$1.75 a share on the preferred stock was also voted.

**Pacific Mills**

Pacific Mills declared a dividend of \$1, an increase of 50 cents over the last payment made on Sept. 1, 1934.

**Cutler-Hammer**

Cutler-Hammer, Inc., declared an extra dividend of \$1, plus the regular quarterly of 35 cents. On Sept. 15 the company paid an extra of 50 cents a share.

**National Can**

The National Can Company, subsidiary of the McKeesport Tin Plate Company, declared a special dividend of \$2.25 a share. A stock dividend of 33-1/3 per cent was voted on Oct. 8. In previous quarters dividends of \$1 were disbursed.

**Schiff Company**

An extra dividend of 75 cents and a dividend of 75 cents on the common stock of the Schiff Company were declared. The last payment was 75 cents, distributed on Sept. 15.

**Weston Electrical Instrument**

The Weston Electrical Instrument Company declared a dividend of 60 cents on its common stock, an increase of 45 cents over the rate paid on March 2, this year.

**Clark Equipment**

An extra dividend of 50 cents, together with a quarterly dividend of

40 cents, was declared on the common stock of the Clark Equipment Company. On Sept. 15, 30 cents was paid, prior to which the company distributed 90 cents quarterly.

**Associates Investment**

The Associates Investment Company declared an extra dividend of 75 cents and a quarterly of 50 cents on its stock. On Sept. 30, 37 1/2 cents extra and 25 cents quarterly was paid.

**Ludlow Manufacturing Association**

The Ludlow Manufacturing Association declared an extra dividend of \$3 and the regular quarterly of \$1.

**Viking Pump**

A special distribution of \$1 on common stock was voted yesterday by directors of the Viking Pump Company. Special dividends of 50 cents were paid on Sept. 15 a June 15.

**North Central Texas Oil**

Directors of the North Central Texas Oil Company declared a special dividend of 15 cents on common stock.

**Peoples Water & Gas**

A dividend of \$13.50 a share was declared on the \$6 cumulative preferred stock, reducing the rate to \$8 a share.

**El Paso Natural Gas**

An initial quarterly dividend of 40 cents a share has been declared on the new common stock of El Paso Natural Gas Company, recently changed from no-par to \$3 1/2 value.

**American Smelting and Refining**

The directors of the American Smelting and Refining Company declared a special dividend of \$2 a share on the common stock, payable Dec. 22 to stock of record Nov. 30. So far this year the company has paid two quarterly dividends of 50 cents each and two of 75 cents each, a total of \$1.80 a share on the common stock. The company said that, because of this distribution and to comply with the provisions of its charter, the next quarterly preferred dividends would be paid in advance of their usual time.

**Kennecott Copper Corporation**

The directors of the Kennecott Copper Corporation declared a dividend of 85 cents a share on common capital stock, payable Dec. 22 to stock of record Nov. 17. This will bring dividend payments for the company this year to \$1.70 a share, two dividends of 30 cents each and one of 25 cents already having been paid.

**Massachusetts Investors Trust**

Massachusetts Investors Trust advised stockholders yesterday that

an extra dividend of 25 cents a share, the estimated amount of which 1934 earnings will exceed dividends already paid, and a special dividend of \$1 a share, estimated net profit realized from sales of securities this year, will be paid on Dec. 24 to holders of record Dec. 10. Shareholders may apply the amount they are entitled to under the special dividend to the purchase, at liquidating value, of many shares of the trust as may be possible, and the excess cash, if less than the amount required for a \$1 share, will be paid directly to the shareholders who do not express choice for the purchase of shares; will automatically receive the special dividend in cash.

**Pet Milk**

An extra dividend of 25 cents, in addition to the regular quarterly of 25 cents, was voted on the common stock of the Pet Milk Company.

**Detroit Paper Products**

The Detroit Paper Products Corporation declared an extra dividend of 20 cents, as well as the regular quarterly of 8 1/2 cents.

**Standard Oil of Nebraska**

Standard Oil of Nebraska declared a dividend of 25 cents, the first payment since 25 cents was disbursed on June 20, 1934.

**American Enka**

An extra dividend of \$3.00 a share, plus the regular quarterly

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# DIVIDENDS ANNOUNCED

Increased					Company				
Company	Rate	Pay-able	Record	Hldrs. of Record	Company	Rate	Pay-able	Record	Hldrs. of Record
Associates Invest.	.500	Q Dec 31	Dec 15		Cal & Hecla Min.	.250	Q Dec 21	Dec 1	
Clark Equipm.	.400	Q Dec 15	Nov 20		Case (I) Co pf.	.75	Q Dec 21	Dec 1	
Consolidated Car Wash- ing Co. Inc.	.41	Q Dec 15	Nov 20		Cheapeake Corp.	.700	Q Jan 1	Dec 5	
Electric Products	.700	Q Dec 21	Dec 10		Cheapeake & Ohio	.700	Q Jan 1	Dec 5	
Kennecott Copper	.250	Q Dec 21	Nov 27		Ch. Sec Co 7% pf.	.175	Q Jan 2	Dec 18	
Kimberly-Clark	.250	Q Jan 3	Dec 12		Gen N O&T P RR	.25	Q Dec 10	Dec 4	
Liaison Printing	.500	Q Dec 21	Dec 18		Clark Equip pf.	.175	Q Dec 15	Nov 25	
New England Tel & Tel	.25	Q Dec 21	Dec 18		Coca-Cola	.500	Q Dec 15	Nov 28	
North Central Texas Oil	.150	Q Dec 18	Dec 2		Do A	.100	Q Dec 15	Nov 28	
Sonotone Corp pf.	.150	Q Jan 3	Dec 10		Coca Gas of Balt.	.000	Q Jan 2	Dec 15	
Steeling Brewers	.300	Q Dec 19	Dec 1		Do pf	.125	Q Jan 2	Dec 15	
Sunshine Mining	.750	Q Dec 15	Dec 1		Cutler Hammer	.250	Q Dec 15	Dec 1	
Tide Water Oil	.700	Nov 17	Nov 15		Del & Ed Bro R. RR	.845	Q Dec 19	Nov 27	
Viking Pump	.41	Dec 18	Dec 1		Detroit Paper Pr.	.645	Q Dec 19	Nov 16	
Western Electrical In- strument	.000	Dec 18	Nov 30		Dixon (Jos) Cr Co	.41	Nov 20	Nov 16	
					E Tenn Tel Co.	\$1.84	Nov 3	Dec 17	
					Elec & Musical Ind.		Dec 2	Nov 24	
					Lid. Amer shrs	150	Q Dec 1	Nov 22	
					East & Rut G Co	14	Q Jan 2	Dec 31	
					Gold & Silver Trust	\$1.50	Q Jan 2	Dec 31	
					Goodrich (B F) 5% pf		Q Dec 21	Dec 10	
					Hudson Co Gas	.31	Q Dec 1	Nov 20	
					Hummel-Ross Fibre	.250	Q Dec 21	Dec 10	
					Int Bus Mach.	\$1.50	Q Dec 21	Dec 10	
					Int. Oceanic Tel	\$1.50	Q Jan 2	Dec 11	
					Int. Tel of M.	\$1.25	Q Jan 2	Dec 17	
					Kelley (A L & T)	.250	Q Dec 15	Dec 1	
					Kimberly-Clark	\$1.50	Q Dec 1	Dec 18	
					Lake Shore Mines	.41	Q Dec 16	Dec 1	
					Lead Star Gas	.250	Q Dec 24	Nov 25	
					Lead & Taylor	\$2.00	Q Jan 2	Dec 17	
					Ludlow Mfg Assn.	\$1.40	Q Dec 1	Nov 19	
					Lynchburg & Arlington Telegraph	.43	Q Jan 2	Dec 15	
					Mfrs Equip & Tr Co (B Lewis)	.250	Dec 1	Nov 13	
					Miles O Corp. vic.	.250	Q Dec 25	Nov 20	
					Mont L & Mfg	.500	Q Dec 15	Nov 30	
					N. T. Mill T Co.	.750	Q Jan 2	Dec 11	
					Norfolk Tel Co.	\$1.50	Q Jan 2	Dec 16	
					Ohio Gas & Elec	\$1.50	Q Dec 15	Nov 20	
					Do 7% pf	\$1.75	Q Dec 15	Nov 20	
					Orinda, Lid.	.1500	Q Dec 15	Nov 26	
					Do 7% pf	.4150	Q Dec 15	Nov 26	
					Pac & All Tel Co.	.500	Q Jan 2	Dec 15	
					Pac & Pac Gas	\$2.50	Q Dec 1	Nov 20	
					Parker-Hargens	.250	Q Dec 1	Nov 20	
					Pet. Milk	.250	Q Dec 21	Dec 1	
					Pub Ser of N J.	.600	Q Dec 15	Nov 27	
					Schiff Co	.750	Q Dec 15	Nov 20	
					Do pf	\$1.75	Q Dec 15	Nov 20	
					Se. Pac. Gas & Elec	.44	Q Dec 15	Nov 20	
					Sutherland Paper Co.	.400	Q Dec 15	Dec 5	
					Un Dyewood	.250	Q Jan 2	Dec 11	
					Viking Pump pf.	.800	Q Dec 15	Dec 1	
					Western Tel Inst. A.	.500	Q Jan 2	Dec 15	
					Woodall Indus.	.250	Q Dec 15	Nov 20	
					Yorger's S&T pf.	\$1.375	Q Jan 1	Dec 19	

\*Payable in new preferred stock, Series A.

## DIVIDEND MEETINGS TODAY

- American Cigarette & Cigar Co. pf. \$100 A. M.
- American Sugar Refining Co. pf. and com. 11:30 P. M.
- American Tel. & Tel. Co. com. 12 M.
- American Woolen Co. pf. 3 P. M.
- Atlanta, Birmingham & Coast R. R. Co. pf.
- Beneficial Loan Society com. 1:30 P. M.
- Continental Light & Power Co. com. 12 M.
- Empire Power Corp. pf. 3:30 P. M.
- Furniture Store Co. com.
- General Fire Extinguisher Co. com. 10 A. M.
- Goldblatt Brothers com. 2 P. M.
- International Cement Corp. com. 9 A. M.
- International Rail Co. com. 2 P. M.
- Kansas City Power & Light Co. pf. 10 A. M.
- Litell & Myers Tobacco Co. pf. 12 M.
- Loew's Inc. com. 3:30 P. M.
- Lord & Taylor Co. com. and pf. 8 P. M.
- Matteson Alkali Works. com. 11:30 A. M.
- Montreal Cottons Ltd. pf. 12:30 P. M.
- Motor Products Corp. com. 12:30 P. M.
- Ohio Heating Co. pf. and com. 2 P. M.
- Public Service of Oklahoma pf. and 7% prior lien.
- Raytheon Manhattan, Inc. com. 12 M.
- Stevens Manufacturing Corp. com. 10 A. M.
- Thatcher Manufacturing Co. com. 8:30 A. M.
- United Gas & Electric Corp. pf. 3:45 P. M.
- United States Fuel Co. pf. and class 2 and B. 3:30 P. M.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 18, 1936

TO Secretary Morgenthau  
FROM Mr. Haas *JA*

At 10:35 A. M. today in your office you called my attention to a compilation of dividend payments which appeared in today's New York Times. You asked that a study be made of the various "methods" used by different companies in order to reduce or avoid payment of the undistributed profits tax. You indicated that the main objectives you had in mind were to determine whether or not the undistributed profits tax (a) prevented or interfered with the building of adequate corporate surpluses, and (b) interfered with the growth of small corporations. In this connection you requested that the study include the following:

1. Compilation of corporations involved and description of the various "methods" used.
2. Percentage distribution of "methods" employed; for example 10 percent of companies use method "A", 15 percent "B", etcetera.
3. "Methods" classified by industries.
4. "Methods" classified according to size of corporation.

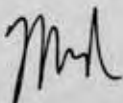
Date for completion -- You did not set a definite date, but asked that the study be given prompt attention.

## MEMORANDUM

November 18, 1936.

To: The Secretary  
From: Mr. McReynolds

Mr. Zucker has been designated by Mr. Haas; Eldon King has been designated by the Commissioner of Internal Revenue; and P. J. Mitchell has been designated by Clarence Opper to make the study and report to you next Monday on the existing situation with respect to taxes required under present law and procedure in connection with investments by residents in other countries in United States markets.



MEMORANDUM

November 18, 1936.

To: The Secretary  
From: Mr. McReynolds

George Haas has designated Mr. Seltzer and the Commissioner of Internal Revenue has designated a Mr. Nelson to make the analysis you requested of the practices being followed by corporations in the distribution of dividends.

*WML*

November 18, 1936.

Secretary Morgenthau

Clarence Oppen

The following cases in which the Treasury is interested have been the subject of news items in the papers in the last few days:

1. American Writing Paper Company v. Holyoke Water Power Company.

This is an action involving a lease between two corporations in which the tenant agreed to pay its rent in an amount of gold equal to that contained in 1,500 gold dollars, or the equivalent in United States money. The United States Supreme Court granted certiorari, as you were advised on October 12, 1936. On Monday the Government was given leave to appear and argue before the Supreme Court as a friend of the Court. The case will be reached for argument early in December and we are working on a brief.

2. Dixie Terminal Company v. The United States.

This is the suit brought by Robert Taft to recover \$1.07 on an interest coupon of a called Liberty Bond. The Court of Claims a week ago Monday handed down a unanimous decision in favor of the Government, concluding that the Government's principal contention was sound, namely, that when the notice of call was given it terminated the obligation to pay interest regardless of whether payment of the principal of the bond was made in gold.

3. Hudson v. The United States.

This is the case testing the constitutionality of the retroactive feature of the silver tax. The Government's case was presented to the Supreme Court yesterday by Robert Jackson. Argument will be completed today. Jackson reported to me that the Court, while apparently unsympathetic at the beginning of his argument, appeared to be less antagonistic as the argument progressed.

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TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE November 19, 1936.

CONFIDENTIAL

TO Secretary Morgenthau and Mr. Oliphant  
FROM Mr. Opper

On November 19, 1936 Mr. Wideman called on the Secretary to discuss the Associated Gas case. I was present. Mr. Wideman referred to the development of the proposal for having a commissioner appointed by the Court, who would be permitted to attend directors' meetings at which vital decisions affecting the Government's position were to be made. He stated that a stipulation had been prepared providing for this procedure and for notice of such meetings to counsel for the Government who would have the right to appear in court in opposition and that the stipulation had been forwarded to Mr. Brumback, Counsel for Associated Gas, who was expected to come to Washington the following day to discuss it. He further informed the Secretary that the Associated appeared to be endeavoring to arrange some procedure for lifting the Government's lien so that they could do some refinancing, but that he had indicated that nothing could be done along this line except possibly the release of certain properties if those which remained were ample security. The Secretary asked that he be kept advised as to progress and particularly informed if negotiations reached the point where the appointment of a commissioner was imminent.

The Secretary asked whether the Government would be expected to make any recommendation as to the appointment of a commissioner. Mr. Wideman expressed doubt, although suggesting that the Court would probably wish to appoint someone who would be satisfactory to the parties. Mr. Wideman then suggested that, since the commissioner would presumably be a lawyer and would preferably be someone who was already acquainted with the situation, the Court might ask him, Wideman, whether he would be willing to accept the appointment. He suggested that such an arrangement might be to the Government's interest in that it would then have, in effect, two representatives in the picture since he, Wideman, was familiar with the Government's interest in and attitude toward the matters which would arise. He stated, however, that he would not wish to indicate his willingness to accept such an appointment unless it was satisfactory to the Secretary. The Secretary gave no answer or commitment, but merely reiterated his request that he be kept advised of developments.

CVO



ADDRESS OFFICIAL COMMUNICATIONS TO  
THE SECRETARY OF STATE  
WASHINGTON, D. C.



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
LA

November 19, 1936

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith, for the confidential information of the Treasury Department, a copy of a despatch No. 7596, dated November 6, 1936, from the American Ambassador at Habana, Cuba, with regard to a scheme sponsored by Mr. Eduardo Greñas to coin 100,000,000 silver pesos. The indicated enclosures have been received in single copy only and are being retained with the original of the despatch.

Enclosure:

From Embassy, Habana,  
No. 7596, November 6,  
1936.

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**Department of State**

**BUREAU**  
**DIVISION**

**LA**

**ENCLOSURE**

**TO**

**Letter drafted** .....

**ADDRESSED TO**

**Secretary of the Treasury**

No. 7596

Havana, November 6, 1936

Subject: (Transmitting memoranda concerning  
(scheme of Sr. Eduardo Grañas to coin  
(100,000,000 additional silver pesos

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,  
Washington, D. C.

Sir:

I have the honor to refer to previous reports concerning the interest of Sr. Eduardo Grañas in a scheme for coining 100,000,000 pesos of silver and especially to my despatch No. 7561, of November 2, reporting my conversation with Sr. Grañas on the subject.

Sr. Grañas has now brought me several memoranda (transmitted to the Department herewith) which purport to outline his scheme and the reasons for the need of additional coinage. The reasoning is hardly

logical

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logical and at times his line of argument is confused. The essence of the scheme, however, will be found in the first two pages of the pamphlet entitled "Proposición, Pago de la Deuda Flotante, Creación de la Moneda Nacional, Utilidad para el Estado y para los Banqueros." The Department will note therefrom that Sr. Greñas' company, the Compañía Financiera Cubana, S. A., proposes to purchase the silver necessary for the coinage of an additional 100,000,000 pesos in monthly instalments of 5,000,000 pesos. The Government is to repay the Compañía Financiera Cubana for the cost of each 5,000,000 silver pesos in the sum of "approximately 2,500,000 pesos in American money" fifteen days after receipt. In return for its services (sub-paragraph (d) of paragraph IV) the company will be appointed "paying agent of the floating debt, with the privilege of collecting a commission of 10% from the holders of claims approved by the 'Comisión Depuradora.'" Sr. Greñas estimates that the seigniorage on the 100,000,000 pesos will amount to 58,000,000 pesos, with which he proposes to pay the floating debt claims approved by the aforesaid commission. In the longer memorandum, with its accompanying diagrams, Sr. Greñas outlines plans for tying in the proposed coinage with a bank of issue and rediscount ("Banco de la República"), an agricultural mortgage bank, a bank of "refacción," a "national agrarian company," and

a "national stabilization commission," concerning the purposes and organization of which proposed institutions he does not go into detail, but the basis of his whole scheme is the aforesaid 100,-000,000 silver peso coinage.

Sr. Greñas is leaving for Washington and it is my belief that some time in the future he proposes to discuss his scheme with the Department with a view to obtaining, if not its approval, at least a friendly hands-off attitude.

Respectfully yours,

A true copy of the signed original  
JH

JEFFERSON GAFFERY

Enclosures:

1. Pamphlet containing proposition for payment of floating debt, etc.
2. Pamphlet re alleged benefits to Cuba of Greñas plan
3. Pamphlet containing various graphs
4. Memorandum

HFM/dec  
File No. 851

DEC 2 11 00 AM '48

November 19, 1936  
9:28 A.M.

Operator: Go ahead.  
H.M.  
Cochran: Hello.  
H.M.Jr: Hello Cochran?  
C: Hello, Mr. Morgenthau, yes.  
H.M.Jr: Good morning.  
C: Good morning, sir.  
H.M.Jr: Go ahead.  
C: I'm in the Embassy in Brussels.  
H.M.Jr: Yes  
C: I arrived here last night. This morning I went to see Finance Minister DeMan.  
H.M.Jr: Yes  
C: And I saw him and his General Manager.  
H.M.Jr: Yes  
C: He had a man from the National Bank there also.  
H.M.Jr: Yes  
C: He approves entirely your new declaration.  
H.M.Jr: Now, now wait a minute. You saw DeMan?  
C: Yes  
H.M.Jr: And who else?  
C: With him was the General Manager of the Treasury, -  
H.M.Jr: Yes  
C: - the Secretary of the National Bank of Belgium, -  
H.M.Jr: Yes

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C: - and the Director.

H.M.Jr: Yes

C: The Governor is in Egypt.

H.M.Jr: Yes

C: So the Director, the Acting Manager -

H.M.Jr: Yes

C: - was there with the Secretary.

H.M.Jr: Yes

C: So I saw them in - in one group.

H.M.Jr: Fine.

C: And the Minister approved definitely -

H.M.Jr: Yes

C: - your declaration -

H.M.Jr: Fine.

C: - draft.

H.M.Jr: He - he approved the declaration?

C: I mean your - your draft declaration.

H.M.Jr: Yes

C: Has no objection to it.

H.M.Jr: Good.

C: And is not worried over the final paragraph which cancels the old gold dealings.

H.M.Jr: He is - say that again please.

C: See, the final paragraph -

H.M.Jr: Yes

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C: - cancels your statement of January 1934, -  
H.M.Jr: Yes  
C: - does not concern him.  
H.M.Jr: Good.  
C: And he says that he stands by their original  
declaration -  
H.M.Jr: Yes  
C: - and his letter to you.  
H.M.Jr: Fine.  
C: Now, his technical assistants -  
H.M.Jr: Yes  
C: - including the General Manager of the Treasury -  
H.M.Jr: Yes  
C: - who official -  
H.M.Jr: Yes  
C: - had not known that he had signed and sent the  
letter on to us.  
H.M.Jr: He - they had not known it?  
C: They had not known it.  
H.M.Jr: Yes  
C: And one of them said to me as we went in, "Well,  
I do not think we should send that letter," and  
the other one said, "Well, Cochran told me it  
has been received, so it's too late to object."  
H.M.Jr: Yes  
C: So they - they were very nice about it -  
H.M.Jr: Yes



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- C: - but the - the one thing that worries - I mean the advisers had - don't like the letter I got simply because they thought it was going a little too far, that the government really ought to have parliamentary approval -
- H.M.Jr: Yes
- C: - for such an undertaking.
- H.M.Jr: Yes
- C: But he said that he would stand by it just the same.
- H.M.Jr: He would?
- C: Yes. The only thing that he is concerned about -
- H.M.Jr: Yes
- C: - was that question which you said might be raised by the press.
- H.M.Jr: Yes
- C: He said that he would rather that there was not such a categorical question and answer.
- H.M.Jr: Yes - - Hello?
- C: Hello.
- H.M.Jr: Go ahead.
- C: He said that if the statement itself, that is, your statement -
- H.M.Jr: Yes
- C: - does not
- H.M.Jr: I didn't get that.
- C: - the press might be inspired to ask such a question as this.
- H.M.Jr: Go ahead.

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C: And he dictated to me the question: -

H.M.Jr: Yes

C: - Why are fiscal agencies -

H.M.Jr: What is that?

C: - along with treasuries?

H.M.Jr: Wait a minute, Cochran, I can't get it. Go -  
start over again.

C: I say he dictated to me -

H.M.Jr: Yes

C: - the question which he thought we might place  
in the mouths of the press.

H.M.Jr: Go ahead.

C: That is: Why are fiscal agencies mentioned along  
with treasuries? That's the question.

H.M.Jr: Now, repeat it.

C: Why are fiscal agencies -

H.M.Jr: Yes

C: - mentioned -

H.M.Jr: Yes

C: - along with treasuries?

H.M.Jr: Yes

C: His suggested answer is this: -

H.M.Jr: Yes

C: - To take account -

H.M.Jr: Yes

C: - of conditions -

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H.M.Jr: Yes

C: - such as arise in Belgium, where the National Bank -

H.M.Jr: Yes

C: - acts as fiscal agent of the government, -

H.M.Jr: Yes

C: - which owns no gold itself.

H.M.Jr: Yes

C: He said that that was purely for psychological reasons here, to avoid any possible assumption -

H.M.Jr: Yes

C: - that there might - there might develop -

H.M.Jr: Yes

C: - difficulties between his bank - his treasury and the Bank.

H.M.Jr: Well, in other words, they don't want me to disclose that I have that letter, is that right?

C: That's it.

H.M.Jr: Well now, listen, Cochran - - Hello?

C: Yes

H.M.Jr: You tell them if they'll trust me I'll handle it as best I can not to embarrass them.

C: That you will -

H.M.Jr: If - if they'll simply - they'll - they'll simply have to trust me and I will do my very best, -

C: Yes

H.M.Jr: - not to do anything which will embarrass the

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Belgian government.

C: Yes

H.M.Jr: Now, how's that?

C: I think that's fair enough.

H.M.Jr: What?

C: I think that's fair enough.

H.M.Jr: I mean I'll - I'll - I'll do the best I can, knowing what the situation is, anxious that we should enter into this agreement, to do nothing which will embarrass the Belgian government.

C: Yes, yes.

H.M.Jr: Now, we can't always put in the mouths of the press what we want -

C: Yes

H.M.Jr: - and we don't always know what they're going to ask, but I know now what the situation is in Belgium, I want this agreement to go through, and I will do the best I can not to say anything which will be an embarrassment to them.

C: Fine, fine; I - I'll give them that assurance, sir.

H.M.Jr: See? Huh?

C: Yes

H.M.Jr: Now just a moment - (pause) - Hello?

C: Hello.

H.M.Jr: Now, go a - - what else have you got to tell me?

C: I was going to - to cable this to you later -

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

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C: - possibly this afternoon, I think.

H.M.Jr: Yes, I wish you would.

C: So you - you'll have the exact wording.

H.M.Jr: Yes

C: And I - I'll call them by telephone now or go and see them -

H.M.Jr: Yes

C: - before I cable you, see?

H.M.Jr: Yes

C: And then if - if that satisfies them, and I - I'm positive it will if you just give your assurance that you'll do the best you can -

H.M.Jr: Yes

C: - then I would come back and telephone Holland and Switzerland -

H.M.Jr: Yes

C: - and then, of course, I would go off to Holland tonight.

H.M.Jr: Yes. Now, just a moment - just a minute please.

C: Yes

(pause)

H.M.Jr: Hello?

C: Hello.

H.M.Jr: My advisers here want me to get this thought to you: that in talking to Holland -

C: Yes

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H.M.Jr: Holland has set no figure, no limit as to her devaluation.

C: No

H.E.Jr: If Holland sends us a confirmation of our declaration of September 25 -

C: Yes

H.M.Jr: - she is then committing herself to - against competitive devaluation.

C: Yes

H.M.Jr: Now they're a little bit worried here that Holland hasn't in any way indicated how much she will devalue -

C: Yes, yes

H.M.Jr: - and they - they think that - they want you to know that - that we'd like to, if we can, feel them out.

C: I see.

H.M.Jr: And also if Holland sends us a letter, as we suggested, for Sunday night, then Holland is committing herself against competitive devaluation.

C: That's right.

H.M.Jr: And I want you to have that in mind.

C: Yes

H.M.Jr: Do you see it?

C: But they do not consider her present tendency unfair, do they?

H.M.Jr: Her present what?

C: Her present less -

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H.M.Jr: Oh no, we don't even - we don't even feel it.

C: No, no, I mean it's less than these other countries, and Tripp has told me definitely that he wants to keep his devaluation less than the others if possible.

H.M.Jr: Hello?

C: Hello.

H.M.Jr: Well, that's all right, but we just want - I think you ought to point it out to them.

C: Yes, yes, that they are binding themselves -

H.M.Jr: - to this.

C: Yes, sir.

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

C: Yes

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

C: Yes

H.M.Jr: So they don't say subsequently, "Well, we didn't realize what we were doing."

C: Yes, yes.

H.M.Jr: Now, have you anything else?

C: The - the - one thing. I told the people here our scheme, our - our schedule, pointing out that it all depended upon their acceptance -

H.M.Jr: Yes

C: - of this proposition.

H.M.Jr: Yes

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C: And they're quite anxious that it go ahead.

H.M.Jr: Yes

C: I told them that I would phone them Sunday from Paris as to what success we had had.

H.M.Jr: Monday?

C: That I - well, you see, they have no statement to make on Sunday.

H.M.Jr: That's right.

C: And they could see whether the Swiss and Dutch statements come out Monday morning.

H.M.Jr: That's right.

C: But I would phone them from Paris -

H.M.Jr: Yes

C: - and that I would give them any information that I had there -

H.M.Jr: Yes

C: - about the statements which the British and French will issue.

H.M.Jr: Yes

C: And they said that they would probably limit their statement -

H.M.Jr: Yes

C: - to just giving your declaration -

H.M.Jr: Yes

C: - and any statements which the other two original parties to the arrangement may care to make.

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



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C: I'm to confirm on Monday that the thing has gone through.

H.M.Jr: That's all right. Now what else?

C: I think that's about all. They were all very cordial and the Minister sent his compliments to you.

H.M.Jr: Thank you.

C: He's a fine fellow; he's all right.

H.M.Jr: Well, you send him my greetings; hope I'll have the pleasure of meeting him soon.

C: All right.

H.M.Jr: Well, some time; "soon" sounds as though -

C: He took the responsibility to - to go ahead and sign the letter -

H.M.Jr: Yes

C: - without his other people knowing it.

H.M.Jr: Yes

C: Anywhere we can save him will be really doing -

H.M.Jr: Well, I - I - I - I get that. Now -

C: I - I'm sure that you can -

H.M.Jr: I can handle it. Now, about - you keep - you let Ambassador Morris know?

C: Yes, I'm - I had lunch with him here.

H.M.Jr: Yes

C: I'm going to see him again before I leave.

H.M.Jr: Well, give him my personal regards. You know, he's a great friend of my father's.

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- C: Yes, I - I know; he spoke of your family today at lunch.
- H.M.Jr: Now, well that's about - well, I guess that cleans up Belgium, doesn't it?
- C: Yes, yes. I'll - I'll telephone them now and tell them this, then I'll phone - I'll send you a cable this afternoon confirming this.
- H.M.Jr: Yes. Now, one other thing.
- C: Yes
- H.M.Jr: Do you lay any great significance on this Minister of Interior in France who shot himself?
- C: I - I don't think it will cause a lot of trouble. When I talked with you yesterday I - I didn't mention it because they - the first report was that he died of heart trouble.
- H.M.Jr: Yes
- C: Then it was found that he had committed suicide and left to his brother. The one to his Chief of Staff has not yet been disclosed.
- H.M.Jr: Yes
- C: The story is that Gringoire, a radical paper, a very bitter paper in was going to disclose in just a few days a new "nosegay" to file on Salengro.
- H.M.Jr: Yes
- C: - and that he was worried about that.
- H.M.Jr: I see.
- C: But the market yesterday slumped down and it's bound to be nervous the rest of the week, I imagine - but, - although it's rather improved fast.
- H.M.Jr: Yes

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- C: Parliament will be strengthened in the end by his removal.
- H.M.Jr: Well, that's what I wondered.
- C: That - that's my honest belief, because his record could stand investigating less than that of any other member of the cabinet.
- H.M.Jr: Uh huh. Well, that's what I wondered - whether Blum isn't better off.
- C: There's no question about it in my mind.
- H.M.Jr: Uh huh. Uh huh.
- C: The Minister of the Interior has so much authority in France and so on, -
- H.M.Jr: I see.
- C: - and is the subject of so much newspaper and political attack -
- H.M.Jr: Yes
- C: - that they ought to have a man of absolute, perfect integrity and reputation in it.
- H.M.Jr: Yes
- C: I imagine they'll get a - a more conservative and reputable individual in there.
- H.M.Jr: Good. Well, I - I'm very much pleased with the progress you're making and I'll hear from you again from Holland, huh?
- C: I think I can fix the Dutch thing all right.
- H.M.Jr: Good.
- C: The only thing is Switzerland, whether or not I can get them to give us adherence to the tripartite agreement without a meeting of the Federal Council.
- H.M.Jr: Well, can't you - couldn't you phone them of what's

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coming; couldn't you phone them today?

C: - stay here all afternoon and take a late train.

H.M.Jr: No, but why don't you phone Switzerland and tell them what's coming so they could have a day's head start?

C: I'm going to phone them from here and have them prepared for that.

H.M.Jr: That's right.

C: So if they want a meeting tomorrow or Saturday morning when I'm there -

H.M.Jr: Yes

C: - they can arrange it in time.

H.M.Jr: That's right.

C: But I had to hold everything until I got this fixed.

H.M.Jr: That's right. "ell, I think this is a big accomplishment.

C: Well, it - it - it was the only - it was the most difficult.

H.M.Jr: That's right.

C: Fine. I'll - I'll phone them at once and give them your message -

H.M.Jr: Fine.

C: - and I'll send the cable confirming and I'll go on to - to the Netherlands tonight.

H.M.Jr: Well, I - now I congratulate you. I'm very much pleased.

C: Oh, thanks a lot.

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H.M.Jr: All right.

C: I'm sure that I can phone you from the Hague or Amsterdam after I see them there, -

H.M.Jr: Yes

C: - because I have a very connection.

H.M.Jr: Good.

C: I thought I would file a wire from Switzerland -

H.M.Jr: Yes

C: - on Saturday morning, -

H.M.Jr: Good.

C: - or if I can possibly file one here - I mean in -

H.M.Jr: Yes

C: - the Hague or in Brussels as I pass through tomorrow night, I'll do it.

H.M.Jr: All right.

C: Fine.

H.M.Jr: Thank you.

C: Goodbye.

H.M.Jr: Goodbye.

November 19, 1936  
9:45 A.M.

Operator: Mr. Mallet. Go ahead.

H.M.Jr: Hello.

V.A.L.  
Mallet: Hello.

H.M.Jr: Hello, Mallet?

M: Yes, good morning, Mr. Secretary.

H.M.Jr: How are you?

M: Very well, thank you.

H.M.Jr: Mallet, I want to let you know that I just heard from Cochran -

M: Yes

H.M.Jr: - from Belgium.

M: Yes

H.M.Jr: And the Belgians have agreed to this.

M: Oh, grand.

H.M.Jr: And that, after all, is the most difficult hurdle.

M: Well, that's splendid.

H.M.Jr: And now he's going on tonight to - to Holland and see them there.

M: I see.

H.M.Jr: But Belgium has agreed and I - I'd be glad to let you - have you let your government know that.

M: Thank you very much, sir; we'll - we'll let them know.

H.M.Jr: Righto.

M: Thank you.

H.M.Jr: Fine.

M: All right, sir.

November 19, 1936  
10:58 A.M.

Operator: Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello, Henry, how are you?

H.M.Jr: I'm fine, how are you?

J: Oh, pretty good, pretty good.

H.M.Jr: I heard you called me yesterday and I've been trying to get you today.

J: Yes. Well, I just - I've been busy every minute since I got in here about an hour ago.

H.M.Jr: How would you like to have lunch with me?

J: I'd love it. That's what I was hoping you'd say.

H.M.Jr: Well, about one o'clock?

J: I'll be over.

H.M.Jr: I made quite a statement about R.F.C. this morning to the press.

J: Fine.

H.M.Jr: I made quite a statement this morning, I said.

J: I said - I said all right I'm for it, whatever it is.

H.M.Jr: Well, I got - I've been kind of fed up on these stories.

J: Yes, so have - well, I wanted to talk to you about that too; I hear lot of stories.

H.M.Jr: Well, I came out and said that if my advice was asked about R.F.C., I was strongly in favor of extending it for one year.

J: Fine.

- 2 -

H.M.Jr: And I thought that we needed their services and that I was for it.

J: Well, I'm glad you said that.

H.M.Jr: And I - they said, well - then somebody said, "Well, Mr. Jones said that he didn't want it a year," a month ago. I said, "I don't believe that."

J: I see.

H.M.Jr: But I want to talk to you because they're just trying to make trouble, you know.

J: That's right, and it does make you tired.

H.M.Jr: Awful tired.

J: Well, I'll be over at one.

H.M.Jr: But I made a flat statement this morning that I'm for the extension of R.F.C. for one year.

J: Well, that's just fine.

H.M.Jr: So that ought to -

J: That - that'll put that out of the way.

H.M.Jr: I think so.

J: All right. See you at one.

H.M.Jr: Right.



November 19, 1936.  
11:58 A.M.

H.M.Jr: Just so that we keep our records straight, McQuillan only got the information yesterday. He had a conference with the Bar Association people yesterday afternoon.

E. Greenbaum: You mean McQuillan or Ireys?

H.M. Jr: I mean McQuillan. Ireys sitting here at my desk now.

G: Well, they'd know about it for the last week - - I spoke to him.

H.M.Jr: No, he's here in the office. He says he only - (Aside to Ireys) He only got it yesterday, didn't he? - - He only got it yesterday afternoon.

G: Well, the delay is pretty bad on their part then.

H.M.Jr: Well, it was only yesterday. Let me get - (Aside) But it was during yesterday that he got what they wanted? - - Ireys said they came to McQuillan's office only yesterday; he doesn't know whether it was morning or afternoon.

G: Well, that's - I can't understand that, because Fred Schantz called me up Friday night -

H.M.Jr: Yes

G: - and this guy Koopel was handling it for the Association, said he'd been in touch with McQuillan's office. I don't know McQuillan personally.

H.M.Jr: Well, I thought I wanted to tell you.

G: O.K.

H.M.Jr: Now - I mean I just wanted you to know that the - and McQuillan took the train, came down here, he saw Ireys, Ireys told me the story; we're going to let you have what you want.

- 2 -

G: Oh, that's swell.

H.M.Jr: See?

G: Well, that's grand.

H.M.Jr: So that's that; I just wanted to let you know that McQuillan got it yesterday, hopped on the train, was here this morning at 15 minutes of 12 and the answer is yes.

G: Well, that's swell; that's - that's -

H.M.Jr: That's the way we do things in the Treasury.

G: (Laughs)

H.M.Jr: I don't know how they run the god damn Bar Association.

G: All right, that's quick action.

H.M.Jr: O.K., Eddie.

G: Fine, Henry; thanks a lot.

H.M.Jr: Goodbye.

FEDERAL RESERVE BANK  
OF NEW YORK

*The Hooker 233*

OFFICE CORRESPONDENCE

DATE November 19, 1936.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF ENGLAND.

I called Mr. Bolton at 10:42 today. I mentioned that sterling seemed to be on the bid side and Bolton wondered why. I suggested that probably there was no reason at present for any substantial fluctuations one way or the other. Last week's temporary bulge to 4.89 5/16 could probably be ascribed to ~~the President's~~ ~~speech~~ the President's comment on "hot money" in this market. Judging by the operations of foreigners in our security markets, the effect of that comment had been temporary and only on one day did the foreigners seem to have switched from buying to selling. Monday and Tuesday purchases had again exceeded sales.

I referred to the cable received today from Buenos Aires to the effect that the Banco Central's requirements of dollars until the end of this month would be about \$45,000,000 and that they expected to provide the greater part of these funds by selling sterling. Bolton replied that he had known that something was in the wind, that he had actually already sold the Argentines \$3,500,000. This and any subsequent sales of dollars he proposed to keep off the market at his end. I replied that it was quite possible that we might wish to do the same here. I sounded him a little as to the size of Banco Central's balances in London; Bolton replied that ordinarily they were quite heavy.

I referred to the latest shipment of gold from Switzerland just announced and asked whether he could offer any explanation. Bolton thought it probably was a plain gold arbitrage transaction - some gold which had come out of Swiss boards - and which was being shipped here

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: November 19, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM: L. W. Knoke

WITH BANK OF ENGLAND.

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since the Swiss Bank's gold price was close to the Swiss franc-dollar rate. (That may be true as far as the Swiss Bank's buying price is concerned but with the selling price being more than 2% above its buying price I do not understand yet how this works.)

I asked about the reports reaching here from London to the effect that for several days in succession now so-called special quarters had sold gold. Was this on foreign orders or for purposes of currency management? Bolton replied that special quarters operations were actually very, very small. They had received a few ~~orders~~ orders but apart from that they were trying hard to get the price of gold in London fixed on the exchange rate. There had recently been a little bit of hoarding because things in Paris were not quite so good; they were trying to prevent the gold price from rising in response to hoarders' demand, feeling that it was better to give the hoarder a little gold rather than to let the price in London show a big premium over the exchange rate, thereby preventing too much discussion on the Continent. The answer to my question, therefore, was that the sales were partly an order and partly for management reasons.

France, Bolton thought, was losing gold steadily. There had been one big day last week (Friday) when the loss amounted probably to \$5,000,000; on all other days it had been relatively small. It seemed to him, he said, there was a steady drift away from the franc, which of course was extremely unfortunate because it might affect the recent agreement. If there was anything in the wind at any time, he promised

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 19, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knoke

WITH BANK OF ENGLAND.

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he would call me and let me know. Meanwhile the volume of business in the Paris market seems to have dropped to a very low level.

I referred to Reuter's recent dispatch from London that gold for forward delivery was at a premium and asked whether it was true that, as I had been told, the Bank of England was now doing this business. Bolton replied that they had stopped practically all of these dealings as far as this was possible; that every once in a while a fellow would do a trade and afterwards come to them and ask for their approval. At the Bank they felt very strongly that dealings in gold for forward delivery for purposes of hoarding or for any financial transaction, simply helped to make it more difficult to manage currencies. This policy did not of course prevent operations in future dealings where commercial contracts were fixed in gold (for instance, Russian contracts and a few with India, which included a gold clause) and where gold assets were the only hedge against a definite gold liability.

LWK:KMC

November 19, 1936.

The Executive Committee of the Open Market Committee of the Federal Reserve System met with the Secretary of the Treasury at 12 o'clock noon.

Those present were:

- Secretary Morgenthau,
- Marriner S. Eccles, Chairman of the Board of Governors,
- Ronald Ransom, Vice Chairman of the Board of Governors,
- M.S. Szymczak, Member of the Board of Governors,
- George Harrison, President of the Federal Reserve Bank of New York,
- W. Randolph Burgess, Vice President of the Federal Reserve Bank of New York,
- John H. Williams, Vice President of the Federal Reserve Bank of New York,
- E.A. Goldenweiser, Director of the Division of Research and Statistics of the Federal Reserve System,
- Wayne C. Taylor, Assistant Secretary of the Treasury,
- D.W. Bell, Acting Director, Bureau of the Budget,
- Geo. C. Haas, Director of Research & Statistics, Treasury Department
- C.B. Upham, Assistant to the Secretary.

Mr. Eccles said that the Open Market Committee had been giving consideration to possible action, perhaps <sup>not</sup> in the immediate future, to reduce excess reserves and offset gold imports by either raising reserve requirements or reducing the Federal Reserve portfolio. Their general view is that it would be a mistake to reduce their portfolio but that the desired end can be accomplished by increasing reserve requirements. The matter had been discussed with Dr. Goldenweiser and by him with others on his staff and a memorandum prepared which has been considered by the Executive Committee. It is their unanimous

opinion that it would be a mistake to alter the portfolio at this time for the purpose of reducing excess reserves or offsetting gold imports.

Mr. Harrison said that they did not favor decreasing the portfolio prior to increasing required reserves, certainly not in the near future. Some day it may be necessary to decrease the portfolio but they feel that the power over reserve requirements should be used first as proper central banking technique.

Dr. Goldenweiser, in summarizing the memorandum which was referred to by Mr. Eccles, said that they had first asked themselves whether there is any necessity for immediate action and, while they were not entirely unanimous on the point, the concensus was that there is no immediate necessity to act, based strictly on the present situation. That, he said, is his own view as well.

Next they asked themselves whether it is desirable in and of itself for the portfolio level to fluctuate rather than remain constant. On that point they decided that it is not definitely desirable to change the portfolio except in response to policy decisions having to do with the continuance or discontinuance of cheap money. A reduction in the portfolio diminishes a power which is not too great anyway and which ought not to be dissipated except in case of necessity.

The next question they asked themselves was whether or not they should raise reserve requirements and how far, before undertaking open market operations. The feeling in the Division of Research and Statistics is that this should be done. It will be done more easily now than later when excess reserves are perhaps lower and when banks might be affected in a way to cause resentment, somewhat justified.

-3-

They feel that the power over reserves should be used to make adjustments and that the portfolio should be preserved for use in case of definite credit action.

Mr. Williams said that he entertained the same views, to which he could not add greatly but which he might elaborate briefly. Since the power to raise reserve requirements has already been exercised for the purpose of reducing excess reserves, the system should stick to that method for the time being. The public will understand it better. It will not be interpreted as fear on the part of the Federal Reserve officials that things are getting out of hand. If the portfolio is reduced an important power will be dissipated and if gold continues to come in it may be necessary to raise reserve requirements at a time when banks are loaned up and when the shock will be much greater. It would be unfortunate to give the public an impression that the time has come for credit control. He is of the opinion that the country ought to be able to stand a much greater degree of prosperity than obtained in 1929. We are still in the recovery phase as is evidenced by unemployment and unbalanced budget and heavy relief expenditures. The national income is not yet up to the point where desired. The real credit problem is how to get a better balance within the country. At present nearly all of our pressure is on the consumer income while the heavy goods industry is lagging. It must be built up if we are to have a well balanced economy. It would be too bad for the public to get the impression that now is the time for contraction.

Mr. Eccles observed that the system has increased reserve requirements to decrease excess reserves and "got by with it". This action



was known not to be a reversal of easy money policy. Reserve requirements can be again increased with the same result and the same interpretation and understanding by the public. To let some of the portfolio run off would require explanation and the system does not know what explanation could be given. If none is given it would be taken as a reversal of policy and the Reserve Board would be regarded as putting on the brakes. The public was told last July that reserve requirements were raised not as reversal of policy and that it would not be done frequently. It was indicated then that when there is a reversal of policy open market operations will be undertaken.

Mr. Morgenthau asked by what percentage reserve requirements would likely be raised.

Mr. Eccles replied that they could raise them 50% which would mean a reduction in excess reserves of one billion and a half.

Mr. Morgenthau asked Mr. Burgess what effect this would have on larger banks as regards their portfolios and Mr. Burgess replied that a 25% raise would probably have little or no effect and that a 50% raise after the first of the year would have no serious effect. Some banks might have to sell a few governments, particularly in New York there might have to be a few adjustments. He added that if we are prepared as we were in July to stand under the market he did not apprehend any serious difficulty.

Amused glances were exchanged and Mr. Szymczak gave a near-chuckle.

Mr. Morgenthau said that he hoped we will be prepared "as we were in July" with perhaps 12 hours more notice.

Mr. Eccles then stated that he thought perhaps Mr. Morgenthau

had misunderstood Mr. Harrison when he conversed with him on the telephone last July on the morning when the increase in reserve requirements was announced.

Mr. Harrison's comment was "so many people misunderstand me".

Mr. Eccles said that when he talked to Mr. Harrison at night before the day action was announced, they were agreed that the bond market must be taken care of.

Mr. Harrison agreed with that and said he knew nothing about the action until 7 o'clock the night before it was taken.

Mr. Szymczak said that the Board didn't know it until 6 o'clock the night before.

Mr. Harrison said that when he was called at 9 o'clock it was agreed that something must be done to support the Government bond market and he arranged immediately for Mr. Burgess to come down from the Adirondacks and take care of things.

Mr. Morgenthau asked what the situation would have been if he had not called Mr. Harrison on the morning the action was announced, after reading about it in the morning New York Times, to which Mr. Harrison replied that he would have assumed that the Secretary had been informed through other channels.

Mr. Eccles interposed to say that preparations had been made to take care of the bond market.

Mr. Harrison said that when, on the evening before the action was announced, a telegram was received in the New York bank addressed to the telegraph office asking that some of the officers be asked to stand by, he suspected what was up and as a matter of fact had a bet with Williams as to what it was and they had a conference on the subject at that time.

Mr. Eccles said that the Board was somewhat handicapped in that they had to secure the assent of the Open Market Committee to bond dealings for account of the portfolio after the Board had decided to raise reserve requirements.

Mr. Harrison commented that this was a confession that the Open Market Committee had been "packed" and that the minority really had to go along.

Mr. Morgenthau said that since the matter had been brought up he wanted to say that he is of the opinion that on so important a thing as this it should not be left for the Secretary of the Treasury to find out about it by reading the New York Times. There can be no argument about that, he said. He continued that he saw no reason for going over this old subject, that so far as he is concerned it was water over the dam. He thinks it will not be repeated. He said that it has been a valuable lesson.

Mr. Eccles said that if Mr. Morgenthau got any impression from Mr. Harrison that no preparation had been made to take care of the bond market he wanted to clear that up.

Mr. Morgenthau replied that he had not gotten any such impression but added that he thinks he should have had at least 24 hours notice. He told the group that he has had to work alone and carry the brunt of the Government bond market without help for 3 years, except for the shifts and exchanges that have taken place. He said that on those shifts from short to long term and on exchanges Mr. Burgess had been perfectly swell but on the big cracks in the market and times of stress such as the Green Bay speech he had stood alone. He likes the 50-50 agreement which is at present in effect. During the past 3 years, however it has been very fortunate that we have had Postal savings funds to

invest. Look at the Treasury long term portfolio and contrast it with the Federal Reserve long term portfolio. Mr. Morgenthau continued that he has had excellent execution from the Federal Reserve Bank of New York as fiscal agent for the Treasury and that he has no complaint against them on that score.

Mr. Eccles said that it would be easier for coordinated action since the Banking Act of 1935 because of the centralized and flexible open market action possible. He said he regards it as unfortunate that the Open Market Committee did not years ago, when prices were lower, acquire more long term governments. If it had it would be in a position to exercise better credit control now.

Mr. Morgenthau asked if action would be postponed until after January 1st and said if the Open Market Committee decided to take action and would indicate to the Treasury that there is a 50-50 chance that they will do something by January or February, he would then clear the decks for those two months by refunding our February maturity in December and arrange no financing in 1937 prior to March 15. This will give the Federal Reserve January and February for their "boondoggling".

Mr. Eccles said that there was another aspect of the matter which might be gone into. He thought they might explain to the Secretary their reasons for preferring a raise in reserve requirements to a decrease in portfolio.

Mr. Morgenthau asked if it might possibly have anything to do with earnings. He then said that that was their responsibility and while he would like to know how they arrive at the result it was for them to decide.

Mr. Eccles asked if he had any particular feeling as to the

method used.

Mr. Morgenthau said that he would like to know the conclusions of the committee and the basis for their decision. He added that the Treasury staff had only learned of the attitude of the committee and had not had time to study it.

Mr. Eccles referred to the expressed desire of Mr. Morgenthau to see a change in the total amount of the reserve portfolio, to which Mr. Morgenthau's comment was that that was "only a feeling". He added that he now understands that the committee wants to use up one method before trying another.

Mr. Morgenthau then mentioned "padding" in connection with Treasury issues. He suggested that if the full allotment for individuals and banks be dropped from \$5000 to \$1000 that it might be possible to eliminate them entirely and let the small subscriber buy Baby bonds. If a bank puts in for \$5000 bonds for each of 50 relatives they <sup>will</sup> put in for \$1000 bonds for each of 100 relatives. Mr. Morgenthau added that we now have, counting co-owners, 650,000 names of Baby Bond purchasers and that without the co-owners we have 450,000 names. Moreover, we are getting 25,000 new people a month buying Baby Bonds.

Mr. Ransom commented that this is good news.

Mr. Eccles said that we have an answer to the small purchaser of bonds in being able to give them Baby Bonds.

Mr. Morgenthau thought there might be advantages to going out of the wholesale bond business and let the retail buyers apply for Baby Bonds.

Mr. Burgess and Mr. Bell thought the proposal ought to be given a little more study.

Mr. Burgess said he thought the December 15th offering ought to be made before December 7th.

Mr. Harrison said he didn't know much about padding. He said he hoped the small full allotments could be dropped.

Mr. Morgenthau said that if he could know by Monday noon, the decision, it would be satisfactory. He asked Mr. Williams if, in view of the fact that we have no maturity on March 15 or June 15th, there would be any advantage to selling bills into those two dates, or if he thought that was important.

Mr. Williams said he had not given it a great deal of thought but with large tax receipts on those dates it might take considerable money out of the market for a few weeks. It would be less important, he said, if reserve requirements are not to be raised.

Mr. Eccles said he would like to have the Treasury research group consider what Treasury feeling is, as a matter of principle, about absorbing incoming gold through the use of the Federal Reserve portfolio.

It was agreed that the Executive Committee would return tomorrow at 11:30.

Upm.

November 20, 1936. <sup>245 Fin</sup>

The Executive Committee of the Open Market Committee of the Federal Reserve System met with the Secretary of the Treasury at 11:30.

Those present were:

Secretary Morgenthau,

Marriner S. Eccles, Chairman of the Board of Governors,

Ronald Ransom, Vice Chairman of the Board of Governors,

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

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

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

M.J. Flemming, President of the Federal Reserve Bank of Cleveland,

Dr. E.A. Goldenweiser, Director of the Division of Research and Statistics of the Federal Reserve System,

Wayne C. Taylor, Assistant Secretary of the Treasury.

D.W. Bell, Assistant to the Secretary,

Geo. C. Haas, Director of Research & Statistics, Treasury Department

C.B. Upham, Assistant to the Secretary.

Mr. Eccles said that in looking to the future it is desirable, from the standpoint of the Federal Reserve System, to have as many free spots during the year as the Treasury feels it can give. To the extent that financing can be conveniently fitted into quarterly dates, the Federal Reserve Board will be left free to take action between such dates. When the budget has been balanced the problem will be somewhat different but it is accentuated now by the occasional need for new money. If the Treasury can find it convenient to do so the Federal Reserve Board will be glad to see January and February left vacant, with no financing plan for those months. However, as

to whether the Board will do anything in January or February, with respect to changing reserve requirements, it is now too far in advance to tell. On the other hand it cannot be determined what action the Open Market Committee might take. The Reserve people do not want the Treasury to feel that action would be taken, but both the Open Market Committee and the Board would like to have January and February left free. This does not mean necessarily that action will be taken in January or February.

Mr. Morgenthau asked just what it did mean and Mr. Eccles replied that if the situation developed in the meantime so that it seemed necessary or desirable for action to be taken, that course would be followed.

Mr. Morgenthau asked if he could understand that before action is taken on excess reserves the matter would be discussed with the Treasury.

Mr. Eccles replied in the affirmative and added that if the point is reached where action is to be undertaken they will inform the Treasury that they are considering action. Of course, Mr. Eccles continued, he never can know positively whether action will be taken or what that action will be until the Board has voted.

Mr. Morgenthau asked if the Board is now seriously considering taking action and Mr. Eccles replied in the negative.

Mr. Szymczak said the Board is of the opinion that if anything is done they would like to do it in January or February.

Mr. Eccles said the question has come up now because the full Open Market Committee is meeting now. He said we are getting closer to the point where something may have to be done. It may be two months away -- it may be five.



All are agreed that nothing should be done immediately.

Mr. Morgenthau said the Treasury would a little bit rather not pick up the February maturities in December for reasons explained yesterday. A nicer job can be done without that and we can come a little closer to the bull's eye. If we do pick up the February maturities in December it will be because the Federal Reserve people have indicated that they would like to have January and February kept clear.

The Secretary explained that if within two weeks, after the December 15th financing the Federal Reserve announced action with respect to excess reserves and the banks whose portfolios would be affected complained, the personal responsibility would be his so far as Government securities customers are concerned. If bonds are a point off and Treasury customers are hurt the Secretary will have to take the responsibility. They will say that the Secretary either did know that such action was to be taken and didn't tell or that he should have known.

The Secretary asked whether it might not be possible for the Federal Reserve Board to give some intimation by November 30th that they had under consideration a possible action in January or February.

Mr. Eccles replied that they always had that matter under consideration.

Mr. Morgenthau went on to draw an analogy between Treasury securities and selling any kind of merchandise. He pointed out that it is necessary to keep the good will of the customers and not load them up on one years model if a new model is planned in the immediate future. If the customers are "stuck" now the Treasury may be the one to be "stuck" next time. He suggested that the Federal Reserve Board

give a hint of the possibility that they may in January or February take some action on excess reserves. If no action is taken then no harm is done. If action is taken the market has been prepared. He suggested that between now and a week from Monday, the Board make up its mind whether they plan to do something and in the meantime the Treasury research staff will study matters and reach an opinion on what we think of the action.

Mr. Eccles said he did not think the Board would put the Treasury in the position of being embarrassed by too prompt action following a financing. He pointed out that the last time the Board waited until July to announce and August to put into effect the higher reserve requirements.

Mr. Szymczak asked if Mr. Morgenthau would like to have the announcement made before the financing and he replied in the affirmative, saying that he would like to give that as a reason for picking up the February maturity in December.

Mr. Szymczak asked Mr. Harrison what would be the effect of the action, if and when taken, if it were announced now.

Mr. Harrison said that if the Board thought action probable they should tell the Secretary. He added that he can see the advantage to the Secretary in having the announcement made now. He said that he sees no untoward effect of an increase in reserve requirements in January or February but he agreed with Mr. Morgenthau that he does not want to underwrite that statement at the present time. Mr. Harrison continued that there are all kinds of leaks after every meeting about things that they have discussed and things they have not discussed and he thinks it might be very well to have a story

after this meeting to the effect that it is "understood" that action is being contemplated.

Mr. Ransom asked what might be the effect of such an announcement on the December 15th financing and Mr. Harrison replied that the market certainly can stand up better now than any other time he had ever known.

Mr. Eccles asked if it was all right to make the announcement before the financing to which Mr. Morgenthau replied that he was "urging you please" to announce it if it is in your minds today.

Mr. Eccles said that he personally had it very definitely in mind but that some of the members of the Board didn't care to express an opinion yet.

Mr. Morgenthau said that he thought an official leak would be better than an unofficial story and Mr. Eccles and Mr. Harrison agreed to that.

Mr. Ransom said that he thinks the situation needs consideration with respect to whether action should be taken and why, but that if it is decided to take action an intimation to the market at this time would receive his approval.

Mr. Szymczak said that he thought very strongly the Board should take action as soon as possible, and he agreed that it will be unethical to permit financing on the 15th of December without some intimation to the public that excess reserves action is being considered.

Mr. Harrison said that as an individual he is very firmly of the opinion that something should be done and that if the Board does not want to increase reserve requirements, he, as a member of the Open Market Committee would want a portfolio reduction.

Mr. Morgenthau said that with the feeling in the Federal Reserve

group as it is he would not want to pick up the February maturities in December without some intimation that action was planned.

Mr. Ransom commented that he thought such an intimation would be the only fair thing to the member banks.

Mr. Eccles agreed that it is important to start discussion now of the possibility of action in January or February.

Mr. Harrison, Dr. Goldenweiser and Mr. Burgess agreed and were of the opinion that it is desirable regardless of Treasury financing. It was pointed out that action was discussed publicly for some months prior to the July announcement.

Mr. Morgenthau summed up by saying an agreement had been reached on three points, (1) that in view of the expressed attitude of the Federal Reserve people January and February should be left free of major Treasury financing, (2) that the Board will let it be known that action, with respect to excess reserves in January and February, is under consideration, and (3) that once the Board knows what it is going to do it will tell the Treasury what and why and let the Treasury discuss the decision with them.

Mr. Eccles agreed that before the meeting at which the decision is reached is held, they will arrange an informal discussion with the Treasury.

Mr. Burgess said he thought the hint of possible excess reserve action ought to come sooner than a week. His opinion was that it ought to be announced at the conclusion of the present series of the Federal Reserve meetings.

Mr. Morgenthau said it depended to some extent on whether full allotment subscriptions should be dropped from \$5000 to \$1000.

Mr. Burgess said he thought the whole thing might be dropped

but they wanted to explore that a little more. In any event, he said, they were of the opinion that the announcement should be made on December 3rd rather than on December 7th.

Mr. Morgenthau said that gave him so very little time to judge the market.

Mr. Taylor commented that it certainly would move up the time when the leak ought to be permitted to reach the public.

Mr. Harrison and Mr. Szymczak were of the opinion that some of the members of the committee thought that the time for the announcement of the financing would depend on whether the \$5000 exemption were kept, and when Mr. Burgess said he thought not, they commented that at least some of them wanted the exemption kept.

Mr. Morgenthau asked if the Reserve Board needed a week to consider what they would do in January or February and Mr. Ransom replied, "yes, indeed".

Mr. Morgenthau said that it was terribly difficult to size up the market just now -- that it won't "stay put".

Mr. Harrison said that he personally favored dropping the \$5000 exemption and that he is convinced a better job can be done if an announcement is made on December 3rd.

Mr. Bell said he was in favor of dropping the \$5000 exemption but would like to study it a little more. He said he thought December 7th announcement would give plenty of time for the Reserve Banks to handle the volume of subscriptions without the policing that is now required.

Mr. Burgess was of the opinion that they would have a big job of policing without the small subscriptions.

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Mr. Fleming said he hoped there would be less policing.

Mr. Morgenthau said he thought it was more important to have extra time to judge the market than extra time for policing.

Mr. Eccles expressed the opinion that the intimation to the public can come at any time.

Mr. Szymczak agreed.

Mr. Morgenthau said he would like to have it before next Wednesday, if possible.

Mr. Eccles commented that monetary policies have been discussed in joint session and the Board could be assembled on Monday to discuss reserve requirements and develop Board opinion.

Mr. Szymczak suggested they might even start tomorrow.

Mr. Morgenthau then suggested that there be some discussion of the kind of an issue that might be availed of on December 15th.

Mr. Burgess said that in their consideration of that matter they had first raised the question of new cash and in that connection had thought of the tax dates of March 15th and June 15th. Everyone thought that it would be valuable to build up a fair size maturity for those dates -- \$300 million or more each. The extra cash could be raised by bills beginning now dated into March. This would leave a small amount of cash for December. They had thought of \$400 million to pay off the bills maturing December 15th and \$100 million extra new money. This would mean \$500 million new cash and the refunding of the December and February notes. For this there might be offered a bond for \$500 million cash and the note holders might be given the privilege of also taking the same bond or the last note issue which was put out in June at 1-3/8% and now has four and a half years to run. It could be

offered at a premium of one point above par. He made the point that the banks should not be forced into bonds. Moreover, the inclusion of a note is a guarantee of success. They considered the alternative of only a bond unwise. For one thing it is a pretty big chunk and in the second place success is safer with a note. Moreover, many banks as a matter of policy think they should have short term securities. If bonds are forced out some who do not want the bond will take it and there will be some dumping later. He preferred taking an outstanding note rather than a new note because the amount will be small.

Mr. Morgenthau indicated preference for a new note and Mr. Eccles agreed that that could be done.

Mr. Burgess said that the Presidents of the banks in the rural districts thought the cash offering ought to be divided between a bond and a note.

Mr. Eccles said that there are a number of small banks which do not hold any notes or bills and they would like to subscribe to some notes. He said he was not in agreement with Schaller, Hamilton and McKinney that the cash offering should be divided.

Mr. Morgenthau said he thought it was too early to get very definite as to what kind of a security to offer and said he would like to have the prices right and have a little extra padding rather than announced too early.

Mr. Harrison said that one matter which they had discussed yesterday in connection with looking ahead to open tax dates is that it might prove more bothersome later than now and they had wondered if it might not be possible to spread out tax dates so that they might occur monthly rather than quarterly.

Mr. Eccles agreed that while that probably is not too important now it may become so.

Mr. Morgenthau suggested facetiously that when that time arrived perhaps we could "cut down the revenue".

Mr. Eccles asked if the Treasury had formulated any opinion on the respective merits of Open Market operations and increased reserve requirements and Mr. Morgenthau said the research staff would need at least a week to give any intelligent opinion on that.

Upm.



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, The Hague, Netherlands

DATE: November 19, 1936, 1 p.m.  
Received, 9:25 a.m., November 20.

NO.: 61

## STRICTLY CONFIDENTIAL.

This morning I was told by Premier Colijn that he feared the French might vitally disturb the international currency situation and the progress being made at the present time. It was his opinion that eventually the franc would have to be devalued again to about 50 percent of old value; that the British might act in consequence, and that we might be forced to follow and devalue also.

He is optimistic concerning the situation in the Netherlands, however, so long as things remain as they are. He believes that the florin is sufficiently devalued and he said that so far the stabilization fund had only been used to prevent a too rapid rise in the value of the florin. He said, in addition, that the general improvement which was already evident before devaluation is being accentuated now.

EMMET.

EA:LWW

November 19, 1936.

Dear Mr. Moore:

I am enclosing a photostat copy of a note which the Secretary of the Treasury has received from Mr. Victor Mallet, Counselor of the British Embassy. I believe that the note itself is self-explanatory, and we wish the State Department to have this copy to complete its records.

Yours sincerely,

(Signed) Wayne C. Taylor

Honorable R. Walton Moore,  
Acting Secretary of State,  
Washington, D. C.

encl

(See B-191)

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Brussels, Belgium

DATE: November 19, 1936, 5 p.m.

NO.: 90 RUSH

FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.

Last night at 6:10 I left Paris. At noon today in Brussels I was received by Minister of Finance Deman, Warland, who is General Manager of the Treasury, Baudewyns, who is Secretary General of the National Bank of Belgium, and Mahieu, the Manager of the National Bank of Belgium, who is historian in the place of Governor Franck who is in Egypt at the present time.

The proposals which were in your telegram No. 462 of November 16, midnight, I explained to the officials mentioned above. I told these officials that the French had found themselves in agreement with your plans, as well as the British - subject to the Belgians finding your proposed arrangements and declarations acceptable to them.

I gave the Belgian officials a copy of your proposed declaration, which is to supplement the declaration of October 13, as well as a copy of the proposed declaration for simultaneous issuance by the Governments of France, Great Britain and the United States in the event that occasion arises for welcoming declarations of the Governments of The Netherlands, Belgium, and Switzerland expressing their adherence to the general principles set forth in the September 25 tripartite declaration. In addition I gave them a copy of the short statement which

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would be issued by you announcing that new countries have been added to the list of countries eligible to receive gold.

I ought to tell you that I learned from the General Manager of the Treasury and from the two National Bank of Belgium officers before Deman received us that these three officials did not know that the Minister of Finance had signed and transmitted to you through me the letter of November 9 from the Minister. These technical advisers, furthermore, had been somewhat opposed to the idea of such a letter. They felt that Deman, speaking for the Government, was assuming an undertaking which Parliament really should approve first. After I explained the proposals to the Minister of Finance, he approved the declaration which you propose to issue supplementing the October 13 declaration; he took no exception to the cancellation of the January 31, 1934 statement. The Minister indicated that he stands by and confirms the original Belgium declaration of October 17 as well as the letter of November 9 from him to you.

However, the Minister of Finance said he did not like ~~the~~ such a categorical press question and Treasury answer as envisaged in the third paragraph of the telegram I mentioned in the first part of this one. He admits the undertaking assumed by him, but he feels that because of  
Belgian

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Belgian popular psychology there should be nothing given to the press which might here be accepted questionably. The Minister is still opposed to publicity being given to the terms of the October 17 declaration by Belgium or to his letter to you of November 9 without prior common agreement between Belgium and the United States. He suggests that if it is not enough to let your announcement speak for itself, you might use the following formula; i.e., if a press correspondent might with or without official inspiration ask "Why are fiscal agencies mentioned along with treasuries" the spokesman of the United States Treasury might say that it is to take account of conditions such as arise in Belgium, where the Government owns no gold itself and the National Bank acts as the fiscal agent. Deman dictated the foregoing question and answer, and I took them down.

The Minister said that he preferred that you should not make such a specific statement as your cablegram envisaged, lest this might suggest difficulties between the Belgian Treasury and the Belgian National Bank. He said again that the engagement is (omission) but that it is simply a question of where the emphasis is placed.

I lunched with Ambassador Morris after I left the Ministry of Finance, and informed him of what had taken place. I communicated the above information to you by telephone

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telephone at 3:30 pm. I was told by you that I should inform the Ministry of Finance of Belgium that you know now exactly what their situation is, and that you will do everything possible to save them from any embarrassment in so far as the American press is concerned; you said you could not always anticipate what the press correspondents might say or want to know, and that you are anxious to see a satisfactory conclusion of this matter.

After I had the telephone conversation with you, I telephoned Baudewyns and asked that he communicate your reply to the Minister of Finance in particular, and also to Mahieu. He said that unless he called me back within a few minutes, the matter could be considered as settled; I did not get a call from him.

I have explained our proposed <sup>program?</sup> declaration to the Belgians and I have promised to telephone them on Monday morning to inform them as to developments. Should the arrangements with The Netherlands and Switzerland go along satisfactorily, Belgium will be prepared to release to the press on Monday night copies of your declarations as I gave them, and of any communique to be made by the French and British which I may transmit on Monday to the Belgians. There is no anticipation that any formal announcement will be made by the Belgians themselves.

I

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I called Trip on the telephone and I am proceeding to Amsterdam tonight, where I will be received by Trip tomorrow. Trip will go to The Hague with me, where he is arranging to see Prime Minister Colijn and Minister of Finance after lunch. I requested Trip to see that they would be ready to give a decision both as to signing the declaration which was drafted the last time I was in The Netherlands, and as to their possible adherence to the spirit of the September 25 tripartite agreement. On Friday afternoon I should finish with the Dutch, but because of close train connections I am not sure that I can telephone or telegraph the results of the interview.

I made a telephone call to the President of the National Bank of Switzerland, Professor Bachmann. On Saturday forenoon he will be in Zurich, where Meyer, Minister of Finance, and President of the Swiss Federal Council is visiting him at (omission). Therefore I am going to Zurich by train on Friday night from The Hague, via Brussels. At 7 a.m. Bachmann will receive me at his bank in Zurich, so that before the Minister of Finance arrives we may have a talk. I urged that the Swiss be prepared to take a decision regarding adherence to the tripartite agreement of September 25 so that not later than Saturday night the Swiss Ministry of

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Foreign Affairs can send telegrams to the three parties to the Tripartite Agreement.

I made a telephone call to Baumgartner at the French Ministry of Finance to inform him of the approval of the declaration by Belgium. Baumgartner is going ahead with the drafting of a communique which at 11 o'clock on Sunday morning he will bring to my office in Paris.

MORRIS.

EA:LWW



*Pres Conf + French War Debt*

GOVERNMENT OFFICIALS TODAY PROFESSED IGNORANCE OF ANY MOVE BY FRANCE TO RE-OPEN NEGOTIATIONS FOR ADJUSTMENT OF THE FRENCH WAR DEBT TO THE U.S.

WHAT WERE REGARDED AS FRENCH 'FEELERS' ON THE WAR DEBT QUESTION HAVE BEEN ISSUED FROM TIME TO TIME SINCE PREMIER BLUM CAME TO POWER IN FRANCE. HOWEVER, THERE WAS NO INFORMATION HERE TO INDICATE ANY RECENT MOVE IN THE SITUATION.

SECRETARY MORGENTHAU SAID THAT HE HAD NO INFORMATION EITHER "OFFICIAL OR UNOFFICIAL" TO INDICATE THAT THE FRENCH GOVERNMENT WAS SEEKING TO NEGOTIATE ON THE QUESTION.

HE MADE THE STATEMENT IN CONNECTION WITH REPORTS FROM PARIS THAT PRELIMINARY DISCUSSIONS ON THE DEBT QUESTION HAD BEEN LAUNCHED BY FRENCH REPRESENTATIVES WITH PRESIDENT ROOSEVELT ON THE OCCASION OF RE-DEDICATION CEREMONIES FOR THE STATUE OF LIBERTY JUST BEFORE ELECTION DAY.

11/19--R1128A

*RFC*

WCNS54

SECRETARY MORGENTHAU SAID TODAY THAT HE FAVORED EXTENSION OF THE RFC FOR ANOTHER YEAR.

DENYING REPORTS THAT HE AND CHAIRMAN JONES WERE AT ODDS, MORGENTHAU SAID THAT HE FELT THAT THE TIME HAS NOT YET COME "WHEN WE CAN DISPENSE WITH RFC LENDING ACTIVITIES." THE RFC, UNLESS RENEWED, EXPIRES JAN. 30.

"IF CONGRESS ASKED MY OPINION ON EXTENSION OF RFC, MY ANSWER WOULD BE THAT I THINK CONGRESS SHOULD EXTEND THE RFC FOR ANOTHER YEAR," HE SAID.

11/19--R1130A

November 19, 1936  
12:10 P.M.

Operator: Go ahead.

H.M.Jr: Hello.

Governor  
E.C.Johnson: Hello.

H.M.Jr: Henry Morgenthau, Jr., talking.

J: Oh yes.

H.M.Jr: Governor Johnson, -

J: Yes

H.M.Jr: - I'm calling you up at the request of the President. He would like to appoint Morrison Shafroth, of your city, as Assistant General Counsel of Internal Revenue. Hello?

J: Yes

H.M.Jr: And he'd like to know whether it'd be acceptable to you.

J: Be very, very acceptable.

H.M.Jr: Fine.

J: Very pleasing.

H.M.Jr: Pardon me?

J: It'd be very pleasing to me.

H.M.Jr: Well, that's fine. Well then, I - I talked with Senator Adams and he said that - that he'd be delighted.

J: Yes. Well, I feel just as he does about it.

H.M.Jr: Well, Morrison was here yesterday, and he -

J: All right, well, that's - that's good news and thank you very much, Mr. Secretary.

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H.M.Jr: Governor, if you don't mind, will you - you wait until the White House announces it?

J: Yes

H.M.Jr: Thank you.

J: Yes, sir.

H.M.Jr: Thank you very much.

J: All right. Thank you.

H.M.Jr: Goodbye, Governor.

Friday  
November 20, 1936  
9:58 a.m.

James M.  
Landis:

Sa~~g~~, Mr. Secretary, I wonder if you - are you familiar with the Associated Gas situation in New York?

H.M.Jr:

Yes, I am.

L:

You will remember that there is a - the possibility there - one of dismissing that bankruptcy suit there under the stipulation.

H.M.Jr:

Yes, what's his name, the lawyer who was in yesterday - here? Oh, I know, Wideman -

L:

Yes

H.M.Jr:

Yes

L:

Now, there's some suggestion there on the part of Wideman that some type of receiver or trustees, or something of that --

H.M.Jr:

Commissioner -

L:

-- ought to be appointed for the Associated.

H.M.Jr:

A commissioner, by the judge -

L:

A commissioner, by the judge?

H.M.Jr:

Yes

L:

Now, the interest of the Treasury there, of course, is one concerning the evidence of that corporation -

H.M.Jr:

Yes

L:

- in the adjudication of its claims.

H.M.Jr:

Right

L:

It didn't seem to me, in thinking that thing over, if the Associated would be compelled to register under the holding company Act, the interests of the Treasury there would be harmed greatly.

H.M.Jr:

Well, I'll tell you what I'd like to do. Mr. Kent has been handling that.

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L: Yes

H.M.Jr: Supposing I send him over to see you.

L: Fine

H.M.Jr: See?

L: Fine

H.M.Jr: And then I'll tell him after he's seen you to come back and report.

L: All right, that'll be fine.

H.M.Jr: But Kent's been handling that and Oliphant's away.

L: Yes

H.M.Jr: Now, what - for your information, this man Wideman, when he came here yesterday to see me was he wanted me to say that it would be all - I'd have his backing - I'd back him for this commissioner, see?

L: Yes, yes

H.M.Jr: Well, I told him that I couldn't do any such thing without taking it up with the President.

L: Yes

H.M.Jr: Now - I don't know - we've watched this thing very closely.

L: Yes

H.M.Jr: And I'll have Kent over to see you.

L: All right, that'll be fine.

H.M.Jr: And, as a matter of fact, I don't think we can indicate to the judge up there anyway who the commissioner should be.

L: Yes, I think - I really think that would be a mistake.

H.M.Jr: But, about every week they come in with a new lawyer.

L: Yes

H.M.Jr: And we've had more trouble and it's been one of the hottest potatoes we've had around here.

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L: (Laughs) I gather so.

H.M.Jr: Now, while I've got you, I wonder if this could be beat. Our boys will be ready Monday with a study on this question of foreign capital, as far as taxing the thing goes, see? And what I'd like to suggest is, Eccles was coming over for lunch. Now, I'd like to meet beforehand, and if you'd come, say, around noon.

L: All right.

H.M.Jr: Then, bring any of your economists with you -

L: Yes

H.M.Jr: We could have our boys present what they've got and after that I'd like - I'd be delighted to have you stay and have lunch with Eccles and myself.

L: Well, that would be very nice.

H.M.Jr: How would that be?

L: That would be very fine.

H.M.Jr: That's Monday.

L: Monday.

H.M.Jr: You bring any of the economists in your shop with you. We'll make it 12 o'clock and then our boys can put on what they've got -

L: Yes

H.M.Jr: And then, we can have lunch and talk about it.

L: All right, fine.

H.M.Jr: How's that?

L: Fine

H.M.Jr: I'll have Kent call up and come over and see you right away.

L: That'll be fine.

H.M.Jr: Thank you.

L: Thank you very much.

November 20, 1936  
10:20 A.M.

Present: Mrs. Klotz  
Mr. White  
Mr. Upham.  
Mr. Haas.  
Mr. Seltzer.  
Mr. Taylor.  
Mr. Bell.

Haas: The first question which you asked, with regard to printing -

H.M.Jr: Yes -

Haas: - of the report on international capital movements.

H.M.Jr: Yes

Haas: We have made arrangements to have the printed copy complete by noon Wednesday.

H.M.Jr: Attaboy!

Haas: I hope we deliver it.

H.M.Jr: Well - fortunately for you, Mrs. Klotz is here, so my style's a little bit cramped.

Haas: I realize what it means if we don't, fully.

Klotz: It means mud.

Haas: And the second question, with regard to this information which you requested on taxation. It will be ready any time Monday that you want to see us on that.

H.M.Jr: I've asked Mr. Landis and his people to come here 12 o'clock with any - any - you know what I mean - any economists he wants to bring. So the meeting is set for 12 Monday.

Haas: Uh huh.

H.M.Jr: And would you - well, when Eccles comes - he's

- 2 -

here at 11 - remind me to speak to Eccles. I'm going to have him come at 12 and have him bring anybody he wants and I've asked Landis to stay after lunch. See? So it's 12 o'clock. We put on the show at 12 Monday.

Haas: And there is, by the way, an interesting situation from your point of view on that. The foreigners are not taxed on an equivalent basis with the Americans.

H.M.Jr: I know that. But why this was so I don't know.

Haas: An important change was made in the '36 revenue act.

H.M.Jr: Well now, who's working on this with you, from Clarence's?

Haas: A man named P. J. Mitchell, of Kent's shop - is a lawyer.

H.M.Jr: Shall I tell Opper that somebody should be there from his place?

Haas: At this meeting?

H.M.Jr: Yes

Haas: Oh, by all means.

H.M.Jr: Who?

Haas: This man which he's designated, which is now working on -

H.M.Jr: Would you mind taking care of that?

Haas: Fine. And there is also another man from the administrative -

H.M.Jr: Well, will you take care of that?

Haas: Yes

H.M.Jr: Fine

Haas: Now, on the other question of this, with regard



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to ex- - raising the reserve requirements.

H.M.Jr: Yes, that's what this meeting is for.

Haas: I had hoped we would have a nice brief memorandum which outlined one, two, three, the facts. We stayed last night to work on it, got down 6 o'clock this morning, but we just couldn't make it.

H.M.Jr: I thought you looked a little peaked this morning.

Haas: We just couldn't make the grade on it. So I'll open the discussion; then you won't have any trouble bringing others into it.

H.M.Jr: I've got time now. I didn't before. I'm all right now, so take your time.

Haas: In our discussion, as we viewed the matter, there were two main questions. One - the first one: At this time should the reserve requirements be raised? Second question: If they should be raised, by what method should they be raised?

We'll go to the second one and then come back to the first one. The methods which are available in the Reserve System are, one - the - they can actually raise the reserve requirements; or, they can accomplish the same effect of reducing excess reserves by open market operations.

And connected with - vitally connected with this problem is the position or the - we might call it the effective operation of a stabilization fund, which should be considered.

Now, the British neutralize the effect of ingoing and outgoing gold through the stabilization fund. They don't let the repercussion get into the banking system. I think we should explore that whole question in this country before any decision is made with regard to this matter at this time, as I feel in this question that you should take the same position that you are taking in your monetary

developments. You don't make a move until you can see the thing in its entirety, how everything fits together. See? You don't go ahead and make a move and afterwards find it doesn't fit into your total mechanism. And we'd like to have some time to take this situation and see if we can put it together: in other words, if it is decided that something should be done, how it should be done. And I think you should have before you an analysis of this sort, but it is a research job of some magnitude, and we are not in a position - we can discuss it today - but we are not in a position to come to any definite conclusion about it from our point of view.

Now, coming back to the first question, whether or not anything should be done, regardless of what methods should be employed. I think there is a tendency around to - in some quarters -

H.M.Jr: Excuse me just a moment (speaks to Mrs. Klotz).

Mass: I think there is a tendency in some quarters - maybe I'm unfair about it, but I think it's over in the Reserve - some people of the Reserve in the Open Market Committee - view the fact that they have the responsibility, think the country's looking to them to keep - to check an expansion or a boom - that they have got responsibilities there, that they're a little frightened. And when we get recovery, and we must have recovery if we are going to put the people to work - and recovery - the rate is what we anticipated, hasn't gone any faster than we have been anticipating. And this type of recovery, in order to put the people back to work, balance the budget, reduce the debt - and they see this recovery and they are frightened, and as soon as it moves along, up a little, they start throwing sand on the tracks; in other words, like a man driving a car, and he gets going along pretty well and then he starts testing the brakes all the time.

And I think that is one situation which we have to meet in discussion, whether or not anything should be done at the present time.

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Another thing is, just five months ago, when - they say the reason for taking any action now is the increased imports of gold. If any time - well, last time when they did this they said they could effectively handle excess reserves of one billion nine hundred million in the open market operations. Well, the amount exceeding that figure now is only about 372 million. So if the country said everytime 372 million additional gold comes in they are going to use this mechanism, which is a rather "shotgun" variety of control, affecting all the banks, country banks and all, every time such a small amount comes in, I think it is going to be a shock to the banking fraternity.

Another thing that - from the point of view of Federal finance, it seems that you should have before you the distribution of government bonds by banks: those correlated with the distribution of excess reserves by banks - just to see if any way of - this elevation which they contemplate, what effect it might have on these portfolios in the different banks.

Running along that line a little further, that if you were to put out a heavy financing, take in the February and so on, and all December 15, and right following that you let the banks load up on this, they come and then in January they pull this thing. Well, the banks themselves, when they made the purchases of the bonds, they didn't contemplate this, and I think it is not - it is a type of thing that may give you some difficulty in later financing. The people get used to something and now you come around in March, in June, whenever you're going to do some more financing, and they'll say, "Probably a month later, if gold continues to come in, they're going to slap this thing, right after the financing." I think that's something to consider.

Now, there's some of these other questions with regard to stabilization fund and some of the financing items that I'd like to have either

Harry or Larry continue the discussion on from that point. Either one of them can take it up.

H.M.Jr: I've got lots of time.

White: Well, one of the - one of the advantages in postponing action at this time until definitely decided what role the stabilization fund shall play is, last time they - last time they took action it was accompanied by the statement that the action was taken to take care of incoming gold, and that the open market operations were to take care of other types of credit expansion. That was one time, once. Now, if they do it a second time, with a similar explanation, they will have established two precedents which will be very difficult to break, which will establish the principle which I think we ought to seriously object to establishing at this moment, of employing the heightening and the lowering of the reserve requirements as a means of neutralizing gold inflow and outflow.

One of the functions of the stabilization fund, if properly executed, may require very definitely that any outflow of gold come from the stabilization fund, to be replaced by government bonds. It has other ramifications than mere neutralization of gold. It also bears on the question of the interest burden, etc.

But in any case we want to hesitate before creating two precedents which will be difficult to break later on.

Then there is a more important question.

Taylor: That's tariff, what he's talking about.

White: Then there is a more important question which relates to that part, and a little more subtle question, and that is a question of shifting the center of control over the monetary situation from one department versus the other, from the Board versus the Secretary of Treasury. I don't mean to say that it is completely definitive or that it takes over the complete control,

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but it tends to shift the center of that control by admitting that the Federal Reserve Board shall employ that method for gold movements.

And then further, holding, as they will doubtless do, as they already have stated, that they will use their other devices -

H.M.Jr: Use what?

White: - use other devices - open market operations and discount rate for different types of expansion and contraction, they are little by little taking over the whole field of monetary control and making it more difficult - I don't say impossible - but making it more difficult for the Secretary of the Treasury to employ those instruments which are available to him for similar purposes.

And I think before we permit the situation to crystallize to that extent, the whole field ought to be examined and the whole problem laid out for your analysis, for your judgment.

H.M.Jr: I'd like to know what some of the instruments that I have are.

Haas: Oh, very definitely there are several.

H.M.Jr: Well, for instance?

White: Well, you have the stabilization fund, which unfortunately at present is only a one-way operation, but you can make it a two-way operation by accumulating bonds and thereby increasing the gold reserves and then having them sop up the gold reserves through their method; but by so doing you immediately convert the stabilization fund into the kind of instrument which the British have, in which you can contract and expand credit either by selling or buying gold, very much as they have.

Bell: How are you going to get bonds into the fund?

White: What's that?

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Bell: How are you going to get bonds into the fund?

White: By buying them now, which increases your reserves, which I say will necessitate by - their increase in reserves at this time, you see, shifts - they absorb the gold, but we acquire the bonds and acquire greater efficacy of the Federal - of the stabilization fund. The net effect is the same. It is merely a question as to who has a shade more control. Not that the Secretary couldn't do it anyway later, but by his doing it later he would appear to be interfering with the controlling situation.

I say in this question involved right here it is one of moving the center of control, and it is establishing precedents which in time will crystallize the situation until it will become the custom and the practice of the Board to do these things, the custom of - and the practice of the Treasury to do these, and constantly with less and less left for Treasury operations and more and more of the field left to Board operations.

Haas: Say, Harry, before you go on to that, would you mind discussing that from a little even more fundamental point, that the handling of the gold imports and exports should not go - not go - the arrangements to counteract it should not affect the whole banking structure; you could handle it on a sort of transfer term basis, as the British handle it, and - a tendency of European countries to handle it quite differently.

H.M.Jr: May I interrupt, George? You said you haven't had time, see? Right?

Haas: That's right.

H.M.Jr: So I'm not going to have you take my time, if you don't mind, to practice on me. See?

Haas: O.K.

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H.M.Jr:

Now, what I think is this, which I think you'll all agree. We have had our financing on a quarterly basis. It - I mean it so happens we have a February maturity. We have nothing coming due in March. The way I'd like to look at this thing, just for the moment, is the other side: Is it good financing for us to pick up the February maturity in December? That's number one. And then number two: to sell three hundred million dollars worth of bills beginning December 2 into the 15th of March, in order to - Is that good financing? If it is good financing, then it leaves the decks clear for January and February for the Federal Reserve Board to do this thing. It is also a notice to the financial world that there is something brewing. "Why does Morgenthau do this thing?" Well, I may drop a hint so that if the Federal Reserve wants to do something they can do it in January and February. So that there is nothing hidden, see?

Now, if I don't do that, then the Federal Reserve will begin to feed the stuff out "We would have loved to do the thing, but Morgenthau couldn't see it, because he was so blankety-blank stubborn, he insisted on doing this Federal thing in February and we couldn't do it."

Now, in the first place, is it good financing to pick up that February maturity in December; and, two, beginning to sell on the second of December, sell some bills into the 15th of March, where we have no maturity, see? Now, I'd like to take it up first and then - There are two propositions: one, shall we pick up the February? - and two, shall we sell bills? I mean then, you see - then we are in a - if that's all right and that's good financing, then we don't have to make up our mind, the Federal Reserve doesn't have to make up their mind, and we're in a beautiful position.

Haas: In case you finally do decide to go along with them, let them do it.

H.M.Jr: Right.

Haas: Yes.

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- H.M.Jr: But we haven't got an awful lot of time as to the dates of our financing, see?
- Upham: Excuse me, Mr. Secretary; does that mean no new cash on December 15?
- Bell: Not necessarily. Well yes, we have to get enough cash to pay off those 400 million.
- Upham: I meant in addition to that.
- Bell: Might be a hundred million, around 500 million if you want to do it.
- Taylor: Doesn't make much difference.
- H.M.Jr: Isn't particularly important at this time.
- Upham: No, I just wanted to - not important.
- Bell: Whichever way you jump is flexible enough to take care of the situation.

As I see it, if the Board indicates to you today that they would like to have January and February open, then I think it is important that we do two things: first, that we pick up the February maturity in December; and second, that we throw some maturities into March to help out in the money market situation, because we're going to get close to a billion dollars in funds in March, which will certainly tighten the money market if they go to 50 percent reserve, in addition to what they now have.

If they don't indicate that they want February and March - January and February open, then I think we can do our financing on December 15 and February 15.

- H.M.Jr: And not sell any bills.
- Bell: And not sell any bills into March, because I don't think the reserve situation is such now that you need to worry about taking a billion dollars out of the money market.



H.M.Jr: You don't think so? .

Bell: No, sir, I don't.

H.M.Jr: You - have you talked to Burgess on this?

Bell: No.

H.M.Jr: In other words, you don't think we ought to make up our mind independently of what they tell us.

Bell: I don't think you should, no, sir.

H.M.Jr: I mean if they don't want January and February, then you would do it the way you said.

Bell: And I think the way to do is have both December and February the way we have discussed and forget the March, because I think it will take care of itself.

H.M.Jr: Well, I - I asked the question, is there a likelihood they want to do something in the February, you see? Huh?

Bell: Yes, sir.

H.M.Jr: Now, let's talk to this point, this particular point. I'm glad to hear from anybody.

Seltzer: I'll raise this question. Some of the taxes that we are counting on collecting are in litigation, and if they are delayed by the litigation your cash balance is going to run down to around 500 million, I figure, or less, even if you raise 300 million dollars in new cash, part from the bill cash in December. If you wanted to maintain a cash balance running near a billion dollars, you'd have to raise several hundred million dollars of new money in December to protect yourself also against this possible delay of these litigated taxes.

H.M.Jr: Bell and I have taken that into consideration, and that is why we were inclined to have a financing in February, because we can't say now.

Seltzer: That's right.

H.M.Jr: And for me, for instance, to take - figure we are going to lose - take more than 300 million new money and go above this 750 million - I'm immediately put on the spot. I have to say either of two things. Either the Treasury's estimates of 750 net cash for this year were inaccurate, or I'm fearful that we're not going to get the 80 million dollars windfall tax, or I'm fearful that the Court's going to throw out Social Security, and that's why I - Bell and I arrived at the conclusion that the nicest way to do this was to do financing in December and one in February.

And then another thing, the President's budget message goes up in January. He'll have to ask Congress before the first of February - tell them how much money he wants for relief, and then in February we can gauge the picture much more accurately, and if we ask for 300 we go into 15th of February with between 500 and 600 million dollars. We go into - on the 14th of February we have between five and six hundred million dollars.

Bell: Well, we have had - in connection with this, you know, we have had the problem of filling in our open dates.

H.M.Jr: Yes, and not only March, but June and December.

Bell: Now, if we start on assuming that we do want to raise some money by bills, we can start on December 2 and raise 50 million a week; by January 6 we would have raised 300 million dollars. Those maturities will be arranged for 100 million on March 16, 100 million on March 17, 100 million on March 18. That levels off the money market because that is when your taxes will come in, on those three days.

Now, if we want to fill in January about the same we start on January 13 and, if we need the extra money and we see we do, we can have an extra issue of Treasury bills, 50 million a

week for the next six weeks, raising 300 million for that period. If you don't need the extra funds, if you see that you're going to get Social Security taxes, etc., then we can take the regular weekly bills and throw them into June if we want to fill that date, so that we have flexibility either way we jump.

H.M.Jr: Plenty. I think - my guess is that you'll find that at 11 o'clock, when the Open Market Committee comes in - my guess is they are going to ask us to keep January and February open; and in order to play square with the bond buyers, if we do do that I'm going to drop a hint that this is why I'm doing it.

Haas: But at the same time, if they do that, my present feeling is - I hope you don't give them any indication that you are confirming or you agree with that. You need more time - not today.

H.M.Jr: Oh yes, plenty of time.

Taylor: I don't think you can drop any hint to the bond buyers. It would be very unfortunate to do it, and then - for instance, they'd kick like the devil if you suggested it. I also think that it's good financing under any situation to pick up that February maturity.

H.M.Jr: Why can't I drop a hint?

Upham: That's one of the things they'd argue you with there - very secret - that they're going to - they'd be very much disturbed if you -

H.M.Jr: Well, so will the bond buyers if they find they bought a billion dollars worth of long term. They may be disturbed, but how about the bond buyer that's just bought a billion dollars worth of long term bonds, and two weeks after he's bought them he wakes up and finds out that I did this thing in order to help these people.

Taylor: Well, that may be so, but I think you run into great difficulties.

EH

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H.M.Jr: With who?

Taylor: With everybody concerned.

H.M.Jr: Well, maybe.

Taylor: I don't think you have to do it. I think it is perfectly sound financing to pick up that February maturity anyhow.

H.M.Jr: Well, the thing is this - and I want Haas' shop to study this thing more, and I couldn't expect anything, didn't expect anything this morning - hadn't got time to do it; but these fellows over there are doing an awful lot of worrying. I don't think they are worrying so much about today or two months or three months from now. I think what they are facing is sometime in the next couple years it's going to be their job to put the brakes on. It's going to be terribly unpopular. You remember what David Houston was -

Bell: That's just what I wanted to bring into the discussion. I think whatever they do in the future they are going to be unpopular and they are going to have to do largely without any regard for Treasury financing. Now, the Board wanted to do certain things back in 1920-21, and everything was subordinated to Treasury financing, and the Treasury never has lived it down, and I think we want to be very careful about the Treasury stepping into it.

H.M.Jr: Now, what happened?

Bell: I don't know. I was too new on the job. But, you know, the Treasury's been blamed ever since for the failure of the Board to take action because of the large Treasury financing in the picture at the time.

H.M.Jr: But I thought Houston did certain things; that he accelerated -

Bell: He was a member of the Board and he caused, so they claim, the contraction, the deflation - but it was all based on the fact that the

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~~BT~~

Treasury had large financing operations and therefore the Board couldn't take the action they wanted to.

Haas: Well, you know, Gilbert - wasn't Gilbert there at that time? He explained that one night; he had a different story.

H.M.Jr: Well, the point - if that is so, then I may want to do it anyway so that they can't say, "Well, we would have done it if we hadn't -"

White: Besides, there is a new element in the situation which I think must be considered.

Haas: That's what I say.

White: There's a new and different element in the situation. The Treasury in 1921 was not at all cognizant or interested in monetary control - when I say not at all I mean not directly; they were interested in financing. The situation has changed now so that the Treasury has become not only actively interested but has become an active agent in the question of monetary control, and so in the future whether or not Treasury financing shall be done at one time or another will be modified not only by the desire to cooperate with the Board, but the desire to achieve its own ends for the larger purpose of monetary control.

Haas: And it is a world trend towards Treasuries; Great Britain has, other countries - which has occurred since '21.

Taylor: I don't think you can take the position of warning the bond buying public about something that might happen.

H.M.Jr: Well, I don't know. I'm not going to argue about that today. But I certainly feel - we've given the bond buyer more information in advance on what we're going to do than he has ever had, and -

Taylor: That's all right.

H.M.Jr: There's nothing that we've done that we didn't announce it before the time - every single time.

Taylor: Well, I entirely agree about that, but I think this is entirely a separate field.

H.M.Jr: Well, I don't know. Listen, Wayne, don't forget this thing. Around this town here, if the thing goes wrong, I'm selling the bonds, not the Federal Reserve; it's my responsibility. These are my customers. It is just exactly the same idea. It's no different selling bonds than it is selling shoes, and if I go out and sell a 1936 model knowing that two weeks later I'm getting out a new model and I put on a big sales campaign and load up all my customers with a 1937 model - let's say a 1937 model - at this time, knowing that I have just discovered a new carburetor which is going to give them something entirely new, and as soon as this 1937 model is out and I have cleared my decks, two weeks later I announce I have found a new carburetor which gives us another five miles per gallon and I'm putting this thing on the market, what happens to my customers??

Taylor: Don't you think -

H.M.Jr: Well, I'm sorry, Wayne, I'm not going to sell bonds - I get the responsibility and those fellows run out just the way everybody runs out on me here in Washington, outside of the Treasury, when the place gets hot; and I'm going to look out for my reputation and not the Federal Reserve, because they'll never see me through a hot spot. No one in Washington ever has, except the President; I mean no one except the President ever sees me through. Whenever the thing goes wrong - why, even with Bill Myers, when his stuff - when he only could sell 90 million, and so the - did Bill ever come out and say it was his responsibility? No, it was the Treasury's responsibility because they misjudged the market; well, it wasn't our responsibility. I mean now -

Taylor: Well, I'm not - that isn't -

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- H.M.Jr: Nobody except the President, outside the Treasury, has ever seen me through, and whenever anything goes wrong it's always my responsibility, and I will not sell a billion dollars of bonds knowing right after that they are going to take some action.
- White: I'd like to -
- H.M.Jr: I won't do it. I'll tell them so today.
- Haas: That's a very good argument that this mechanism is - is the wrong one to use for this purpose.
- H.M.Jr: I'm not going to sell a billion dollars worth of bonds knowing right afterwards - if they want to do it, I'd ten times rather have them announce that I'll take the responsibility on the first of December that they're going to do this on the 15th of January, and then if something goes wrong with the bond market it's my responsibility.
- Haas: Wouldn't you rather have them do it?
- H.M.Jr: It is - I would. Then they know it. If they are going to do this thing right two weeks after my financing, let them say it now. Then I've got a clean record with my customers.
- Taylor: Well, that - that is something else again; I think that's fine.
- H.M.Jr: But that's what I'm talking about.
- Taylor: Well, I didn't get that.
- H.M.Jr: What I'm trying to say, Wayne, is this: I'm not going to bring out a December bond knowing that two weeks later those fellows across the street are going to pull the strings, and if they won't say it I'll say it; but I'll give them a chance first. I never - I won't do it; I never have done it. And if these banks all find - they say, "Morgenthau knew it; he should have told me." Now, what's the matter with that?

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Taylor: Well, I don't think we are arguing about the same thing. What I was saying was that if - you just can't indicate that something might happen.

H.M.Jr: Listen, before Marriner did this thing he let it leak out; he even called in the Associated Press and told them that this thing might happen, the last time they did it. Who was it we called in and planted it -

Upham: No, I think you're thinking of Mike Flynn being in and Eccles throwing down the story.

Bell: Wouldn't do it. Eccles discouraged it, and -

Upham: - threw down the story.

Bell: And then the next day he did it.

H.M.Jr: And how did it leave him with the newspapermen?

Upham: Well, not so good.

Bell: I think it would be fine if the Federal Reserve Board could announce that they have asked the Treasury to leave January and February open - more action if they desired to take it.

Taylor: That's fine.

H.M.Jr: That's exactly the kind of thing I'm talking about.

Taylor: But I don't think you can put out things - that's my point - my only point.

Bell: That would help.

H.M.Jr: What's that?

Bell: That would help.

H.M.Jr: Listen, what I'm trying to say - I mean if they'll refuse to say - I'll tell them when they come in here in 20 minutes that I - if they ask - isn't that right?



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Upham: At 11:30 I think.

H.M.Jr: Oh, swell. If they ask me to do this thing and - what I'll say, I'll not - if there is a 50-50 chance of this thing happening, I will not sell bonds without either they or myself indicating that there is this possibility. I know what the thing would be. There isn't a banker in America but would blame me; they wouldn't blame the Federal Reserve. And I'd be pretty darn sore.

Taylor: I'll check on that, but I'd say with that, their indicating that there is a possibility -

H.M.Jr: Wayne, I don't care how it's said. I'm giving them the opportunity when they come in here. They can say it.

Bell: Sure, I think that's the point; let them say it.

H.M.Jr: But I say if they don't say it and they ask me to clear the decks because there is a 50-50 chance that they will do this - if they won't take it, I'm going to tell them I feel, as a matter of ethical dealing with the bond men, I'll have to say it. Now, one or the other; that's it.

Taylor: Well, I'd try to make them say it, because that's the way it ought to be.

H.M.Jr: Well, it should come from them; it should come from them.

Seltzer: Does that mean that we would drop any attempt to argue against -

H.M.Jr: Oh no no no no. But what I'll say to them is this - what I'll say to them is simply this: Gentlemen, we haven't had time to think this thing over so that we can say to you we think this is a good move or not. We need at least another week. We need at least another week. So that Monday - a week from Monday is the 30th, isn't it? And my staff, they've got so many things now. I expect to - (will you make a note, Mrs. Klotz) - that on Monday, the 30th, they'll be prepared to discuss this thing intelligently, but we can't do it before. But - I mean you've got enough to start.

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Haas: They had plenty of time, the Federal Reserve Bank in New York and the staff over there.

H.M.Jr: On the - on the 30th - if you will follow this up by then we can say yes or no; but also at that time, if you make up your mind, we want you to indicate at that time, if you have decided, as to - it would be agreeable if it was going to happen before our financing.

I - listen, this thing here is no different than selling shoes or automobiles or anything else. It's merchandise, and you've got to keep your customer. You can stick him once. And that's the reason why I've made a success of this thing, all of these issues - I've always given them plenty of advice, I've always supported my merchandise and I haven't changed my style until they have had a chance to distribute what they had. And it's the same thing. You sell him one style of merchandise and two weeks later you give him a new style and ruin all his merchandise. How does he feel? You've got your wholesaler, your retailer, your consumer; it's the same proposition.

Now, we'll leave it this way. The same people that were here yesterday will be back at 11:30 and we'll hear what they've got to say, and then we will listen; and then, George, you have something for me a week from Monday on this.

Haas: All right, yes, sir.

Friday  
November 20, 1936  
11:25 a. m.

H. M.  
Cochran: - the technical -

HM,Jr: Now wait a minute, do you mind starting again. I didn't hear the beginning very well.

C: We - we came down here, Tripp and I -

HM,Jr: Where are you now?

C: I'm at the Hague.

HM,Jr: Yes

C: - in the American Legation.

HM,Jr: Can you talk a little louder?

C: - in the American Legation at the Hague.

HM,Jr: Yes

C: Tripp and I went over the document at in Amsterdam.

HM,Jr: Yes

C: When we came here Premier Colijn and the Minister of Finance received us.

HM,Jr: Good

C: They proceeded to sign - the Minister of Finance and Tripp -

HM,Jr: Yes

C: - signed that technical declaration -

HM,Jr: Yes

C: - which I obtained here on my last visit.

HM,Jr: Good

C: They signed that.

HM,Jr: Good

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C: Then the Prime Minister called in an officer from his foreign office -

HM, Jr: Yes

C: - and instructed him to send telegrams this afternoon to their Ministers in Washington, London and Paris.

HM, Jr: Good

C: - To deliver to the foreign offices in those capitals not later than Sunday forenoon the following message.

HM, Jr: Yes

C: This is the message.

HM, Jr: Go ahead.

Overseas Operator: Just a moment, please.

C: What?

O.O.: Just a moment.

HM, Jr: Hello? - hello?

N.Y.  
O.O.: Mr. Morgenthau, we're having trouble on the other side with the circuit.

HM, Jr: Yes

N.Y.  
O.O.: And we're trying to improve it. May I call you back?

HM, Jr: Well, gosh, I mean, I've got an important meeting in five minutes and I'm not going to be able to sit here very long.

N.Y.  
O.O.: Well, we'll refer you to them and start right in on it.

HM, Jr: Who is this?

N.Y.  
O.O.: This is Overseas at New York.

HM, Jr: Oh, all right, but I mean, you'll - it'll either be now or they'll have to - I either can clear it up now or they'll have to wait an hour.

N.Y.  
O.O.: Well, I'll let you know in just a couple of minutes.

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HM,Jr: Well, you'll have to hurry it. - I could hear him all right.

N.Y.  
O.O.: You could?

HM,Jr: Sure

N.Y.  
O.O.: Just a moment.

(Short Pause)

N.Y.  
O.O.: I think it'll be cleared right up Mr. Morgenthau.

HM,Jr: Thank you. (Hangs up.)

N.Y.  
O.O.: Hello?

(Short Pause)

Treasury  
Operator: Operator -

HM,Jr: If I can get Gaston in between, let me talk to him, please.

Operator: All right.

HM,Jr: Hello

Operator: Mr. Cochran

HM,Jr: Yes

Operator: Go ahead.

HM,Jr: Hello

C: Hello, Mr. Morgenthau

HM,Jr: Go ahead.

C: We were down to the point where I was going to quote to you the instructions which they are sending to their Ministers.

HM,Jr: That's right.

C: This is it.

The Government of the Netherlands has acquiesced on the declaration by which the governments of France, of Great Britain and of the United States of America

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have seen fit to express their intentions -

Overseas

Operator: Three minutes

C: - with regard to their monetary policies and adhere to the general principles stated in their tri-partite declaration of September twenty-five.

HM,Jr: Right

C: And that's this declaration which they are going to make.

HM,Jr: Well, that's good enough, isn't it?

C: I think so. I mean, they did not have time and could not make a long declaration like Belgium.

HM,Jr: Well, this is good enough.

C: I think it's just what Tripp and I drew up before coming down.

HM,Jr: Fine

C: I just wanted your O.K. to that.

HM,Jr: That's all right. Now, they've said that. When do they give that out for publication?

C: They will not give it out until Monday.

HM,Jr: That's all right.

C: And I'll try and get the same declaration from the Swiss.

HM,Jr: Fine

C: At the same time.

HM,Jr: Fine

C: I'm just going now to get the train to make connections for Zurich.

HM,Jr: Good

C: All right - I'm confirming this in a cablegram from the Legation at the Hague.

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HM,Jr: Good, - well, I congratulate you again.

C: Oh - well, we'll see how we'll get along with the Swiss.

HM,Jr: And give my regards to Mr. Emmet.

C: All right, then.

HM,Jr: Good work.

C: He sends your regards to - his regards to you. He's right here.

HM,Jr: Thank you.

C: All right. Goodbye.

HM,Jr: Goodbye.